

Annual report 2010

The Way Ahead



celesio

Who we are

Celesio is one of the leading international service providers within the pharmaceutical and healthcare markets. We are active in 27 countries worldwide and employ approximately 47,000 employees in our three divisions Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions. Just under 2,300 of Celesio's own retail pharmacies, as part of Patient and Consumer Solutions, serve over 550,000 customers every day. In our wholesale activities, the core business of Pharmacy Solutions, more than 130 wholesale branches deliver to around 65,000 pharmacies – day in, day out. In the Manufacturer Solutions division, we offer pharmaceutical manufacturers logistics, marketing and sales solutions and operate in the area of Efficient Care Pharma.

Our tradition

Our corporate activities contribute to improving people's health. Since the foundation of our company in 1835, we have shown time and time again that innovation is part of our tradition. The beginnings were marked by the revolutionary philosophy of our founder Franz Ludwig Gehe that pharmaceuticals should not be luxury articles but remain affordable for everyone. Today, our services are designed to respond to the demands of providing healthcare to people in a reliable, efficient and safe way in the 21st century.

The way ahead

The pharmaceutical and healthcare markets are in a state of flux. Celesio is actively involved in shaping this change. As part of our growth programme Agenda 2015, we have come up with a number of measures and initiatives to steer the development of the company over the coming years. Our motivated employees are behind every one of these initiatives – they are the face of Celesio and our Agenda 2015. Our annual report reflects this, for example in the accounts by four Celesio employees representing Agenda 2015, as well as selected Agenda initiatives. The photographer Maks Richter from Stuttgart captured their portraits.

Five-year summary of the Celesio Group

		2006	2007	2008	2009	2010
Earnings development						
Revenue	EUR m	21,569.1	22,349.5	¹⁾ 21,166.6	21,497.2	23,277.6
Gross profit	EUR m	2,431.6	2,523.7	2,410.5	2,507.2	2,838.1
EBITDA	EUR m	803.7	842.5	657.3	627.6	699.2
EBIT	EUR m	685.8	727.7	256.2	237.6	565.6
adjusted	EUR m	685.8	727.7	²⁾ 543.2	²⁾ 511.9	565.6
Profit before tax	EUR m	590.1	608.8	125.2	³⁾ 119.5	409.3
adjusted	EUR m	590.1	608.8	²⁾ 412.2	^{2) 4)} 403.6	⁴⁾ 454.0
Net profit/loss	EUR m	425.6	435.4	– 18.5	³⁾ 6.5	265.0
adjusted	EUR m	425.6	435.4	²⁾ 268.5	^{2) 4)} 282.4	⁴⁾ 309.1
Earnings per share (basic)	EUR	2.49	2.53	– 0.12	³⁾ 0.02	1.52
adjusted	EUR	2.49	2.53	²⁾ 1.56	^{2) 4)} 1.64	⁴⁾ 1.78
Financial position						
Cash inflow from operating activities ⁵⁾	EUR m	733.1	170.7	536.4	578.2	652.3
Cash outflow from investing activities	EUR m	– 325.2	– 528.0	– 265.2	– 203.1	– 124.0
Assets position⁶⁾						
Total equity and liabilities	EUR m	7,926.5	8,343.2	7,523.3	³⁾ 8,075.6	8,402.7
Equity	EUR m	2,628.1	2,819.6	2,269.6	³⁾ 2,352.1	2,601.1
Equity ratio	%	33.2	33.8	30.2	29.1	31.0
Non-current assets	EUR m	3,446.8	3,866.9	3,287.1	³⁾ 3,443.1	3,450.8
Current assets	EUR m	4,479.7	4,476.2	4,236.2	4,632.5	4,951.9
Non-current liabilities	EUR m	1,962.8	2,325.0	2,257.5	³⁾ 2,432.9	2,292.6
Current liabilities	EUR m	3,335.6	3,198.6	2,996.2	³⁾ 3,290.6	3,509.0
The share						
Closing share price (Xetra) ⁷⁾	EUR m	40.64	42.50	19.40	17.70	18.60
Dividend per share ⁷⁾	EUR m	0.75	0.77	0.48	0.50	⁸⁾ 0.50
Dividend yield ⁹⁾	%	1.8	1.8	2.5	2.8	⁸⁾ 2.7
Employees (full-time equivalents)⁶⁾		26,832	27,748	28,354	35,408	36,441
Retail pharmacies⁶⁾		2,100	2,273	2,337	2,296	2,277
Wholesale branches⁶⁾		135	123	120	137	133

¹⁾ Restated to reflect the change in accounting policies in the Movianto business area.
²⁾ Adjusted for impairment losses recognised on intangible assets (including tax effect).
³⁾ Restated to reflect the completion of purchase price allocation for the Panpharma acquisition.
⁴⁾ Additionally adjusted for special effects in the financial result.
⁵⁾ Since 2008: interest paid and received is allocated to cash flow from financing activities.
⁶⁾ Closing figures as at 31 December.
⁷⁾ Adjusted for the 1:2 share split carried out on 24 July 2006.
⁸⁾ Proposal by the Management Board and Supervisory Board to the 2011 annual general meeting.
⁹⁾ Related to closing share prices (Xetra).

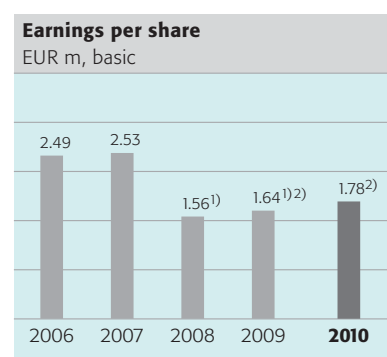
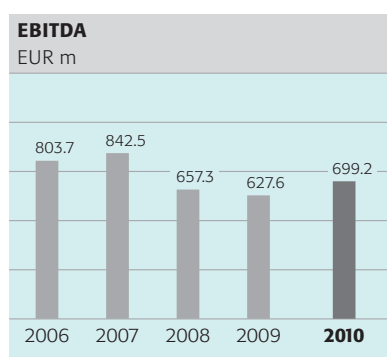
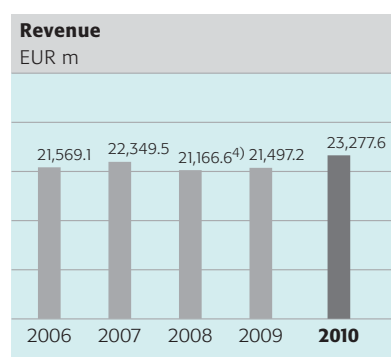
The fiscal year at a glance

Celesio Group		2009	2010	Change on a euro basis %	Change in local currency %
Revenue	EUR m	21,497.2	23,277.6	8.3	5.8
Gross profit	EUR m	2,507.2	2,838.1	13.2	9.9
EBITDA	EUR m	627.6	699.2	11.4	7.7
Earnings per share (basic)	EUR	^{1) 2)} 1.64	²⁾ 1.78	8.6	–
Employees (full-time equivalents) as at 31/12		35,408	36,441	–	–

Patient and Consumer Solutions division		2009	2010	Change on a euro basis %	Change in local currency %
Revenue	EUR m	3,441.5	3,618.1	5.1	1.5
Gross profit	EUR m	1,163.9	1,217.5	4.6	0.8
EBITDA	EUR m	300.1	316.7	5.5	2.0
Share in group EBITDA ³⁾	%	43.1	40.3	–	–
Employees (full-time equivalents) as at 31/12		15,887	15,615	–	–

Pharmacy Solutions division		2009	2010	Change on a euro basis %	Change in local currency %
Revenue	EUR m	17,542.3	19,019.7	8.4	6.2
Gross profit	EUR m	1,088.2	1,208.8	11.1	8.1
EBITDA	EUR m	382.2	456.1	19.3	16.0
Share in group EBITDA ³⁾	%	54.8	58.1	–	–
Employees (full-time equivalents) as at 31/12		14,036	14,050	–	–

Manufacturer Solutions division		2009	2010	Change on a euro basis %	Change in local currency %
Gross profit	EUR m	255.0	411.8	61.5	59.1
EBITDA	EUR m	14.7	12.2	– 17.4	– 18.0
Share in group EBITDA ³⁾	%	2.1	1.6	–	–
Employees (full-time equivalents) as at 31/12		5,197	6,488	–	–



¹⁾ Adjusted for impairment losses recognised on intangible assets (including tax effect).

²⁾ Additionally adjusted for special effects in the financial result.

³⁾ Without Others segment.

⁴⁾ Restated due to a change in accounting policies in the Movianto business area.

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Nikolaus Vogler
Leader of the Agenda 2015
Programme Management Office
Celesio AG, Stuttgart, Germany

The way ahead for Celesio

Agenda 2015



Agenda 2015 is the first ever growth programme for the whole group, with which we want to continue our 175-year old success story. Agenda 2015 allows us to be actively involved in shaping change on the pharmaceutical and healthcare markets, and to exploit the opportunities that arise, laying the foundations for long-term profitable growth. The programme is based on our clearly defined strategic guideline: we want the success of our company to be less dependent on government intervention into our pricing and margins. In 2015, we aim to generate an operating result (EBITDA) of at least EUR 1bn. Agenda 2015 is built around three growth pillars to achieve this ambitious goal. These are increasing profitability, optimising portfolios and innovation. We will make use of a number of initiatives to implement these growth pillars – and there is a team of motivated employees behind each and every one of them, working hard to ensure their success.

“Agenda 2015 is alive in every one of my 47,000 colleagues at Celesio. We are pulling together every single day to guarantee the great success of Agenda 2015, the first ever group-wide growth programme in the long history of our company.”



Richard Caine
Head of Distribution UK
AAH Pharmaceuticals Ltd.
Coventry, UK

Leveraging efficiency to achieve organic growth

Increasing profitability



As part of Agenda 2015, we are working on improving our effectiveness and efficiency. Our aim is to increase the profitability of Celesio's core business. It sounds simple enough, but actually requires highly sophisticated and complex approaches, particularly since in terms of cost and efficiency we already lead the European pharmaceutical wholesale market, for instance. Our »Optimisation of all Transport« initiative is one of the complex projects in this growth pillar. It revolves around transport in our traditional wholesale business, from the optimisation of delivery routes and transport logistics and the opportunities afforded by taking on additional transport volume from other targets, to a new range of services for our customers with optimised delivery frequency. We never lose sight of upstream and downstream processes or opportunities to collaborate across the Celesio Group. Our aim is to make the entire delivery chain more efficient in such a way that added value is generated for our customers at the same time. This holistic approach bears fruit. We create scope for additional revenue, while improved processes cut transportation costs sustainably and protect the environment by reducing CO₂ emissions at the same time.

“We want to become even better in our traditional lines of business. With our »Optimisation of all Transport« initiative, we can realise great potential synergies, allowing us to shape the way ahead into the future for our transport platform, and leverage advantages across the group.”



Maria Magnusson
Pharmacist
DocMorris Apotek
Älmsta, Sweden

Growing in new markets

Optimising portfolios



Investments and acquisitions are also a part of Agenda 2015, they serve to optimise our portfolio. Building up our own chain of pharmacies in Sweden was the most important investment in our pharmacy business in 2010. A total of 50 DocMorris pharmacies opened their doors for patients and consumers in Sweden – in the medium term, there will be more than 100 pharmacies in the chain. DocMorris' appeal in Sweden stems not only from its new-look, modern pharmacy concept, but also from first-rate advice, customer-friendly business hours, short waiting times, good accessibility and fair prices. We complement the typical pharmacy range with a wide selection of high-quality skincare products and applications for our customers as well as the DocMorris brands. The success in Sweden shows that our pharmacy concept appeals to patients and consumers outside of Germany as well. This success was one of the drivers behind our decision to convert all the pharmacies we operate outside of the UK to the DocMorris concept in the coming years and make DocMorris the leading pharmacy brand in Europe.

“Our DocMorris pharmacies have been bringing a new quality of care to Sweden since 2010, showing the way ahead in this market with our great emphasis on advice and service. The positive response from our customers shows that we are absolutely on the right path.”



Thorsten Beer
CFO
Medco Celesio B.V.
Amsterdam, Netherlands

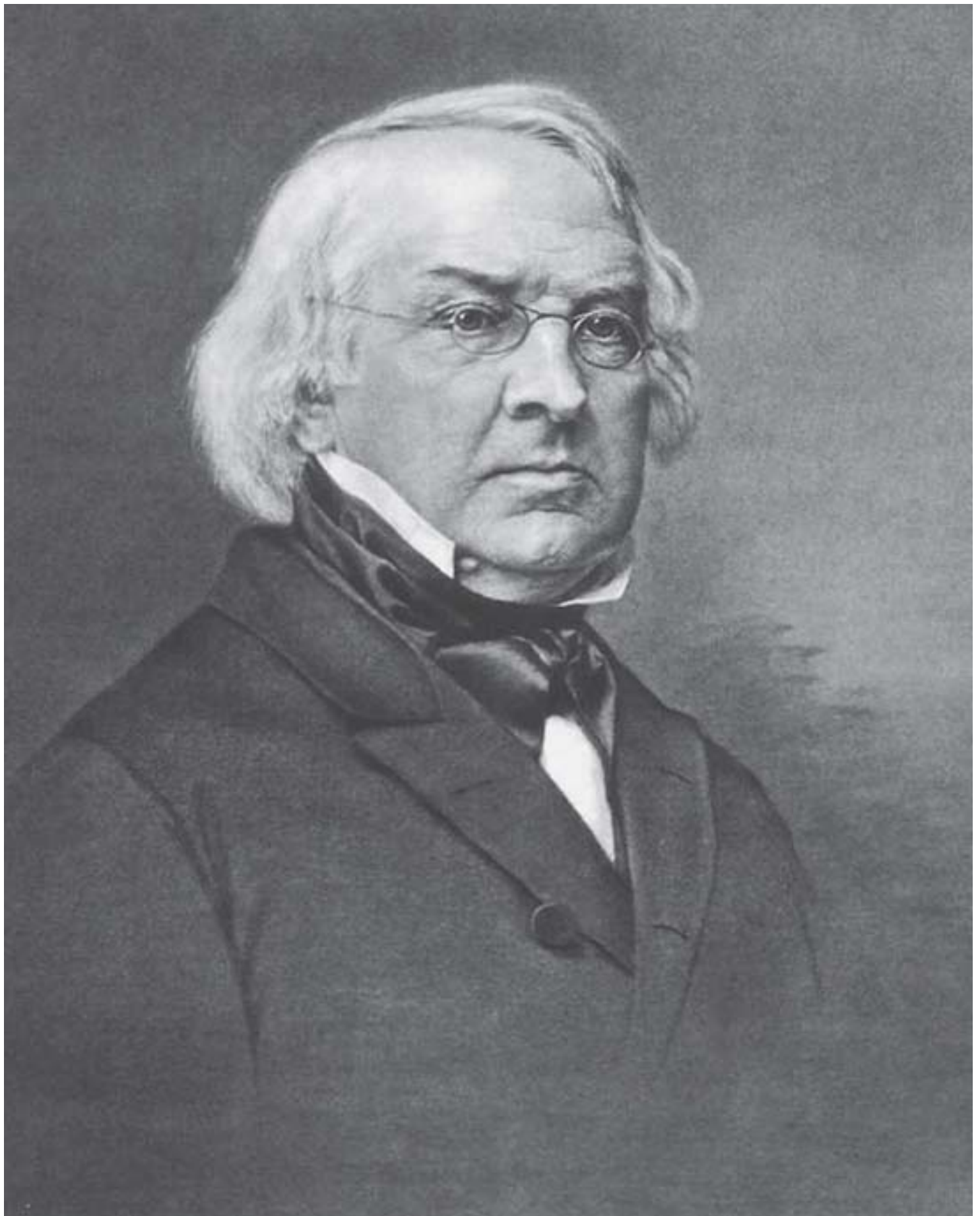
Growing with new businesses

Innovation



Using innovative services to tap into future-oriented growth potential is a key element of Agenda 2015. Our focus is on solutions that improve the efficiency of healthcare. Medco Celesio responds to several of the major problems in European healthcare systems. We offer new integrated services for patients with chronic and complex conditions, which means that treatment is adhered to more strictly, helping to avoid subsequent costs. To achieve this, we need to step up collaboration to combine the strengths of the various participants and service providers on the healthcare market. After all, the patients stand to gain most from this holistic approach: they benefit from a better level of care which in turn improves their quality of life. But the healthcare systems as a whole will also benefit. Their spending per patient will decrease, and with it their overall financial burden. With Medco Celesio, we are again assuming our pioneering role in Europe; we benefit from change on the healthcare markets, but are actively involved in shaping them, while at the same time making our contribution to ensure that healthcare remains affordable in the future.

“At Celesio, the aspiration to show the way ahead by leading our industry with innovation and strategy is in our blood. We are continuing this tradition with Medco Celesio. This joint venture is our response to important challenges on the pharmaceutical and healthcare markets.”



Franz Ludwig Gehe
Founder
Gehe & Comp.
Dresden, Germany

Innovation for the future

175 years of Celesio



In 2010 Celesio was proud to celebrate a special anniversary. 175 years ago, on 1 May 1835, the businessman Franz Ludwig Gehe founded the company in Dresden. A lot has changed since then. Gehe & Comp became Celesio AG, and the pharmaceuticals and dye business became one of the leading international service providers in the pharmaceutical and healthcare markets. What has stayed the same, however, is our claim that healthcare should be affordable for everyone. That is why, from the very beginning, we have been pioneers in improving the efficiency of the pharmaceutical and healthcare markets. While setting up the pharmaceutical business was the focus in Franz Ludwig Gehe's time, the challenges we face today are significantly more complex. Caught between higher expenditures and decreasing healthcare budgets, it is essential that we prepare the way for innovative solutions to ensure that the healthcare system remains effective and affordable. The slogan from our anniversary year will also apply tomorrow: Celesio – Innovation for the Future.

"If pathways no longer lead to the necessary goals, we must leave them."

Milestones 2010

Q1

■ **Start into the anniversary year 2010**

Celesio celebrates the foundation of the company by Franz Ludwig Gehe in Dresden 175 years ago.

■ **Market entry in Sweden**

Establishment of our own Swedish pharmacy chain starts by opening the first DocMorris pharmacy in Eskilstuna near Stockholm.

Q2

■ **Foundation of Medco Celesio**

Agreement with Medco Health Solutions to found Medco Celesio B.V., a joint venture operating across Europe with Efficient Care Pharma services.

■ **Market position strengthened on the Dutch pharmacy market**

Celesio and Phoenix bundle their Dutch activities in Brocacef Holding, in which Celesio holds a 45% interest.

■ **Placement of first Celesio corporate bond**

The issue of a bond with a nominal volume of EUR 500m and a term of seven years contributes to the diversification of our group financing.

175 years
celesio

Q3

■ Full ownership of

Pharmexx acquired

Celesio acquires the remaining 35% in one of the world's leading providers of personnel and marketing services for the pharmaceutical industry.

■ Expansion in Sweden accelerated

Number of targeted new DocMorris pharmacy openings in Sweden for 2010 increased to 50.

Q4

■ Sale of interest in ANZAG

Celesio sells its non-strategic financial interest in the pharmaceutical wholesaler Andreae-Noris Zahn AG.

■ Annual forecasts reached

EBITDA in the 2010 fiscal year up 11.4% on the previous year, net debt for the group reduced to below EUR 2bn.

The Management Board



Dr Christian Holzherr

Chief Financial Officer

Member of the Management Board
since 1 May 2008
Appointed until 30 April 2013

Dr Fritz Oesterle

Chairman of the Management Board
Personnel Relations Officer

Chairman of the Management Board
since 1 January 1999
Appointed until 31 December 2013



Dr Michael Lonsert

Member of the Management Board
since 1 October 2010
Appointed until 30 September 2013

Wolfgang Mähr

Member of the Management Board
since 1 October 2006
Appointed until 30 September 2011

Chairman's letter to the shareholders

Dr Fritz Oesterle

Chairman of the Management Board



Dear shareholders,
ladies and gentlemen,

We look back on a successful and therefore highly satisfactory year, a year in which we celebrated the 175th anniversary of the company. In a challenging environment, our solid growth demonstrates the strength of our operating performance and marks our return to the success of recent years, quite in keeping with the anniversary year. At the same time, we have consolidated the financial base of the group and made visible progress with our »Agenda 2015«. We not only reached our goal of returning earnings before interest, taxes, depreciation and amortisation (EBITDA) of between EUR 670m and EUR 690m, we also managed to reduce the net debt of the group to below EUR 2bn by the end of the year as planned, closing the year 2010 from a strengthened position with an EBITDA of EUR 699.2m and net debt of EUR 1.7bn.

While the global economic recovery led to a noticeable upturn in sectors displaying more cyclical behaviour, the pharmaceutical and healthcare markets did not develop uniformly in 2010, as expected. A rise in unit demand, caused, among other things, by demographic factors, particularly in Europe, was offset by savings measures taken by the payers in the healthcare market. In contrast to Europe, countries like Brazil displayed faster than average growth in their pharmaceutical markets.

In sum, our result was burdened by another EUR 78m on account of government intervention in the 2010 fiscal year, with the greater share being shouldered by our pharmacy business. A major factor in our ability to grow so strongly in spite of this added burden was the acquisition of the wholesaler Panpharma in Brazil, which was consolidated for a full year for the first time. But even disregarding Panpharma and government intervention, we grew organically in our core business, improving our revenue and result

in the process. Movements in the most important foreign currencies for the group, i.e. pound sterling, the Brazilian real and the Norwegian krone, were beneficial for us due to the general depreciation of the euro. We also enjoyed a one-time gain of EUR 16.3m originating from the contribution of our Dutch pharmacies subsidiary, Lloyds Nederland to Brocacef Holding N.V.

Not only were we successful in commercial terms in the year 2010, we also kept to the course set by our Agenda 2015. As you are aware, Agenda 2015 is a challenging growth programme that we have set ourselves, also as a response to the structural challenges posed by the healthcare and pharmaceutical markets. In addition to purely growth-oriented targets, Agenda 2015 pursues the strategic goal of reducing our relative dependence on activities that are exposed to government intervention in the form of regulated prices and margins, external factors which have a direct impact on our gross profit.

We are pursuing this strategic goal in – and with – each of the three pillars of Agenda 2015, »Increasing profitability«, »Optimising portfolios« and »Innovation«.

An immediate consequence of the strategic goal to obtain greater independence from government-regulated prices and margins was our decision to pursue a clear two-brand policy in the Patient and Consumer Solutions division. In our business of catering to the needs of patients and consumers, primarily via our pharmacies, we intend to expand our activities in the secondary healthcare market, i.e. the market where patients and consumers pay out of their own pocket. In this particular market, consumers' purchase decisions are consistently aligned to strong trade and product brands. With Lloydspharmacy, we already have such a strong brand in the UK. In our other European markets we intend to push DocMorris as our key brand uniformly and consistently across the board. In the summer of 2010 we created an operating entity under the name DocMorris-International Retail to realise this brand strategy and to bundle all our pharmacy activities outside of the UK. We will use this entity to position and exploit the DocMorris brand throughout Europe. This transition will keep us occupied for some years to come, but it will create the foundation for the future success of our pharmacies business.

The importance of an unmistakable brand and the need to send a clear message to the markets was demonstrated by the success of our entry into the Swedish pharmacy market in 2010. From the beginning, our market entry went under the DocMorris brand, previously unknown on the market, seeing us already open 50 DocMorris pharmacies in an extremely competitive environment in the first year of the liberalisation of the Swedish market. This easily surpasses our original target for 2010 and puts us a good step forward on the path towards meeting our mid-term target for Sweden, namely a chain of more than 100 pharmacies throughout the country.

We also made good progress in 2010 with other initiatives of our Agenda 2015. In the Pharmacy Solutions division we are working closely with our customers to improve the efficiency of our transport concepts while maintaining at least the same level of quality and reducing the volume of harmful emissions. We continued a series of software modernisation and IT-outsourcing projects at a number of entities within the group in 2010. These represent important investments in the future to improve quality and generate more transparency as well as establish better cost structures for our IT. Given the complexity of such IT projects, it is not surprising that their timing or contents do not always develop exactly as originally planned. The critical issue here is that we do not lose sight of the final goal.

We optimised our portfolio in 2010 in several respects. We disposed of our investment in Andrae-Noris Zahn AG, as announced. The strategic significance of this investment had waned. In the Patient and Consumer Solutions division, we contributed our Dutch retail pharmacies to Brocacef Holding N.V., the Dutch subsidiary of a competitor, Phoenix. In return, we now hold 45% in Brocacef Holding N.V. For both Brocacef and ourselves, this measure significantly increases our foothold in the Dutch pharmacies market, which was below certain critical size thresholds before. In addition to improving our competitive position, combining our activities in this way has enabled us to leverage substantial synergies. In the Pharmacy Solutions division, we integrated the acquisitions made in 2009. Laboratoria Flandria is now a part of our Belgium wholesale activities. Dirk Raes, our logistics operation that specialises in the needs of the pharmaceutical industry, is now a part of Movianto. We have reinforced the management team of our Brazilian wholesaler, Panpharma, in which we so far have a majority holding, and established the first group standards, for example, in the area of finance. In the Manufacturer Solutions division we discontinued a number of activities and investments at Pharmexx as part of our integration and restructuring programme. We assume that, starting in 2011, Pharmexx, our marketing and sales services provider for the pharmaceutical industry, will bear the fruits of the strict restructuring programme which it executed in the past year.

In the field of innovation, the foundation of Medco Celesio B.V., our joint venture in the Netherlands, was of special significance. Together with our US partner, Medco Health Solutions, we intend to use this vehicle to offer solutions that show the way ahead to the European healthcare markets. The solutions are targeted at improving the quality of pharmaceutical supplies, particularly for the chronically ill and for com-

plicated conditions, while simultaneously realising efficiency gains and reducing total costs for patients or payers. Thus the portfolio of Medco Celesio includes identifying potential efficiency gains and the services needed to realise these gains, such as providing pharmaceuticals to patients at home (Specialty Care Solutions) or supplying them directly via mail-order pharmacies. To this end, both we and Medco will contribute our respective mail-order pharmacies, i.e. Apotheek DocMorris and Europa Apotheek, to the new joint venture, Medco Celesio. This will give us not only a joint mail-order pharmacy offering, but also realise synergies.

In 2010 we set ourselves the target of significantly reducing our debt. The primary reason behind this move was to give us sufficient headroom to realign the portfolio. We succeeded at this. The improved earnings, active management of our net working capital and our strict investment policy were critical factors enabling us not only to reach our goal of reducing our net debt to below EUR 2bn but to actually surpass it, with net debt standing at EUR 1.7bn by the end of the year. The successful placement of a bond of EUR 500m improved our financial flexibility and gave us the scope to carry out changes to our portfolio.

What we began in 2009 with Agenda 2015 was followed through in 2010. Some of the elements of the programme did not progress quite as rapidly as we had hoped and some elements – particularly in terms of improving profitability – did not therefore become visible as we had hoped for on account of unforeseen government intervention weighing on our earnings power. This development demonstrates just how important the strategic goal of Agenda 2015 is, namely, to make us more independent of businesses with regulated prices. However, it also shows that future portfolio changes will play a major role in reaching both the strategic and commercial goal of Agenda 2015.

In the 175th anniversary year of our company we have intensified our efforts in the field of sustainability, thereby continuing the tradition of our founder, Franz Ludwig Gehe. To this end we founded an Advisory Board on Social Responsibility and Sustainability. This board includes some outstanding members of the community who actively support, advise and accompany us in our interaction with society. Inclusion of the Celesio share in the FTSE4Good, a sustainability index issued by the London Stock Exchange and The Financial Times, as well as inclusion in the ECPI Ethical Index are indications of the esteem in which our management of sustainability and corporate social responsibility are held.

The year 2010 set the way ahead for Celesio in a number of respects:

- The operating result of our pharmacy and wholesale activities demonstrates that we still have an extremely sound foundation in our core business.
- Massive government interventions in the compensation systems for pharmacies and wholesale yet again skimmed off a large share of our operating profit, particularly relevant with regard to our measures to improve profitability. The highest priority, also in terms of Agenda 2015, must therefore be to expand our activities perceptibly into markets and businesses where prices are not regulated. This also implies that we must perceive the current duress suffered by the healthcare systems in securing their financing as an opportunity for us and for further growth at Celesio. We will offer innovative services under the heading »Efficient Care Pharma« to help payers in the healthcare market improve quality and simultaneously increase the efficiency of care and lower overall costs.
- We identified the individual growth pillars in our Agenda 2015 and the individual initiatives to reach our mid-term financial and strategic goal. This also involves investing in these goals today, i.e. bearing start-up expenses which will burden earnings initially, possibly in addition to further government intervention.

Due to the fact that the healthcare systems remain under considerable financial pressure throughout Europe, the profitability of our pharmacy and wholesale business will continue to be burdened by government measures in the coming years. Since these measures are becoming increasingly difficult to predict, also in terms of their scope, we must accelerate along the path towards businesses for which prices are not regulated. Precisely those measures announced in the last months of 2010, some of which were unexpected, such as the massive cut of reimbursement prices of generic medicines in the UK or the mandatory rebate for pharmaceutical wholesale in Germany from 2011, demonstrate the challenges facing us year for year in our wholesale and pharmacy business. This shows the importance of realising our strategic goal within the framework of Agenda 2015.

We will master these challenges both today and in future with the help of our 47,000 highly motivated employees. They have earned heartfelt gratitude from the entire Management Board for what we have achieved together in 2010. In times where creativity, innovation, entrepreneurship and a healthy dose of risk-taking are required, motivated and loyal staff are essential.

We would like to take the opportunity to thank our shareholders, customers and business associates for the trust they have placed in all of us at Celesio – board members and employees alike. You can be sure that our efforts to earn this trust will continue unabated.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'F. Oesterle', with a stylized, cursive script.

Dr Fritz Oesterle
Chairman of the Management Board

Stuttgart, March 2011

The Supervisory Board

Members of the Supervisory Board

Prof Dr Jürgen Kluge
Chairman

Ihno Goldenstein¹⁾
Deputy Chairman

Klaus Borowicz¹⁾

Prof Dr med. Julius Michael Curtius

Dr Hubertus Erlen

Dirk-Uwe Kerrmann¹⁾

Jörg Lauenroth-Mago¹⁾

Susan Naumann¹⁾

Ulrich Neumeister¹⁾

W.M. Henning Rehder

Hanspeter Spek

Prof Dr Klaus Trützschler

Committees of the Supervisory Board

General Committee

Prof Dr Jürgen Kluge (Chairman)
Dr Hubertus Erlen
Ihno Goldenstein

Audit Committee

Prof Dr Klaus Trützschler (Chairman)
Klaus Borowicz
Ulrich Neumeister
W.M. Henning Rehder

Nomination Committee

Prof Dr Jürgen Kluge (Chairman)
Dr Hubertus Erlen

Arbitration Committee

Prof Dr Jürgen Kluge (Chairman)
Ihno Goldenstein
Susan Naumann
Hanspeter Spek

¹⁾ Employee representative.

Report of the Supervisory Board

Dear shareholders,

The Supervisory Board once again performed the tasks required of it by law, the articles of association and the rules of procedure with great care in 2010. The board discussed in detail the economic and financial development of the company as well as its strategic alignment. The Supervisory Board regularly advised the Management Board on management matters and monitored the management of the company. It was involved in all fundamental company decisions at an early stage.

Cooperation with the Management Board

Cooperation between the Management Board and the Supervisory Board was characterised by an intensive, open dialogue in 2010. The Management Board reported to the Supervisory Board and its chairman regularly and in detail on the situation of the company, both in writing and by means of oral communication. This mainly concerned the results of operations, financial position and assets position of the group, the development of business in each of the divisions, the development of the market environment, corporate strategy and planning, risk management and compliance. Any deviations from the planned development of business were explained individually by the Management Board and discussed by the Supervisory Board. The Management Board discussed the strategic alignment of the group with the Supervisory Board. Where required by law, the articles of association and rules of procedure, the Management Board submitted all of its reports and proposals for resolutions to the Supervisory Board, which approved them following careful consideration.

Meetings

The Supervisory Board held four ordinary and three extraordinary meetings in 2010. There was one instance of a resolution arranged by written correspondence and one arranged by telephone. In preparation for the meetings, the Management Board sent written reports and resolution proposals to the Supervisory Board. Every member of the Supervisory Board attended at least half of the meetings. The average attendance rate stood at over 90%. The Supervisory Board and Management Board also maintained close contact between meetings. The Chairman of the Supervisory Board regularly discussed the current development of business, significant transactions and strategy with the Chairman of the Management Board.

In a telephone conference on 3 January 2010, the Supervisory Board approved a resolution to elect Prof Dr Jürgen Kluge as chairman of the Supervisory Board following his appointment to the board by the court.

At the meeting on 18 March 2010, the Supervisory Board discussed the 2009 separate and consolidated financial statements. At the recommendation of the Audit Committee these were ratified following close examination and discussion, taking into account the audit reports issued by the independent auditor. We also passed resolutions on the report of the Supervisory Board and the corporate governance report and defined the Supervisory Board's resolution proposals for the annual general meeting on 6 May 2010. Further points on the agenda included Celesio's entry into the Swedish pharmacy market with the DocMorris brand as well as the development of Panpharma. We also discussed



Prof Dr Jürgen Kluge
Chairman of the Supervisory Board

the possible effects of government savings measures. The rules of procedure of the Supervisory Board were amended to define more closely the rules on passing resolutions outside of a meeting environment. Furthermore, resolutions were passed regarding remuneration of the Management Board in line with the scheduled review process.

Business development in the first quarter was discussed at the meeting on 6 May 2010. The Supervisory Board also addressed the audit engagement for the separate and consolidated financial statements as well as the review of the interim reports. Further topics of discussion were the planned disposal of the shares in Andreae-Noris Zahn AG (ANZAG) and current developments in the individual markets in which Celesio operates.

At the extraordinary meeting held on the same date, Prof Dr Jürgen Kluge was elected chairman of the Supervisory Board, following his election to the Supervisory Board by the annual general meeting.

The corporate and group strategy, together with the implementation status of Agenda 2015, were core topics at the extraordinary meeting on 17 May 2010. The Supervisory Board also examined in detail the planned contribution of Celesio's pharmacy activities in the Netherlands to Brocacef Holding, a subsidiary of Phoenix Pharmahandel GmbH & Co KG.

The extraordinary meeting on 20 June 2010 was mainly concerned with the foundation of the Europe-wide joint venture Medco Celesio B.V.

In written correspondence on 25 June 2010, the Supervisory Board approved a resolution to dispose of the shares in ANZAG held by Celesio.

In addition to the business development in the first half year, the implementation status of the joint venture with Medco was also addressed at the meeting on 9 September 2010. Other subjects discussed included the status of the cooperation with Phoenix in the Netherlands as well as the sale of the ANZAG shares. The board also examined savings measures announced in the British healthcare system, the potential implications of the planned Gesetz zur Neuordnung des Arzneimittelmarktes (AMNOG, Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance) in Germany and discussed in detail the medium-term planning for Celesio. At this meeting, the Supervisory Board passed a resolution on the appointment of Dr Michael Lonsert as a member of the Management Board of Celesio AG, his contract and the necessary changes to the plan for allocating duties. The final matter dealt with was the foundation of DocMorris-International Retail and the strategic implementation of the DocMorris brand.

The meeting on 21 December 2010 dealt with the interim report for the first to third quarter, the 2011 budget, the status of Agenda 2015 and the project to outsource the group's IT infrastructure as well as the business development of Pharmexx. The board's annual efficiency review did not reveal any need to make significant changes to our work. Suggestions from the Supervisory Board members are taken into account in the course of the continuous improvement process. The Supervisory Board has familiar-

ised itself with the changes to the German Corporate Governance Code and discussed and set concrete targets relating to the composition of the board; please refer to page 34 of the Corporate Governance report for details. The meeting also looked at and passed a resolution on the declaration of compliance with the recommendations of the »Government Commission German Corporate Governance Code« pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporations Act).

Committees

The Supervisory Board has set up four committees to exercise its duties. The General, Audit, Nomination and Arbitration Committees prepare the resolutions and agenda items to be discussed by the Supervisory Board. They also pass some resolutions in place of the entire Supervisory Board. The members of these committees are set out on page 22 of this annual report. With the exception of the Audit Committee, the chairman of the Supervisory Board is also the chairman of the committees. Prof Dr Klaus Trützschler is Chairman of the Audit Committee. The Supervisory Board is regularly kept up to date with comprehensive details of the committees' activities.

General Committee. The General Committee held six meetings in the reporting period. In a telephone conference held on 19 February 2010, it addressed the changes to the rules of procedure and proposed a resolution to the Supervisory Board accordingly. The meeting of 18 March 2010 was concerned with preparing the Supervisory Board's resolutions on remuneration of the Management Board. These included the final remuneration of the Management Board for the 2009 fiscal year in accordance with the contractual provisions on variable remuneration components. On 23 July 2010 the General Committee approved Dr Fritz Oesterle's appointment to the Supervisory Board of Landesbank Baden-Württemberg. At the meeting on 25 August 2010, the committee turned its attention to the appointment of Dr Michael Lonsert as member of the Management Board, his Management Board contract and the underlying system adjusted to meet new corporate governance regulations, as well as changes to be made to the plan for allocating duties. The General Committee also approved Dr Christian Holzherr's membership in the Supervisory Boards of the Boerse Stuttgart Group. On 9 September 2010, subject to the resolution of the Supervisory Board, the General Committee approved Dr Michael Lonsert's Management Board contract and made a recommendation to the Supervisory Board to approve the resolution on the adjusted plan for allocating duties. On 21 December 2010, the General Committee discussed the procedure for extending appointments to the Management Board.

Audit Committee. The Audit Committee met five times in 2010, including one telephone conference. The auditor also took part in all of the committee meetings. On 17 March 2010, it reviewed the separate and consolidated financial statements for the 2009 fiscal year, the management report as well as the audit reports on the separate and consolidated financial statements, together with the proposal for the appropriation of profits. Furthermore after examining the independence situation, the Audit Committee made a recommendation to approve the election of the independent auditor. The committee also received details of the internal audit programme for 2010. On 4 May 2010, recommendations for the audit focus for the 2010 fiscal year and for the scope of the audit engagement were made to the independent auditor. At the meet-

ing on 6 May 2010, the Audit Committee examined the interim report for the first quarter of 2010 and the review report of the independent auditor. In addition to the half year report and corresponding review report of the independent auditor, the meeting of 9 August 2010 addressed the topics of internal audit, compliance and the status of implementing the Gesetz zur Modernisierung des Bilanzrechts (BilMoG, German Accounting Law Modernisation Act) with regard to the Supervisory Board's monitoring duties and the project to outsource the group-wide IT infrastructure. The accounting treatment of the joint venture Medco Celesio was also considered. On 8 November 2010, the committee discussed the interim report for the first to third quarter 2010 including the results of the review report and the matters of risk management and internal control system.

Nomination Committee. Following a resolution passed by telephone conference on 8 February 2010, the Nomination Committee recommended that the Supervisory Board propose Prof Dr Jürgen Kluge for election by the annual general meeting as shareholder representative.

Arbitration Committee. There was no occasion for the committee founded to satisfy Sec. 27 (3) Mitbestimmungsgesetz (MitbestG, Codetermination Act) to meet in the reporting period.

Corporate governance

In the reporting period, the Supervisory Board regularly examined the application and development of the standards issued by the Government Commission of the German Corporate Governance Code. In 2010, Celesio once again complied with the recommendations of the Code with just two exceptions (no individual breakdown of remuneration of the Management Board and Supervisory Board). Pursuant to Code recommendation 4.2.2, the appropriateness of Management Board remuneration was discussed and the remuneration system approved. A resolution to approve the updated compliance declaration approved by the Management Board in accordance with Sec. 161 AktG was passed at the Supervisory Board meeting on 21 December 2010 and published shortly thereafter on Celesio's website. A copy is included on page 34 of this annual report. The same meeting also included a scheduled efficiency review of the Supervisory Board's work. The Management Board and Supervisory Board issue a joint report on corporate governance at Celesio on page 34 of this annual report.

Separate financial statements, consolidated financial statements and management report

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the separate and consolidated financial statements of Celesio AG and the combined management report for the year ended 31 December 2010. The auditors have rendered an unqualified audit opinion on both sets of financial statements. The Supervisory Board awarded the audit engagement on the recommendation of the Audit Committee and pursuant to the resolution of the annual general meeting on 6 May 2010. The documentation pertaining to the financial statements together with the audit reports were made available to all members of the Supervisory Board and were thoroughly discussed, including with the auditor, at the Supervisory Board's closing meeting on 16 March 2011.

Based on the results of the audit, the Supervisory Board had no reservations. Following the recommendation of the Audit Committee, the board agreed with the results of the audit and approved the financial statements of Celesio AG and the consolidated financial statements authorised for issue by the Management Board. The financial statements have thus been ratified. The Supervisory Board has examined and approved the Management Board's proposal for the appropriation of profits.

In light of the majority shareholding in Franz Haniel & Cie. GmbH, Duisburg, Germany, in 2010, the Management Board presented the Supervisory Board with the dependent company report for the 2010 fiscal year prepared pursuant to Sec. 312 AktG and the audit report on this prepared by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, in its capacity as independent auditor pursuant to Sec. 313 AktG. Based on the audit completed with no cause for objections, the independent auditor issued the following audit opinion:

»Based on our audit and assessment in accordance with professional standards, we confirm that:

1. the actual disclosures contained in the report are correct,
2. the payments made by the company in connection with transactions detailed in the report were not unreasonably high.«

The Supervisory Board reviewed and approved the dependent company report and the review of it. The Supervisory Board does not raise any objections to the Management Board's concluding statement contained therein.

Changes to the Supervisory Board and Management Board

Dr Eckhard Cordes left the Supervisory Board with effect as at 31 December 2009. We would like to thank Dr Cordes for the constructive and trusting working relationship. The district court of Stuttgart appointed Prof Dr Jürgen Kluge to the Supervisory Board as his successor until he was elected by the annual general meeting on 6 May 2010. The Supervisory Board appointed Dr Michael Lonsert as member of the Management Board for the Manufacturer Solutions division with effect as at 1 October 2010.

The Supervisory Board would like to thank the Management Board and all employees and express its appreciation for their high level of commitment and loyalty and their outstanding performance in the 2010 fiscal year. We are confident that Celesio is on the right path to overcoming the challenges that also lie ahead in 2011 and seizing any opportunities as they arise.

Stuttgart, March 2011
On behalf of the Supervisory Board



Prof Dr Jürgen Kluge
Chairman

The share

The stock markets

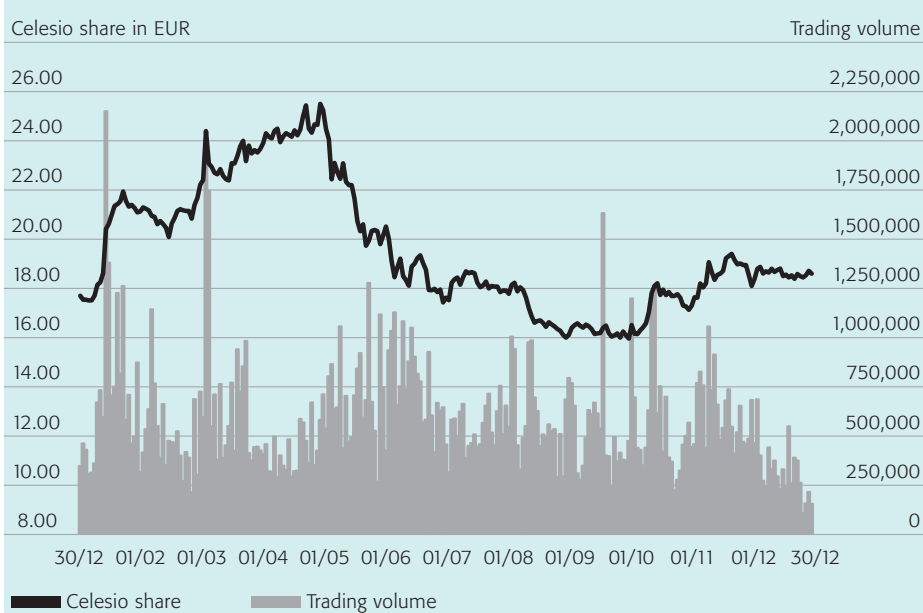
At the start of trading in 2010, the German stock markets fell back into decline, significantly in some cases, before recovering in February. However, the recovery was not entirely smooth as fears of a double-dip recession dictated investor behaviour until early summer. Finally, the recovery gained ground from July onwards, buoyed by improved economic data and healthy corporate figures. In the final quarter of 2010 the stock exchanges gathered speed, even starting a veritable year-end rally. The main German stock index, the DAX, hit its annual high of 7,078.0 points on 21 December, but was unable to remain above the 7,000 mark until the end of the year. It ended the year at 6,914.2 points, 16.1% up on the close of the previous year. The midcap index, MDAX, in which the Celesio share is listed, recorded an even greater rise, picking up 34.9% in 2010 to close at 10,128.1 points on the last day of trading.

The Celesio share

At the beginning of the reporting period, the Celesio share outperformed both the DAX and the MDAX comparable indices. On 3 May 2010, our share climbed to its annual high of EUR 25.50. It was not able to maintain this level in the midst of the market volatility dominating the first six months of the year, losing the gains it had made over the course of the year. Uncertainties regarding possible government interventions in the compensation structures of the pharmaceutical market and speculation about changes in ownership may have been factors influencing the development of our share price in 2010. The Celesio share hit its low for the year on 30 September 2010 at EUR 15.96. After publication of our good results for the first nine months of the 2010 fiscal year, our share price rose again, reaching EUR 18.60 on the last day of trading in 2010 (previous year EUR 17.70). This corresponds to a year-on-year increase of 5.1% in the share price. The average trading volume on Xetra rose strongly in 2010, increasing 35.2% on the previous year to an average of approximately 588,000 shares changing hands per day (previous year approximately 435,000 shares). In total approximately 150m shares in Celesio AG were traded in the reporting period.

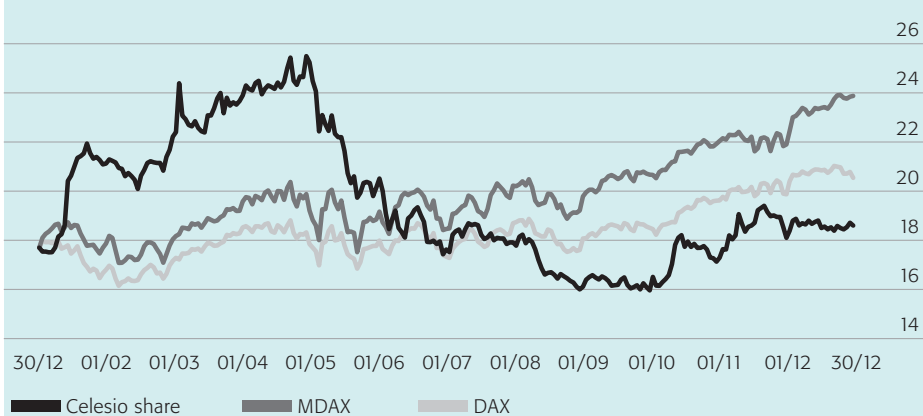
Development of the Celesio share and trading volume

Closing prices on Xetra 30/12/2009 – 30/12/2010 (trading days only)



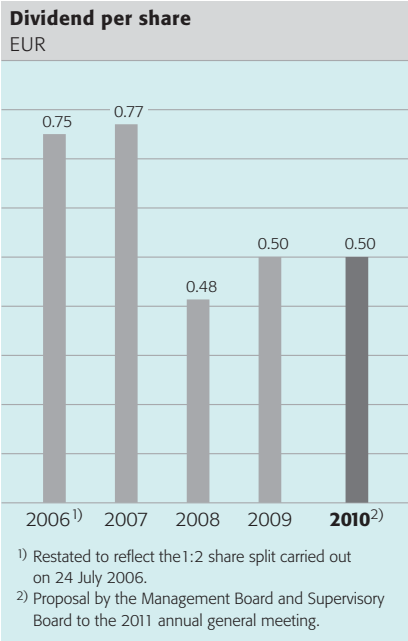
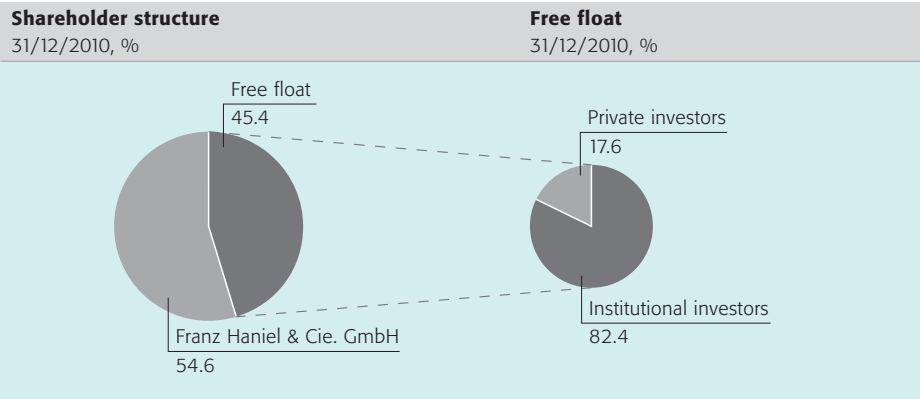
Development of the Celesio share, MDAX and DAX

Closing prices on Xetra 30/12/2009 – 30/12/2010 (trading days only), scaled to the Celesio share price



Shareholder structure

As in the previous year, the largest shareholder on 31 December 2010 was Franz Haniel & Cie. GmbH, Duisburg, Germany, with a holding of 54.6% of the shares outstanding. 45.4% of the shares were in free float. Of the shares in free float 82.4% were held by institutional investors, primarily based in the USA, the UK, Germany and France. In the course of the reporting period the US-based investment companies, AllianceBernstein L.P. and BlackRock, Inc. reduced their shareholdings to below 3% of the shares outstanding. In February 2011 we were informed that BlackRock, Inc. once again held more than 3% of Celesio's shares. The share of the free float held by private investors rose from 11.1% in the previous year to 17.6%.



Annual general meeting

Celesio AG's annual general meeting 2010 was held in the Porsche Arena in Stuttgart on 6 May. Attendance was again high: 81.3% of the voting rights were represented (previous year 78.5%). With one exception (»Creation of new authorised capital«), all the proposals of management were approved. The next annual general meeting will be held on 17 May 2011, once again in the Porsche Arena in Stuttgart. As is customary, all documents and information on the annual general meeting will be published in advance at celesio.com/generalmeeting.

Dividend

The Management Board and Supervisory Board will propose to the annual general meeting on 17 May 2011 a dividend payment of EUR 0.50 per share for the 2010 fiscal year. Celesio thus remains committed to its long-standing dividend policy of distributing approximately 30% of the ordinary net profit of the group. In this way, our shareholders will continue to participate in the profits of the company. At the same time we retain enough headroom to make future investments. A dividend of EUR 0.50 per share was also distributed for the 2009 fiscal year.

The share

Key share figures		¹⁾ 2006	2007	2008	2009	2010
Number of shares outstanding ²⁾	million	170.1	170.1	170.1	170.1	170.1
Market capitalisation ²⁾	EUR m	6,912.9	7,229.3	3,299.9	3,010.8	3,163.9
Closing price ²⁾ ³⁾	EUR	40.64	42.50	19.40	17.70	18.60
High ³⁾	EUR	42.77	55.02	42.39	21.69	25.50
Low ³⁾	EUR	34.11	36.21	17.01	13.70	15.96
Average trading volume per day ³⁾	shares	310,360	485,665	733,755	434,703	588,134
EBITDA per share	EUR	4.72	4.95	3.86	3.69	4.11
Earnings per share	EUR	2.49	2.53	-0.12	0.02	1.52
adjusted	EUR	2.49	2.53	⁴⁾ 1.56	⁴⁾ ⁵⁾ 1.64	⁵⁾ 1.78
Dividend per share	EUR	0.75	0.77	0.48	0.50	⁶⁾ 0.50
Dividend yield ⁷⁾	%	1.8	1.8	2.5	2.8	⁶⁾ 2.7

¹⁾ Restated to reflect the 1:2 share split carried out on 24 July 2006.

²⁾ Closing figures as at 31 December.

³⁾ Xetra, Source: Bloomberg.

⁴⁾ Adjusted for impairment losses on goodwill.

⁵⁾ Additionally adjusted for special effects in the financial result.

⁶⁾ Proposal by the Management Board and Supervisory Board to the 2011 annual general meeting.

⁷⁾ Related to closing share prices (Xetra).

Coverage

At the end of 2010, financial analysts from a total of 26 institutions were monitoring Celesio and the Celesio share. The following institutions regularly publish comments, assessments and recommendations on Celesio:

- | | |
|-------------------------------|--------------------------|
| ■ Bankhaus Lampe | ■ Macquarie |
| ■ B. Metzler seel. Sohn & Co. | ■ MainFirst Bank |
| ■ Berenberg Bank | ■ Merck Finck & Co |
| ■ Commerzbank | ■ M.M.Warburg & CO |
| ■ Crédit Agricole Cheuvreux | ■ Morgan Stanley |
| ■ Deutsche Bank | ■ Nomura |
| ■ DZ Bank | ■ NORD/LB |
| ■ equinet | ■ RBS |
| ■ Equita SIM | ■ Silvia Quandt Research |
| ■ Exane BNP Paribas | ■ Société Générale |
| ■ Jefferies | ■ SRH AlsterResearch |
| ■ Goldman Sachs | ■ UniCredit |
| ■ LBBW | ■ WestLB |

Investors with a focus on sustainability

There is a growing trend for investors to invest in companies that pursue the goal of sustainability. Ecological and social criteria are becoming increasingly important and corporate social responsibility is developing into a permanent feature of the financial market. One indication that our activities in this field are being acknowledged is that we once again qualified for the ECPI Ethical Index EMU in 2010. Moreover, in 2010 the Celesio share was again included in the FTSE4Good index. The FTSE4Good is a sustainability index issued by the London Stock Exchange and the Financial Times. Inclusion in the index depends on social, ecological and ethical criteria.

Investor relations

The goal of our investor relations work is to ensure continuous transparent communication with the capital markets. We are in constant dialogue with our target groups, existing and potential investors as well as analysts. We seek to build long-term relationships. Great emphasis is placed on pro-active personal dialogue. In addition to our annual analyst and investor conference, numerous individual meetings and telephone conferences, we held a total of 20 roadshows in 2010 and participated in nine conferences held at international financial centres. These events took us to Frankfurt/Main, Zurich, Paris, Milan, London, Stockholm, Boston, New York, Toronto, Los Angeles and San Diego, among others. We also discussed the latest developments at Celesio and the performance of our share and the market trends at events for private investors held in Frankfurt/Main, Dresden and Berlin.

An important element of our investor relations activities is the Investor Relations section of our website, celesio.com. There you can find not only clearly presented information on our share, the latest news and dates, but also presentations and speeches as well as our annual and interim reports. Interested users can register on our homepage for our free mail service and receive the latest press releases and information by e-mail. In addition, we provide a text message service to communicate the closing rate of the Celesio share to investors, employees and other groups related to the company via their mobile telephones on a daily or weekly basis.

Information on the Celesio share	
Share type	No-par value registered shares
Share capital in EUR on 31/12/2010	217,728,000.00
ISIN code	DE000CLS1001
German securities code	CLS 100
German stock exchange code	CLS1
Bloomberg	CLS1 GY
Reuters	CLSGn.DE
Stock exchanges	Xetra; Berlin, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Indices (selection)	MDAX, MSCI Germany Index, FTSE4Good, ECPI Ethical Index EMU

Corporate governance report¹⁾

Corporate governance stands for responsible management and control of a company generating sustainable value added. The key components of good corporate governance are efficient cooperation between the Management and Supervisory Boards, respect for shareholder interests as well as open and transparent corporate communication. It is our aim to strengthen confidence in our company – both on the capital markets and among the public at large – and create value over the long term.

Corporate governance code

The German Corporate Governance Code is available on the internet at corporate-governance-code.de

The Celesio Management Board and Celesio Supervisory Board are firmly committed to the German Corporate Governance Code. This contains the main legal provisions for the management and monitoring of German companies listed on the stock markets as well as internationally accepted standards of good and responsible management. The Code aims to improve the transparency and applicability of the German corporate governance system.

Declaration of compliance

The Management Board and Supervisory Board addressed the provisions of the German Corporate Governance Code in detail once again in the 2010 fiscal year. The following declaration of compliance pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporations Act) was issued by the Management Board and Supervisory Board on 22 December:

»In accordance with Sec. 161 AktG, the Management Board and the Supervisory Board of Celesio AG declare that, since the last declaration of compliance in December 2009, Celesio AG has complied with the recommendations of the Government Commission of the German Corporate Governance Code first in the version dated 18 June 2009 as well as with the version of the Code dated 26 May 2010 since it came into force – with the following exceptions – and will continue to comply with them in the future:

- Pursuant to No. 4.2.4 and 4.2.5 of the Code, the company has opted not to disclose the remuneration of individual members of the Management Board based on a resolution to this effect passed at the annual general meeting of Celesio AG on 27 April 2006 and valid for five years.
- Pursuant to No. 5.4.6 (3) of the Code, the company does not disclose the remuneration of individual members of the Supervisory Board. The requirements for transparency contained in this Code recommendation are largely met through the regulation governing the composition of remuneration paid to members of the Supervisory Board under Art. 5 (11) of the company's articles of association.«

¹⁾ This corporate governance report constitutes the corporate governance declaration required by Sec. 289a HGB and also forms part of the group management report.

Working methods of the Management Board and Supervisory Board

Celesio has a dual management system. The Management Board is responsible for managing the company and the Supervisory Board for advising and monitoring the management of the company by the Management Board. The areas of competence of the Management Board and of the Supervisory Board are laid down in the AktG, the articles of association and the respective rules of procedure. The two boards work closely together for the good of the company yet are strictly segregated, both in terms of their composition and their respective areas of competence. The Supervisory Board ensures diversity in the composition of the Management Board and the Management Board ensures diversity when filling management positions in the company. Due care is paid to considering women for these positions.

Management Board

The Management Board is responsible for managing the company, which it does in the interest of the company, taking into account the needs and concerns of all our stakeholders with the aim of raising the value of the company in the long term. The Management Board represents the company, develops its strategy and is responsible for compliance, corporate governance and an effective risk management system. In 2010 it comprised four members. Dr Fritz Oesterle is chairman of the Management Board. He is Personnel Relations Officer and temporarily responsible for Lloydspharmacy in the Patient and Consumer Solutions division. Dr Christian Holzherr is Chief Financial Officer. The other members of the Management Board are Dr Michael Lonsert, responsible for the Manufacturer Solutions division, and Wolfgang Mähr, responsible for the Pharmacy Solutions division. The whole Management Board temporarily shares responsibility for DocMorris, as part of Patient and Consumer Solutions. None of the members of the Management Board served in a comparable function on more than three supervisory boards of non-group listed companies or oversight bodies of companies with similar requirements.

Supervisory Board

The Supervisory Board's duty is to advise and monitor the Management Board in its management of the company on an ongoing basis. It appoints and dismisses members of the Management Board and works with management on long-term successor planning. The Supervisory Board has a close and trusting working relationship with the Management Board and is involved in all fundamental business decisions. As in previous years, no current or former members of the Management Board served on the Supervisory Board in 2010. The committees set up by the Supervisory Board (General, Audit, Arbitration and Nomination Committees) support the twelve members of the Supervisory Board in fulfilling their duties on time and in full. The composition of the Supervisory Board and its committees is set out on page 22. The Supervisory Board regularly reviews the effectiveness of its activities in line with the requirements of the German Corporate Governance Code (No. 5.6). The 2010 review revealed that the Supervisory Board performs its work to a very high standard, meaning that no major

measures to boost efficiency were required. Suggestions from the Supervisory Board members were taken into account in the course of the continuous improvement process. The Supervisory Board has examined the redraft of No. 5.4.1 of the German Corporate Governance Code (composition of the supervisory board). The supervisory board has to be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. It is the long-term objective of Celesio's Supervisory Board to have four seats occupied by female members. In light of the current appointments on the Supervisory Board, Celesio's environment and the regulatory framework in place, it does not deem it necessary to set any further objectives at present. The report of the Supervisory Board starting on page 23 details the function, structure and work of the Supervisory Board and its committees.

Notes on corporate governance practices

Annual general meeting and shareholders

In addition to the Management Board and Supervisory Board, the annual general meeting makes up a further corporate body. Its areas of competence are set out in the AktG and in the articles of association. The annual general meeting takes place at least once annually within the first six months of the fiscal year. If there is special cause, additional extraordinary meetings of the shareholders may also be called. The annual general meeting is an opportunity for the shareholders to exercise their legally afforded rights to contribute to decision making as owners of the share capital in Celesio AG. These include, but are not limited to, the decision on the appropriation of profits, in the form of a dividend, for example, the exoneration and election of the Supervisory Board, the election of the independent auditor and any changes to the articles of association. Shareholders unable to attend the annual general meeting personally can elect to have their vote exercised by an authorised representative of their choosing or a company proxy bound by instructions. We also offer this service electronically via the internet. Shareholders can register to attend the annual general meeting and order tickets via our website, where all the required documents and information will be published in advance of the meeting. Shareholders who are unable to attend the meeting in person can view the speech of the Chairman of the Management Board live on the internet.

The 2010 annual general meeting was held in Stuttgart on 6 May 2010. With 81.3% of voting rights present, attendance was slightly up on the average of the previous years. Details on agenda items and the results of voting are published on the internet at celesio.com/generalmeeting.

Directors' dealings

Pursuant to Sec. 15a of the Wertpapierhandelsgesetz (WpHG, German Securities Trading Act), people who hold a management function at a publicly listed German company, or any legal or natural people who are related to such a functionary, have a duty to report if they buy or sell shares or related financial instruments in the company of EUR 5,000 or more within one fiscal year. Any announcements of directors' dealings are published on the Celesio website under Investor Relations/Corporate Governance. Celesio AG received the following announcements of directors' dealings in the 2010 fiscal year:

Directors' dealings in the 2010 fiscal year	Date	Transaction	Number of shares	Price EUR
Dr Fritz Oesterle, Chairman of the Management Board	13/01/2010	Purchase of Celesio shares	10,000	18.44
Dr Fritz Oesterle, Chairman of the Management Board	16/08/2010	Purchase of Celesio shares	10,000	16.69

At all times in the 2010 fiscal year, the members of the Management Board and the Supervisory Board held an accumulated total of well under 1% of Celesio shares issued.

Compliance

Compliance refers to the obligation to observe the law and internal corporate guidelines. In addition to the relevant legal provisions such as laws relating to stock corporations, codetermination and capital markets, the organisation of management and control at Celesio is mainly based on the articles of association, the German Corporate Governance Code as well as the rules of procedure of the Supervisory Board and the Management Board. At Celesio, internal corporate guidelines are drawn up and introduced by Management Board or by the group departments. The relevant departments monitor implementation of the regulatory framework, making adjustments as necessary. Some years ago, we established an internal code of conduct, which obligates our employees to act based on high ethical standards. The code of conduct is available on our website under Investor Relations/Corporate Governance. Celesio's compliance management is regularly reviewed and refined.

Opportunities and risk management

At Celesio, we identify, evaluate and monitor opportunities and risks with the help of appropriate and effective management systems. We refine these on a rolling basis and adapt them in response to new developments. Details can be found in the risk and opportunities report from page 100 onwards.

Financial reporting and audit

The consolidated financial statements of Celesio were prepared pursuant to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, as adopted by the EU. In addition, the provisions

of German commercial law were applied pursuant to Sec. 315a (1) Handelsgesetzbuch (HGB, German Commercial Code). The 2010 annual general meeting elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, as independent auditor for the separate financial statements of Celesio AG and the consolidated financial statements for the 2010 fiscal year, and as independent auditor for the review of the interim reports. Before awarding the engagement, the Supervisory Board confirmed that existing relationships between the auditor and the company or its boards did not give any grounds to doubt the independence of the auditor. The independent auditor of Celesio is concerned with the principles of good corporate governance. Its duties include informing the Supervisory Board of all findings and results of the audit of the financial statements which are relevant for the board's work. The auditor must report any independence issues immediately.

Transparency

Our aim is to keep shareholders, the capital market, employees and interested members of the public up to date at all times with comprehensive and transparent information on current developments at Celesio. Our company website celesio.com is a significant component of communication, providing information on the company, its strategy and the Celesio share as well as press releases and all ad hoc announcements, our financial reports, details of our balance sheet press as well as our analyst conference, our annual general meeting and our financial calendar. The annual report and the three interim financial reports published during the year contain detailed analyses and explanations regarding our results of operation, financial position and assets position. We attach great importance to personal contact to our investors, employees and other stakeholders of the group. Our Investor Relations department is available by telephone, e-mail or at any of our numerous information events to answer questions from existing or potential investors and analysts. Our corporate communications department ensures a steady flow of communication with representatives from the German and international press. We also provide e-mail and text message services to keep interested parties up to date quickly and easily with news on the company or the Celesio share price.

Remuneration report

This remuneration report is in line with the recommendations of the German Corporate Governance Code and contains disclosures pursuant to the requirements of the Handelsgesetzbuch (HGB, German Commercial Code) as well as the International Financial Reporting Standards (IFRS).

Total remuneration and compensation structure of the Management Board

In determining Management Board remuneration the provisions of Aktiengesetz (AktG, German Stock Corporation Act) and the German Corporate Governance Code were observed. By resolution of the annual general meeting on 27 April 2006, no disclosures

are to be made on the individual remuneration of Management Board members for five years. Celesio therefore discloses the remuneration of the Management Board in total, broken down into individual components.

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 otherwise in place at the company. We also consider the responsibilities and performance of each member of the Management Board. The Supervisory Board regularly reviews the structure of the remuneration system at the instigation of the General Committee, including the appropriateness of remuneration amounts for the Management Board.

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 comprise the use of company cars, accident insurance, health insurance abroad, legal protection and D&O insurance. Management Board members are individually liable to pay tax on the use of a company car.

Management Board members benefit from a defined contributions plan. An annual contribution of 16% of the fixed basic component plus standard bonus, or 14% of the fixed basic component, standard bonus and performance cash scheme components is made. The contribution is made for the period of office as Management Board member. The contributions bear minimum interest. 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.

Performance-related remuneration components. The performance-related components consist of bonuses which are paid out annually as well as a rolling remuneration component as a long-term incentive, currently in the form of the performance cash scheme. The performance cash scheme was set up for the first time with effect as at 1 January 2008 for the period from 2008 to 2010 (2008 tranche). The second performance cash scheme was set up with effect as at 1 January 2009 for the period 2009 to 2011 (2009 tranche) and the third was set up with effect as at 1 January 2010 for the period 2010 to 2012 (2010 tranche).

The basis for assessment of the bonus in the Celesio Group is the EBITDA or EBIT. For each Management Board member the bonus amount is determined as a percentage share of the EBITDA or EBIT generated in the fiscal year and an additional payment due if the year-on-year EBITDA or EBIT growth exceeds a pre-defined threshold. The maximum bonus is capped at twice the standard bonus. 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.

The performance cash schemes are each payable in cash after three years following the achievement of targets. The amount of cash payment for each of the three schemes started so far depends on the standard set for each member of the Management Board as well as fulfilment of several performance targets. These include an increase in the share price compared to a defined reference share price, the accumulated Celesio value added and, starting from the 2009 tranche, the implementation of operating measures to improve profitability over the term of the scheme. The share-based component is classified as a cash-settled share-based payment transaction in the meaning of IFRS 2 and is measured using a binominal option pricing model. The expenses for the benefits received or the debt to settle these benefits are recognised over the vesting period. The debt is remeasured at each reporting date and on the settlement date. Changes in fair value are recognised in the income statement. The Celesio value added is a key performance indicator which serves our value-based corporate management. To obtain this indicator, the ratio of earnings before interest and taxes (EBIT) to capital employed is compared with the weighted average cost of capital. The remuneration is thus conducive to a sustainable increase in the company value. The implementation of operating measures to improve profitability relates to the effect on earnings of cost-cutting measures and growth initiatives. The performance cash schemes are also capped at a maximum payout.

The claim for payout from the performance cash scheme is valid only if the claimant held office in the performance period. A payment is made pro rata temporis upon reaching retirement age or stepping down from the Management Board. A transitional arrangement is in place until the date the rolling system is fully in force, i.e. all three tranches have been granted. If a member of the Management Board leaves before then, the full standard value will be granted for all tranches set up by then.

Total remuneration. The total remuneration of the Management Board pursuant to German Accounting Standard 17 stood at EUR 7,513k in 2010 (previous year EUR 5,493k). This breaks down into EUR 1,884k for the annual basic component including additional benefits (previous year EUR 2,251k), EUR 5,394k for bonuses (previous year EUR 2,969k) and EUR 235k for the value of the performance cash plan for the years 2010 to 2012 (2010 tranche) as at the date of issue (previous year 2009 tranche EUR 273k). Of the bonuses, an amount of EUR 968k (previous year EUR 781k) was guaranteed.

Disclosures pursuant to IAS 24 («Related Parties»). The cost of short-term benefits as defined by IAS 24.16 a) amounted to EUR 7,278k in 2010 (previous year EUR 5,220k). For the company pension scheme as defined by IAS 24.16 b) a service expense of EUR 785k was incurred in 2010 (previous year EUR 774k). Expenses for other long-term benefits pursuant to IAS 24.16 c) came to EUR 163k (previous year EUR 80k). There were no expenses for termination benefits pursuant to IAS 24.16 d) in the reporting period (previous year EUR 1,190k). Share-based payments as defined by IAS 24.16 e) gave rise to an expense of EUR 82k (previous year EUR 56k) based on the valuation of the performance cash scheme at the end of the reporting period. The provision for these components of the performance cash schemes amounts to EUR 150k in total (previous year EUR 68k).

Other disclosures. Former members of the Management Board and their surviving dependents received remuneration of EUR 294k in the reporting period (previous year EUR 1,749k). Celesio has set up pension provisions of EUR 6,251k (previous year EUR 4,796k) for this group of persons. In the 2010 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.

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. 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, with the chairman of a committee receiving EUR 4,000.

The total remuneration of the Supervisory Board came to EUR 848k in 2010 (previous year EUR 761k). Of this, EUR 68k (previous year EUR 68k) 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 756k (previous year EUR 669k). The payments for serving on committees came to EUR 24k (previous year EUR 24k).

In the 2010 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.

Corporate social responsibility

Assuming social responsibility

Assuming corporate social responsibility (CSR) has a long tradition at Celesio. Taking responsibility for the social impact of our actions has been an integral component of our corporate identity ever since the company was founded over 175 years ago. We are convinced that this commitment also enhances the financial performance of an enterprise. For this reason our CSR strategy is not aimed at short-term goals but is aligned towards sustainable goals for the long term. The focus of our activities – health and education – has evolved from our business model and our corporate history.

CSR refers to our voluntary contribution to social, economic and ecological goals beyond that required by law. In this regard, we meet a range of voluntary commitments which underscore our belief that entrepreneurial and social acts complement each other and are not mutually exclusive. Examples of this include our code of conduct which embeds high ethical standards in the company, or the Diversity Charter in which we have committed to ensure a non-discriminatory working environment and an open corporate culture. We have established clearly defined environmental guidelines in the company aimed at protecting and preserving our environment. We have bundled our CSR activities in a dedicated department at the level of the group holding. In 2010 we set up the Advisory Committee on Social Responsibility and Sustainability. The duties of this committee include documenting the company's social activities and social responsibility as well as advising and supporting the company in these matters. The board is made up of individuals whose commitment to political, social and cultural causes contribute to developing our activities and providing new impulses. In order to network and further refine our CSR activities we conduct regular workshops in which we discuss the latest CSR developments with distinguished representatives from the fields of business, politics, research and non-government organisations.

Members of the Committee for Social Responsibility and Sustainability:

- Chairman: Dr h.c. Matthias Kleinert, Representative of Celesio AG's CEO for Political and External Affairs; Former Secretary of State
- Dr Maria Furtwängler, President of the Board of Trustees, Doctors for Developing Countries
- Prof Dr Dr Karl Homann, Wittenberg Center for Global Ethics Foundation
- Dr Maritta Koch-Weser, Programme leader of »Amazonia em Transformação«, Advanced Studies Institute, University of São Paulo and President; »Earth3000« Berlin
- Dr Herbert Müller, Chairman of the Executive Board of Ernst & Young GmbH and President, Chamber of Industry and Commerce Stuttgart
- Helmut Nanz, Chairman of the Helmut Nanz Foundation
- Dr Michael Rogowski, Chairman of the Foundation Council of the Hanns-Voith-Stiftung
- Volker Schlöndorff, Movie director and film maker
- Prof Dr Joachim Schwalbach, Director of the Management Institute, Humboldt University of Berlin

Selected projects

Health

For a number of years now we have been working very closely with »Doctors for Developing Countries«, an aid organisation. It organises the unpaid work of doctors and pharmacists for the benefit of people in the poorest regions of the world. The voluntary aid workers treat patients in these regions, vaccinate children and operate health clinics. We support the aid organisation financially but also by providing professional expertise and the personal input of our employees. From 2004 to 2010, 27 Celesio pharmacists from five different countries went on a total of 35 missions to assist with projects organised by Doctors for Developing Countries. We promote our pharmacists' commitment to the organisation at regular workshops. Great emphasis is placed here on the issue of pharmaceutical safety. The range of tasks performed by our pharmacists in individual projects includes setting up mini-laboratories, training personnel and patients how to administer and handle pharmaceuticals correctly and advising doctors on-site on the selection of suppliers and manufacturers. Our project in Nairobi was able to reduce the number of counterfeit pharmaceuticals from over 9% to almost total elimination. In Calcutta the percentage of counterfeit pharmaceuticals in 2005 was over 30%. Within five years, we managed to get this level down to about 4%. In order to bring the counterfeit rate down even further, our pharmacists on location analysed, revised and validated the entire pharmaceutical supply chain in Calcutta. What is more, we are now building our own pharmacy there, in cooperation with our partner organisation, to safeguard the professional procurement, storage and dispensing of pharmaceuticals. Building work started in autumn 2010. Once finished, the pharmacy will set standards for the provision of medicine in the slums of Calcutta. The Pushpa Celesio Children's Tuberculosis Clinic in Calcutta provides help for the poorest of the poor. We pay for the hospital staff to keep the facility up and running.



We are also on hand quickly and without red tape to contribute to aid efforts when catastrophe hits. An estimated 21 million people were injured or made homeless in the wake of the floods in Pakistan in the late summer of 2010. Once the water had subsided, infectious diseases took over as the greatest threat to people. Celesio's German subsidiary GEHE and Austrian subsidiary Herba Chemosan quickly supplied around EUR 250,000 worth of medicines.

Education

In addition to training and further education for our employees we remain in dialogue with universities throughout Europe. We support research and publications related to the topic of corporate social responsibility, thus fostering the academic development of this field. In 2010 we cooperated with researchers from universities in Berlin, Hohenheim, Nürtingen-Geislingen and Bonn. At the 2010 international CSR conference of Humboldt University of Berlin, the world's largest and best-known conference on corporate social responsibility, we provided support for the first-ever CSR workshop for around 80 PhD students. In September 2010 we launched the Franz Ludwig Gehe competition in Dresden, which aims to get secondary school pupils excited about natural sciences. The young researchers' work and projects are evaluated by a jury and rewarded with study trips or prize gifts.

Environment

In addition to health and education, we are also active in the field of environmental protection in our role as a service provider. A core element is sustainability in terms of our buildings, IT infrastructure and fleet management. For example, when purchasing company cars we take care to purchase energy-efficient models to effectively reduce emissions from the use of private transport. In our wholesale operations, we optimise route planning, thereby reducing the CO₂ emissions of our vehicle fleet. For many years it has been standard practice across the group to supply our pharmacies using reusable transport containers. Reducing energy consumption is one of the aims of the current process to optimise our group-wide IT infrastructure. In particular, we can reduce our electricity use considerably by cutting the number of servers. Celesio is also participating in Baden-Württemberg's ECOfit programme. In connection with this, we plan to acquire an energy management system in 2011, which will produce key performance indicators on the use of electricity and heating as well as buildings emissions.

Dialogue with stakeholders

To enable us to continuously refine our CSR work, we are regularly involved in lively dialogue with the representatives of our partner organisations, political and social stakeholders and our employees and investors. Furthermore, we entered into a cooperation with the Wittenberg Center for Global Ethics in the past year. We also continued our series of talks and workshops on economic and CSR topics with renowned scientists in 2010. All these endeavours were rewarded by our acceptance into the FTSE4Good sustainability index.

The CSR section of celesio.com contains detailed reports about our CSR activities and projects as well as further facts and figures.

You can find more information on CSR in the following sections of this annual report:

- Corporate governance report (page 34)
- Employees (page 96)
- Risk and opportunities report (page 100)

Group management report

Combined management report
of the Celesio Group and Celesio AG.

celesio

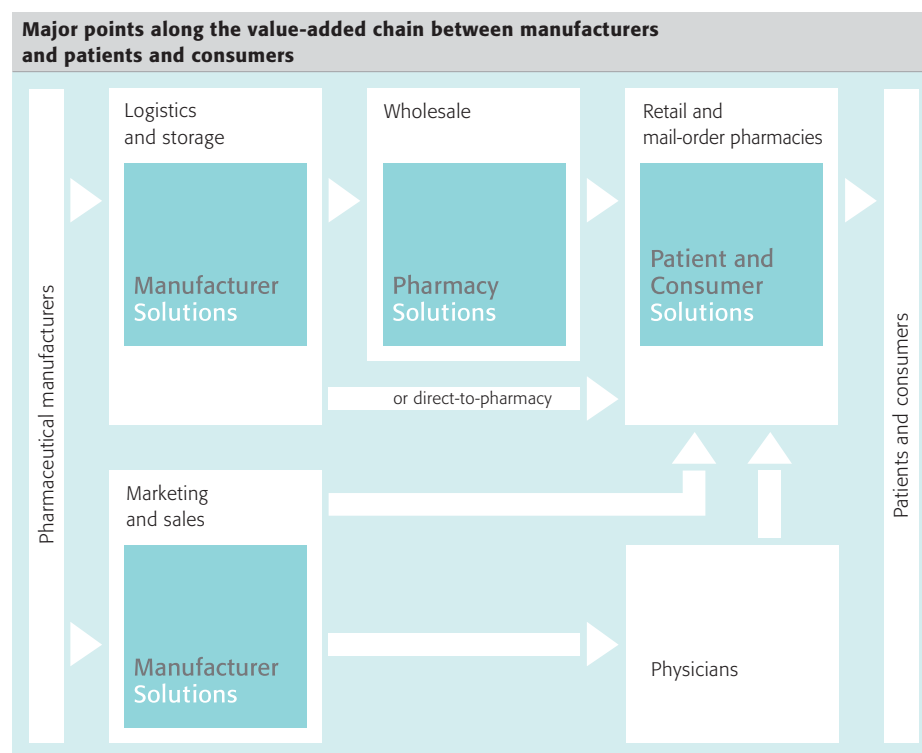
Business activity and organisation

Business model

We are one of the leading service providers with around 47,000 employees and strong national and international brands on 27 pharmaceutical and healthcare markets worldwide. With manufacturer-oriented services such as warehousing, logistics, marketing or sales, pharmaceutical wholesale business and the operation of retail and mail-order pharmacies, our core business spans the entire value-added chain of the pharmaceutical industry, including patients and consumers. We also operate in other business areas to complement our core business, offering our customers tailored services and products to meet their individual needs. Examples of this include the mail-order business of pharmacy equipment or franchise-like cooperations for pharmacies. Since 2010, we operate in the field of »Efficient Care Pharma« in which we offer solutions and services for better-quality and more cost efficient care of patients, especially those with chronic conditions. This is in line with our strategy to reduce our dependence on government price regulation. Our risks are diversified thanks to the broad range of activities within our clear customer-oriented structure.

Value-added chain in the pharmaceutical industry

For a pharmaceutical product, the traditional path from manufacturer to consumer usually consists of several steps. First of all, the medicine is transported to a full-line wholesaler, or directly to the pharmacy via a specialised logistics provider such as our subsidiary Movianto, for example. If delivery is made to the wholesaler, medicines are then held at the wholesaler's branch, meaning that pharmacies can order all pharma-



ceuticals required easily and efficiently from one contact. Once the pharmacy takes delivery of the medicine from the wholesaler just a couple of hours after ordering, it is then responsible for dispensing it to patients and consumers – either directly as a retail pharmacy or by post as a mail-order pharmacy.

The UK as an example: Here, we are active at almost every point along the value-added chain. With Pharmexx, we provide pharmaceutical manufacturers with innovative marketing and sales solutions for their products. With Movianto, we take care of the demanding transportation of medicines, from the manufacturer to the recipient, the wholesaler or pharmacy directly. As a strong wholesale partner, our subsidiary AAH supplies pharmacies nationwide. At our own Lloydspharmacy pharmacies, we offer patients and consumers specialist advice and comprehensive healthcare services that go far beyond the pure dispensing of medicines. With Evolution Homecare in the UK we also provide medical treatment to patients at home, i.e. we organise the administration of complex medicines directly to patients at home.

Government compensation schemes

With our wholesale business as well as retail and mail-order pharmacies, we operate in business areas characterised by government-regulated compensation schemes which vary from country to country. When pharmaceutical wholesalers sell medicines to pharmacists, they generally receive a government-regulated mark-up on the manufacturer price which is itself often regulated or at least influenced by the government. Pharmacies receive a government-fixed margin on the purchase price for pharmaceuticals dispensed. A further common compensation model at pharmacies is the dispensing fee set by the government for every prescribed qualifying pharmaceutical or other service. In some cases, such as Germany, these two models are combined.

Group structure and management

The organisation and reporting structure of the Celesio Group is divided into three divisions which are aligned to the needs and demands of our three major customer groups. The three divisions are Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions. We report on the revenue and earnings of each of the divisions and the individual business areas which are significant for the consolidated financial statements. Business areas not allocated to a specific division are summarised under »other business areas«. The new organisation and reporting structure applicable from 2011 onwards is described in the outlook starting on page 111.

Management and control

The Management Board is responsible for the management of the Celesio Group based on legal requirements and the rules of procedure laid down by the Supervisory Board. The Management Board is advised and monitored in its management function by the Supervisory Board. The Supervisory Board is made up of an equal number of shareholder and employee representatives and is responsible for appointing members of the Management Board; any major transactions by the Management Board must be approved by the Supervisory Board. The corporate governance report starting on page 34 is part of the group management report and contains further details on the management and control structure.

Remuneration report

The remuneration report forms an integral part of the group management report and is included in the notes from page 191.

Internal control system

Our central performance indicator is EBITDA (earnings before interest, taxes, depreciation and amortisation), which reflects our operating business. Our use of EBITDA permits a convenient comparison with other listed companies.

In addition to EBITDA, we also focus on value added, which measures the result of our investments and thus our capital employed. Value added is calculated as follows:

$$\text{Value added} = \text{Earnings before interest and taxes (EBIT)} - \text{tied capital} \times \text{weighted average cost of capital (WACC)}$$

Tied capital is calculated as the total of all non-interest-bearing assets (except tax items) less non-interest-bearing liabilities (except tax items), measured at carrying amounts. WACC is the weighted average market cost of debt capital and equity and came to 11.1% as at 31 December 2010 compared to 10.1% in the previous year. Value added came to EUR 48.3m in the reporting period. The previous-year value of EUR – 235.8m was significantly affected by the impairment of goodwill carried out in 2009. Adjusted for this impairment, value added came to EUR 38.5m in 2009. We also plan and measure a number of other financial and non-financial key performance indicators on a monthly basis.

Notes on capital and shareholder structure

Secs. 289 (4) and Sec. 315 (4) HGB (Handelsgesetzbuch, German Commercial Code) require additional information in the management report and group management report on certain features of the capital and shareholder structure as well as certain arrangements which might be of significance in the event of an acquisition:

1. The share capital of Celesio AG amounts to EUR 217,728,000 and is divided into 170,100,000 no-par registered shares. The proportionate nominal value per share is EUR 1.28.
2. Each share in Celesio AG is given one vote. There are no shares with multiple, preferential or maximum voting rights. No limitations of voting rights arising from shares exist nor is Celesio aware of any limitations to the transferability of shares.
3. The current shareholding of Franz Haniel & Cie. GmbH, Duisburg, was 54.6% at the end of the reporting period. We are not aware of any other shareholding of a direct or indirect nature in the capital of Celesio AG of a magnitude of more than 10.0%.
4. There are no shareholders with special rights.
5. Employees with shares in the capital of the company may directly exercise their control rights.
6. a) Members of the Management Board are appointed by the Supervisory Board for a maximum term of office of five years. A reappointment or extension to the term of office is permitted for a maximum of five years in each case. Reappointment or extension to the term of office requires a new decision by the Supervisory Board, which may only be made at the earliest one year prior to expiry of the previous term of office. In the event of the death of a member of the Management Board or if members leave the Management Board due to their appointment being revoked or through resignation from office, the courts must, in urgent cases, appoint a member at the request of one of the parties involved if the absent Management Board member is required for a representation or managerial measure. The Supervisory Board may revoke the appointment of a member of the Management Board and the Management Board's nomination for chairman for good cause. Good cause is specifically gross breach of duty, incapability of proper management or a vote of no confidence by the annual general meeting, unless the vote of no confidence was based on clearly unjustified grounds.
- b) Any amendment of the articles of association requires a resolution to be taken at the annual general meeting. For such a resolution, a majority is required of at least three quarters of the share capital represented at the time the resolution is passed. The Supervisory Board is only authorised to make amendments to the articles of association to the extent that they merely affect the wording of same and do not bring about any changes to content. For this resolution, a majority of the votes cast suffices.

7. a) By resolution of the annual general meeting of 26 April 2007, the Management Board is authorised to increase the share capital on or before 25 April 2012 with the consent of the Supervisory Board by issuing new no-par registered shares in return for cash contributions on one or more occasions by a maximum of EUR 43,545,600 (authorised capital 2007). In this respect, the shareholders are to be granted a subscription right; the Management Board is, however, authorised to exempt fractional amounts from the subscription right of the shareholders with the consent of the Supervisory Board. Pursuant to Sec. 186 (5) Aktiengesetz (AktG, German Stock Corporation Act), the new shares may also be offered for acquisition by a bank under the obligation of offering them for sale to the shareholders. The Management Board is authorised, with the agreement of the Supervisory Board, to define more precise details of the capital increase and its execution, in particular the content of the share rights and the conditions governing the issue of shares.
- b) 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 or contributions in kind on one or more occasions by a maximum of EUR 65,318,400 (authorised capital 2009). In this respect, the shareholders are to be granted a subscription right. The Management Board is permitted, however, to exclude shareholders' subscription rights in the following circumstances: (I) for fractional amounts; (II) to the extent necessary to enable the holders of previously issued bonds with option or conversion rights or bonds with subscription or conversion obligations to exercise such rights to the extent they would have such rights as shareholders after exercising the option or conversion rights or fulfilling the subscription or conversion obligation; (III) if the issue price of the new bonds is not materially lower than their listed price and the shares issued excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed 10% of the share capital on the date of becoming effective or on the date of exercising this authorisation. This limitation also applies to the sale of treasury shares if they are sold excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG during the term of the authorisation. This limitation also applies to shares issued to serve bonds with options or conversion rights or obligations in the case of bonds issued during the term of this authorisation excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG. The Management Board is further authorised, with the consent of the Supervisory Board, to exclude subscription rights in the case of a capital increase in return for contributions in kind and define the further conditions of the capital increase and its execution, in particular the content of the share rights and the conditions governing the issue of shares.

- c) By resolution of the annual general meeting of 8 May 2009, the Management Board is authorised, with the consent of the Supervisory Board, to issue registered option bonds or convertible bonds (together: bonds) with a total nominal value of up to EUR 500m on or before 7 May 2014 and to grant the holders of option rights and the holders of convertible bond options and conversion rights, respectively, for registered shares in the company with a share in the share capital of the company of up to EUR 21,772,800 in accordance with the precise conditions of the registered option bonds or convertible bonds, and to exclude shareholders' subscription rights in certain cases. In accordance with Art. 3 (4) of the articles of association of Celesio AG, the share capital of Celesio AG is conditionally increased by the corresponding amount (conditional capital 2009) and the Management Board is authorised to define the further conditions of the conditional capital increase and its execution. The Management Board made considerable use 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.
- d) By resolution of the annual general meeting of 6 May 2010, the Management Board is 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 registered option bonds and the holders of convertible bonds options and conversion rights, respectively, for registered shares in the company with 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 conditional capital increase is only carried out to the extent that (I) the holders of option or conversion rights or those obliged to exercise options or conversion rights from registered option bonds or convertible bonds issued or guaranteed by Celesio AG, or another company in which Celesio AG has a direct or indirect majority in the voting rights and equity, pursuant to the resolution on the authorisation passed at the annual general meeting on 6 May 2010, make use of their option or conversion rights, or, to the extent that they are obliged to convert or exercise their options, that they meet this obligation, and (II) no cash settlement is granted and no treasury shares or shares in another listed company are used to service the obligation. The new shares will be issued at an option or conversion price based on the provisions of this authorisation. The new shares participate in profit from the beginning of the fiscal year in which they are issued based on options or conversion rights being exercised or the obligations to exercise options or conversion rights being met. The Management Board is authorised, with the consent of the Supervisory Board, to define the further conditions for executing a conditional capital increase.

- e) In the event of the share capital being increased, the distribution of profits may be determined in derogation of Sec. 60 AktG.
 - f) The company may acquire treasury shares with the intention of offering them as part of the employee share programme to persons who are or were employed by the company or an affiliate.
 - g) Furthermore, the Management Board is authorised to acquire shares in the company on or before 4 November 2011, either through the stock market or by way of a public takeover bid for the company addressed to all the shareholders of the company, up to a maximum proportionate amount of 10% of the share capital represented at the time the resolution was passed.
 - h) The entitlement of the shareholders to securitise their shares is excluded. The Management Board is entitled to issue share certificates for several shares (multiple share certificates); the form and content of the share certificates as well as the dividend and renewal certificates are determined by the Management Board, with the agreement of the Supervisory Board.
8. Pursuant to the terms of the convertible bond issued on 29 October 2009, a change of control in the event of a takeover bid could give the bond creditors the right to terminate prematurely or adjust the conversion price. Celesio AG has not entered into any other significant agreements which are conditional upon a change in control as the result of a takeover bid.
9. At Celesio there are no arrangements in place with members of the Management Board or employees for compensation in the event of a takeover bid.

Pursuant to Sec. 120 (3) AktG the Management Board has considered the mandatory information pursuant to Secs. 289 (4) and 315 (4) HGB. It confirms the regulations in place at Celesio and sees no reason for any change. The mandatory information pertaining to features of the capital and shareholder structure reflects the main current content of the articles of association of Celesio AG.

Dependent company report

Franz Haniel & Cie. GmbH, Duisburg, has a majority shareholding in Celesio AG. Celesio has therefore prepared a report on relationships with affiliates as required by Sec. 312 AktG. The report concludes as follows: »We hereby declare in summary that in the legal transactions and measures listed in the dependent company report, and according to the circumstances that were known to us when those legal transactions were performed or measures taken or omitted, Celesio AG, Stuttgart, and its subsidiaries received appropriate consideration in each legal transaction and was not placed at a disadvantage by measures taken or omitted.«

Strategy

Market

Celesio operates as a customer-oriented service provider on the global healthcare market, which mainly consists of defined individual national markets with sustainable prospects for growth. Our strategic approach is geared towards harnessing this market growth for Celesio and adding value for our customers and shareholders.

We make a general distinction between the primary and secondary healthcare markets. While payers such as the state or insurance companies reimburse expenses on the primary healthcare market, on the secondary healthcare market patients or consumers cover the costs themselves. The primary healthcare market is characterised by government provisions on prices, margins and compensation schemes.

The factors that shape the pharmaceutical and healthcare markets are:

- **Demographic change.** The global population is growing all the time, not least because life expectancy is rising in many countries. Reasons include higher quality medical care and better access to it. Because older people generally have a higher requirement for healthcare products and services, this development will drive growth on the pharmaceutical markets.
- **Innovation.** Medical science is constantly coming up with new and optimised methods for treatment. The pharmaceutical industry invests billions of euros each year in the research, development and manufacture of new products. Many of these new pharmaceuticals also demand new and highly specialised logistics, sales and marketing solutions.

Market structure evolving to reflect change

Growing demand, coupled with the need to improve the quality of healthcare, means that countries with government-run healthcare systems must address the fundamental issue of how to finance the higher spending that this entails. To the extent that they do not affect the level of care, options such as increasing insurance companies' contributions, cutting service providers' prices or compensation or rationing services have largely been exhausted, or are not viable politically. As a result, fundamental structural reform is frequently up for discussion, with concrete measures being implemented to tackle it in some cases. Any solution will involve an increased focus on the identification and elimination of redundancy along the entire pharmaceutical value-added chain. As a result, ever more complex business models will become increasingly important for offering integrated, cross-sectoral solutions, and could require greater cooperation between the market participants. The ones that proactively rise to this challenge will open the door to additional growth potential. The financing issues on the primary healthcare market are also likely to drive a shift in some services to the secondary healthcare market, where non-essential services will increasingly be covered. The development on the secondary healthcare market is therefore set to outpace the primary healthcare market. This fluid market environment will demand a response of some kind from all participants, whether from the industry, hospitals, physicians, phar-

macies, pharmaceutical wholesalers or other providers of healthcare services. All of these groups will take up new business activities to complement, or even replace, their traditional roles. Without structural reform, the nature of financing in the primary healthcare market will mean that service providers will see their compensation squeezed still further, even if the quality of care suffers as a result.

Competitive environment

We mainly operate from a leading position on consolidated national markets which have relatively high barriers to entry. We often face competition from other multinational, vertically integrated companies with equally significant market shares, as well as numerous smaller, often regional or local market participants. The renowned multinational competitors generally provide comparable core services. The additional service offering afforded by the maturity of the »pharmacy« and »pharmaceutical wholesale« models is a major factor in setting us apart and strengthening our competitive position. Only the Manufacturer Solutions division has a more diversified competitive environment, with fewer multinational providers offering comparative standardised service ranges.

Group strategy

For our traditional core pharmaceutical wholesale and pharmacy activities we anticipate further government intervention in prices and margins in the medium term. That is why it is and remains a major strategic aim of ours to considerably increase the share of revenue generated by core business which is not affected by regulated prices or margins. We therefore want to shift the weight of our activities to the secondary healthcare market. At the same time, we need to significantly build on the share of our service portfolio, which is not subject to government-regulated price and margin policies.

In addition to reducing dependence on revenue from regulated income, we will also focus on reducing our relative dependence on individual currencies, in particular the pound sterling.

A sustainable financing policy will secure sufficient headroom for any required investments and portfolio measures.

Agenda 2015

We implement our strategic goals within the framework of our strategic growth programme Agenda 2015. The individual initiatives of the programme are bundled in the three pillars »increasing profitability«, »optimising portfolios« and »innovation«. The Agenda 2015 Programme Management Office coordinates the development of new and the implementation of approved initiatives. The team evaluates the potential of the various initiatives, supports those responsible for them in the implementation process and monitors the realisation of potential. The office also ensures that the initiatives are presented and communicated in a transparent way and examines opportunities to roll out the individual initiatives to other business units.

Increasing profitability. Most of the initiatives organised in 2010 are anchored in the profitability pillar of Agenda 2015. They relate to profitability potential in both sales and operations.

Optimising portfolios. The greater our success in boosting profitability in our core business to compensate for government intervention in prices, the less we will need to use initiatives to achieve our strategic goal of reducing dependency on price-regulated activities. These initiatives will increasingly have to take the form of concrete measures. The acquisition of Panpharma is one example of such a measure that we have already taken. More must follow. The portfolio pillar of Agenda 2015 also includes measures of a purely streamlining nature, such as contributing our Dutch pharmacies to Brocacef Holding B.V. in return for a 45% investment in the company. Finally, expanding our core business in existing or new markets is also an important step, provided that we manage to conserve capital and achieve a suitable ratio of return to risk in the process, as is the case with setting up our own chain of DocMorris pharmacies in Sweden.

Innovation. Initiatives in the innovation pillar mainly address potential which arises, or could arise, as a result of the structural changes that we anticipate on the pharmaceutical and healthcare markets. We want to exploit the financing pressure on the primary healthcare market by working together with payers to help them leverage the efficiency potential inherent in a holistic approach to care. With its range of services, our joint venture Medco Celesio is precisely aligned to this aim. All of these initiatives aimed at improving the efficiency and quality of care are summarised under the heading »Efficient Care Pharma« (ECP).

Business environment

Economic environment

Following the severe financial and economic crisis of 2009, the international markets began to relax in 2010. A rise in incoming orders, coupled with growth in industrial production in the major western industrialised nations gave positive impetus. The economy recovered even more rapidly in Latin America and the less mature markets. On a global scale, however, the economic and financial situation was slower to recover than many people had expected, despite at times massive support from government economic stimulus packages. One of the contributory factors was the increasing pressure felt by some European countries under the weight of very high sovereign debt. Unemployment figures continued to rise almost across the board. The overall picture was divided: while Germany and a few other countries increasingly gathered speed, others, especially the periphery countries, were stuck deep in the crisis. Overall, global economic performance grew by 5.0% in 2010 according to figures released by the International Monetary Fund (IMF), compared to a fall of 0.6% in the previous year. In the European Union, gross domestic product (GDP) increased by 1.8%, compared to a fall of 4.1% in the previous year. Brazil also enjoyed a rapid recovery, generating a plus of 7.5%. Global trade was up by 11.4% in 2010 (previous year down 11.0%).

Change in GDP in countries/regions relevant for Celesio	2009 %	2010 %
Austria	- 3.9	1.6
Belgium	- 2.7	1.6
Brazil	- 0.2	7.5
Czech Republic	- 4.1	2.0
Denmark	- 4.7	2.0
France	- 2.5	1.6
Germany	- 4.7	3.3
Ireland	- 7.6	- 0.3
Italy	- 5.0	1.0
Netherlands	- 3.9	1.8
Norway	- 1.4	0.6
Portugal	- 2.6	1.1
Slovenia	- 4.7	4.1
Sweden	- 5.1	4.4
United Kingdom	- 4.9	1.7
World	- 0.6	5.0

Source: International Monetary Fund, January 2011 (in local currencies).

Economic situation in the industry and the regulatory environment

In general, the pharmaceutical and healthcare markets were less affected by the impact of the economic developments than other industries. Demand for medicines was virtually untouched by the financial and economic crisis. This is not directly influenced by economic fluctuations, but follows factors such as demographic development and increasing health awareness in the population. The volume of pharmaceuticals and healthcare products and services required is growing steadily and surely. With our activities, we therefore operate in a future and growth-oriented environment. However, many countries are having increasing difficulty financing the volume increase in demand for services reimbursed by the healthcare system, a problem which was accentuated by the economic and financial crisis. In many cases, this led to wide-scale cuts in healthcare budgets, with government intervening once again in the industry's compensation structures in 2010. These interventions varied from country to country, affecting our business to differing degrees. For instance, our retail pharmacies were hit harder than the wholesale business. More detailed information on the government measures and their impact can be found in the sections on the Patient and Consumer Solutions (page 64) and Pharmacy Solutions divisions (page 72).

Revenue and earnings development



Revenue. Group revenue came to EUR 23,277.6m in the 2010 fiscal year, an increase of 8.3% on the previous year. In local currency – without exchange rate effects – we saw a 5.8% increase in group revenue. This increase was mainly driven by acquisition effects and in particular the inclusion of the Brazilian wholesaler Panpharma, which has been consolidated since September 2009. Adjusted for portfolio and exchange rate effects, group revenue increased by 0.7%.

As an international service provider, our group once again generated the majority of group revenue abroad in 2010. The largest contribution to revenue was once again made by France with 29.4% (previous year 32.4%), followed by the UK with 20.9% (previous year 21.8%) and then Germany with 18.7% (previous year 18.6%). As a result of our acquisitions of a majority stake in Panpharma and Pharmexx, Brazil started contributing to revenue from the second half of 2009, accounting for 6.5% of group revenue in the 2010 fiscal year while also diversifying our currency portfolio.

Group revenue by country	2009	2010	Change on a euro basis %	Change in local currency %
	EUR m	EUR m		
France	6,971.5	6,838.4	– 1.9	– 1.9
United Kingdom	4,691.0	4,856.9	3.5	– 0.3
Germany	3,988.8	4,346.4	9.0	9.0
Brazil ¹⁾	405.8	1,503.5	> 100.0	> 100.0
Austria	1,046.7	1,064.4	1.7	1.7
Norway	923.3	1,016.0	10.0	1.0
Other	3,470.1	3,652.0	5.2	4.5
Total	21,497.2	23,277.6	8.3	5.8

¹⁾ Includes Pharmexx since July 2009 and Panpharma since September 2009.

Gross profit. The gross profit (revenue less cost of goods sold) improved by 13.2% to EUR 2,838.1m. In local currency, this was an increase of 9.9%. The gross profit margin increased from 11.7% to 12.2%, mainly as a result of the higher profit margins in Brazil and the addition of the new services business at Pharmexx.

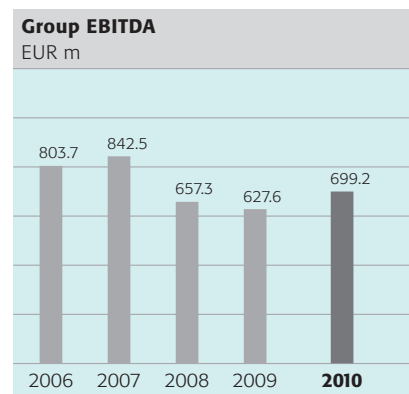
Other income. Other income increased significantly, up EUR 38.8m or 19.2% to EUR 240.7m (an increase of 16.6% in local currency). This increase is largely attributable to the non-recurring effect of EUR 16.3m resulting from the deconsolidation of our Dutch subsidiary Lloyds Nederland following its contribution to Brocacef Holding N.V. Based on the synergies that can be realised from this business combination, the initial measurement of the corresponding associate accounted for using the equity method was higher than the value of assets of the discounted entity Lloyds Nederland. Furthermore, the inclusion of Panpharma and Pharmexx contributed to the increase. Income from the closure and subsequent sale of wholesale warehouses as well as the reversal of bad debt allowances.

Other expenses. Other expenses came to EUR 925.8m, representing an increase of 11.0% on the previous-year level (an increase of 7.9% in local currency). The increase is primarily attributable to the acquisitions of a majority stake in Panpharma and Pharmexx. The figures also include the expenses for modernising our software and outsourcing our group-wide IT infrastructure. The outsourcing project led to a reduction in personnel expenses and depreciation at the same time. Higher legal and consulting costs also had an effect.

Personnel expenses. At EUR 1,460.7m personnel expenses were up 15.8% on the previous year (increase of 12.7% in local currency). This increase mainly reflects the acquisitions of Pharmexx and a majority stake in Panpharma. The general wage increases as well as a rise in the volume of work at our pharmacies owing to the higher number of prescriptions are further reasons for the rise in personnel expenses. Outsourcing our IT infrastructure had a compensatory effect. Adjusted for consolidation and currency effects, personnel expenses increased by 1.8%.

Investment result. Our investment result, comprising the result from associates accounted for using the equity method as well as the result from other investments, came to EUR 6.9m, compared to EUR 14.3m in the previous year. One main reason for this decrease was the weaker performance of the share price compared to the previous-year period of our investment in Andreae-Noris Zahn AG (ANZAG), which we sold on 18 October. The antitrust authorities approved the sale on 17 December 2010. With effect as at 1 December, the investment result also includes the Dutch investment Brocacef Holding N.V., which is recognised under associates.

EBITDA. We generated a year-on-year increase in earnings before interest, taxes, depreciation and amortisation (EBITDA), with growth of 11.4% to EUR 699.2m (an increase of 7.7% in local currency). This includes the positive non-recurring effect of EUR 16.3m from the deconsolidation of our subsidiary Lloyds Nederland, described above in the section on »other income«. Adjusted for this effect, EBITDA rose by 8.8% to EUR 682.9m. The positive overall earnings situation was mainly driven by the development in our Pharmacy Solutions division, which benefited from the enlargement of the consolidated group and the good growth in operations. The Patient and Consumer Solutions division also reported positive organic growth, despite being negatively affected by government intervention. Overall, government measures burdened our group EBITDA by an additional EUR 78.4m compared to the previous year. The Group's EBITDA margin was 3.0% in the reporting period (previous year 2.9%).



The acquisition of the Brazilian wholesaler Panpharma makes a further contribution to diversifying our currency portfolio. In line with our goal of reducing our relative dependency on the pound sterling, this currency now only accounts for 42.9% of group EBITDA, down 4.5 percentage points on the previous year.

Group EBITDA by currency	2009	2010	Change
	%	%	% points
Pound sterling	47.4	42.9	– 4.5
Euro	40.6	40.3	– 0.3
Other	12.0	16.8	4.8

Of the three divisions¹⁾, Pharmacy Solutions made the largest contribution to group EBITDA at 58.1% (previous year 54.8%), especially due to the consolidation of Panpharma; Patient and Consumer Solutions generated 40.3% of EBITDA (previous year 43.1%) and Manufacturer Solutions accounted for 1.6% (previous year 2.1%).

Amortisation, depreciation and impairment losses. Amortisation of intangible assets and depreciation of property, plant and equipment came to EUR 133.0m, an increase of 14.9% on the previous year. This was mainly due to the inclusion of Panpharma and Pharmexx and the associated additions to assets. Investments had a contrasting effect as a result of outsourcing our IT infrastructure. The annual impairment testing of goodwill in the third quarter did not lead to the recognition of any impairment losses. In the previous year, we recognised impairment losses of EUR 274.3m on intangible assets in the Patient and Consumer Solutions division.

EBIT. Earnings before interest and taxes (EBIT) amounted to EUR 565.6m. The previous-year figure came to EUR 237.6m and was affected by impairment of goodwill of EUR 274.3m.

Financial result. The financial result is the balance of three items: interest expense, interest income and other financial result. In the reporting period it came to EUR – 156.3m, compared to EUR – 118.1m in the previous year. This substantial increase of 32.4% was caused by temporary special effects of EUR – 44.7m (previous year EUR – 9.8m). Special effects mainly included currency and discounting effects in connection with the purchase price liabilities for the acquisition of the remaining shares in Panpharma. The interest expense also increased as a result of applying the effective interest rate method to the convertible bond issued in October 2009. Interest rate derivatives that have expired had a slightly positive effect. The aforementioned special effects did not affect cash and cash equivalents for the most part. Adjusted for special effects, the financial result came to EUR – 111.6m (previous year EUR – 108.3m). The interest coverage ratio came to 3.6 (previous year 2.0). This performance indicator reflects the mathematical number of times that the financial result – if negative – could be covered by EBIT (before impairments on goodwill).

¹⁾ Without Others segment.

Profit before tax. Profit before tax increased to EUR 409.3m (previous year EUR 119.5m). While in 2010 profit before tax was buoyed by special effects in the financial result, the previous-year figure was burdened by impairment losses.

Income taxes. The higher profit before tax also led to a rise in the absolute tax expense to EUR 144.3m, an increase of 27.7%. This corresponds to a tax rate of 35.3% (previous year calculated tax rate 94.5%). For the most part, the special effects described in the section on the financial result are not tax deductible. Adjusted for these effects, the tax rate came to 31.9%, while the tax rate in the previous year came to 30.0% after also eliminating impairment losses. The relatively low effective tax rate in Brazil compared to the rest of the group had a positive impact on the group's tax rate. On the other hand, a tax reform in France at the beginning of the reporting period increased our income tax rate.

Net profit/loss. We generated a net profit of EUR 265.0m compared to EUR 6.5m in the 2009 fiscal year. While the previous-year figure was burdened by impairment losses, the special effects in the financial result described above had an impact in the reporting period.

Earnings per share. Our basic earnings per share improved from EUR 0.02 to EUR 1.52. Earnings per share diluted by the issue of the convertible bond in October 2009 came to EUR 1.48. Adjusted for the aforementioned special effects, basic earnings per share came to EUR 1.78 (previous year EUR 1.64) and diluted earnings per share to EUR 1.69 (previous year EUR 1.63). Until the takeover of Panpharma, its special transaction structure has a negative impact on earnings per share, owing to the temporary special effects on the financial result described above.

Revenue and earnings development Celesio Group	2009		2010		Change on a euro basis %	Change in local currency %
	EUR m	% of revenue	EUR m	% of revenue		
Revenue	21,497.2	100.0	23,277.6	100.0	8.3	5.8
Gross profit	2,507.2	11.7	2,838.1	12.2	13.2	9.9
EBITDA	627.6	2.9	699.2	3.0	11.4	7.7
Profit before tax	¹⁾ 119.5	0.6	409.3	1.8	> 100.0	> 100.0
adjusted	^{2) 3)} 403.6	1.8	³⁾ 454.0	1.9	12.5	8.0
Net profit	¹⁾ 6.5	0.03	265.0	1.1	> 100.0	> 100.0
adjusted	^{2) 3)} 282.4	1.3	³⁾ 309.1	1.3	9.5	4.5
Earnings per share (basic)	¹⁾ 0.02	–	1.52	–	> 100.0	–
adjusted	^{2) 3)} 1.64	–	³⁾ 1.78	–	8.6	–

¹⁾ Restated to reflect the completion of the purchase price allocation for the Panpharma acquisition.

²⁾ Adjusted for impairment losses recognised on intangible assets (including tax effect).

³⁾ Additionally adjusted for special effects in the financial result.

Patient and Consumer Solutions division

Our Patient and Consumer Solutions division targets patients and consumers with our strong pharmacy brands. Our sales channels consist of our own retail and mail-order pharmacies. Where corporations are not permitted to operate their own pharmacies, as is currently the case in Germany, we also participate in brand partnerships with independent pharmacists within franchise models. In addition to prescription-only pharmaceuticals, we also offer a wide range of non-prescription products (OTC products), including attractive own brands and comprehensive pharmaceutical advice. We use these features to position ourselves among patients and consumers as an innovative provider of healthcare services.

Business areas

Retail Pharmacies

We are one of the largest pharmacy operators in Europe, with just under 2,300 of our own retail pharmacies in eight countries; since the start of 2010 we have also been represented in Sweden. Our most important market is the UK, where we operate around 1,700 retail pharmacies with Lloydspharmacy. Our highly qualified pharmacists dispense more than 600,000 prescription medicines daily. This makes us the first point of contact for healthcare matters for over half a million patients and consumers. We focus on customer proximity, the quality of our advice, the range of our products and the innovative services on offer in addition to the processing of prescriptions. These additional services include preventative care measures such as blood pressure, cholesterol or diabetes testing. The services offered at our retail pharmacies are tailored to the varying customer needs and general environment of each country. In selecting the location of our retail pharmacies, we aim to achieve close proximity to our customers as well as doctors' surgeries and health centres. In the UK, we are also expanding our business with institutional clients such as retirement and nursing homes or correctional facilities.

Mail-order Pharmacies

Wherever legally permissible, mail-order pharmacies have become an established component of pharmacy markets. Demand for the convenient but nevertheless safe option of ordering pharmaceuticals and healthcare products from home is rising steadily. We address this growing demand with our own mail-order pharmacies. The DocMorris mail-order pharmacy, which by far accounted for the largest share in revenue and earnings of the Mail-order Pharmacies business area in 2010, will be contributed to the joint venture Medco Celesio; from 2011 onwards, the disclosures will be made within a new business area, Efficient Care Pharma, in our Manufacturer Solutions division. Our mail-order activities in the UK and Norway will then fall under the Pharmacies business area. From 2011 onwards, mail-order pharmacies will no longer constitute their own business area.

Other business areas

The brand partnership business of Apotheke DocMorris, currently only in Germany, is included in other business areas. As at the end of 2010, some 160 pharmacies had chosen to enter into a brand partnership with Apotheke DocMorris. Under the DocMorris brand partnership system, independent pharmacists not only benefit from the DocMorris brand, but can also take advantage of our services in the areas of marketing, inventory management, product range or financing. A DocMorris brand partnership enables pharmacists to stand out from their market competitors and boost customer frequency.

New brand strategy from 2011

In the second half of 2010 we passed a resolution to realign our brand strategy in the Patient and Consumer Solutions division. Strong brands have the potential to make us even more successful in the secondary – privately funded – healthcare market. We also want to realise international synergy effects, which can only be achieved by reducing brand complexity. From 2011 onwards, we will therefore gradually bundle our non-UK pharmacy business under the DocMorris brand. For Celesio this means that we will be represented by just two pharmacy brands in future – Lloydspharmacy in the UK and DocMorris in other countries, where we intend to make DocMorris the leading pharmacy brand in Europe. We founded the DocMorris-International Retail entity in the reporting period to manage and expand our DocMorris business.

Market environment

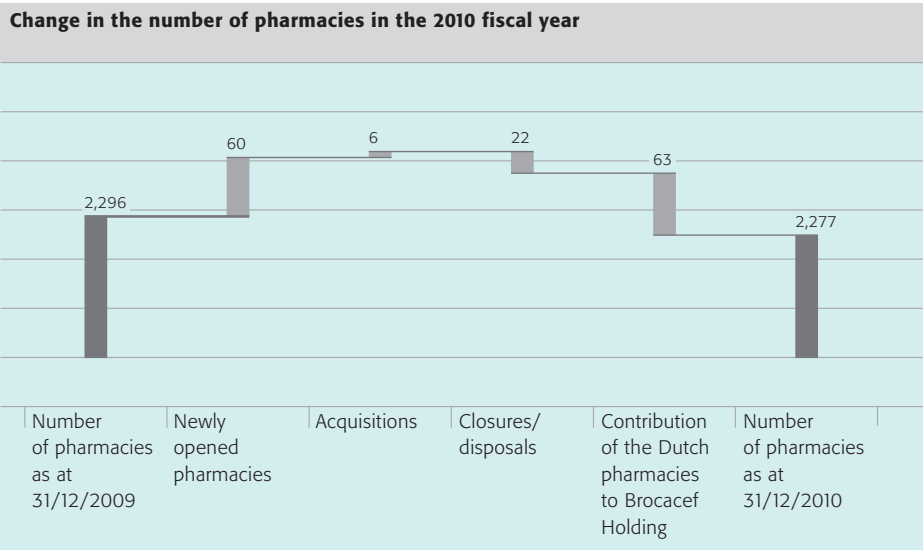
The pharmacy market is able to capitalise on the following key trends: firstly, demographic change is driving the rising volume of prescriptions, most of which are for reimbursable pharmaceuticals. Secondly, demographic developments and increasing health awareness are boosting demand for health-related products and services funded privately by patients and consumers themselves. This trend is reinforced by government economy drives and cuts in the healthcare sector. The pharmacy markets are affected by what can be massive government intervention in their compensation structures; the frequency and extent of such intervention is increasing, while events become less and less easy to predict. In this environment, there is also a growing need to establish efficient structures and processes in the pharmacy markets.

Business development

Retail Pharmacies

Business with prescription pharmaceuticals and services developed well overall in the 2010 fiscal year. The OTC business, however, was disappointing. Rather than implying a change in the long-term trend towards funding products privately, this reflects the increasingly tense economic situation, particularly in the UK and Ireland, which directly impacted private demand. We implemented a number of measures in 2010 to boost our OTC business, including expanding our own brand range and using extensions and renovations as an opportunity to increase browsing space for customers.

As at 31 December 2010, we operated a total of 2,277 pharmacies, a decrease of 19 compared to the end of the previous year. This slight fall is mainly due to the contribution of our 63 Dutch pharmacies to Brocacef Holding as at 30 November 2010 as part of our cooperation with Phoenix; these pharmacies are no longer included in our pharmacy count from this date. In the 2010 fiscal year, we opened 60 new pharmacies (previous year 15 pharmacies), 50 of which were in Sweden. As planned, our growth axis was outside of the pound sterling area. In line with our strategy to build up our pharmacy presence mainly by opening new pharmacies, we only acquired six pharmacies in 2010 (previous year 13), significantly fewer compared to past years. We closed or sold 22 pharmacies in the reporting period (previous year 69 pharmacies) as part of ongoing endeavours to improve our network of branches.



United Kingdom. In the 2010 fiscal year, our British pharmacies, of which we operate around 1,700, generated approximately 62.9% (previous year 62.7%) of revenue in the Retail Pharmacies business area. The UK therefore remained Celesio's most important country for pharmacies. Our Lloydspharmacy pharmacies developed well in the reporting period, even though they were massively hit by government regulatory measures. The decrease in reimbursement prices for generic medicines as at 1 October 2009 was one example of a burden compared to the previous year. These were cut again as at 1 October 2010, this time unexpectedly sharply. In the first quarter of 2010, the temporary increase until March 2009 in the practice payment also had a negative base effect. Operating improvements and a significant rise in the number of prescriptions went a long way towards compensating for the negative impact of these measures. In the reporting period, we once again ran numerous customer loyalty programmes and offers, and set up new advisory services to build on our position as first point of contact for health matters. One example is »Dr Thom«, our online service which allows patients to consult a doctor about their symptoms via a terminal and get prescriptions for certain indications online. Lloydspharmacy received the prestigious »Oracle Retail Week Award« for this service in 2010. We were also honoured for our online campaign »Sex Degrees of Separation« which provides information about sexually transmitted diseases at lloydspharmacy.com.

Norway. Norway is our second most important pharmacy market, generating 15.5% of revenue in the Retail Pharmacies business area in 2010. Business with prescription pharmaceuticals developed extremely well here, and we recorded good volume growth. Once again, we felt the negative impact of the step price model, which was introduced in 2005 and regularly leads to price reductions for active agents not protected by patents, mainly generic medicines. Revenue with OTC products fell short of expectations, but was consistent with the general development of the market. We were pleased with the unit sales of skincare products, which we also offer under our own brands in Norway. We carried out sales training for our employees, which led to a rise in unit sales.

Italy. Our Italian pharmacies developed well in 2010. We managed to generate growth in our business for both prescription and non-prescription products, outperforming the market in both product areas. We began to see the first positive results of our increased focus on the non-price-regulated range of products. Government price cuts for generic medicines and margin decreases had a negative effect. In 2010, we ran a pilot scheme with three pharmacies in Italy to test the DocMorris brand partnership model. The results available so far are very promising.

Netherlands. Our pharmacies' earnings power suffered under the preference policy practiced more strictly by health insurance companies since 2009. In June 2010, we therefore announced that we were to merge our activities on the Dutch pharmacy market with those of Phoenix Pharmahandel GmbH & Co. KG. This step is intended to strengthen both companies' position on the Dutch pharmacy market by leveraging synergy effects and extending the range of services. With a total of 110 of its own pharmacies and around 40 run by franchise partners, the joint group will move up to second place on the Dutch pharmacy market. In the course of the merger, we contributed our subsidiary Lloyds Nederland to Brocacef, a subsidiary of Phoenix, and received 45% of the shares in Brocacef in return. The Dutch antitrust authorities approved the merger at the end of November 2010. Starting from 1 December 2010, the investment is included in Celesio's consolidated financial statements as an associate under other business areas.

Ireland. As expected, our Irish pharmacy business saw a negative development in 2010, however, we fared better than the market as a whole thanks to our strict cost management and increased marketing. Major influential factors included the drastic reduction in reimbursement prices for medicines in July 2009 as well as the cuts in pharmacy compensation which were implemented at the same time. Furthermore, prices for pharmaceuticals not protected by patents were reduced by 40% in February 2010, followed by another cut in prices for generic medicines in October 2010. The very weak economic environment was a burden on business with OTC products. However, the first two pharmacies converted to the DocMorris model developed exceedingly well in Dublin and Limerick. Conversion of our entire chain of Irish pharmacies is scheduled to start in 2011 and will be completed in 2012.

Belgium. The financial and economic crisis also had repercussions on the Belgian pharmacy market. Patients in Belgium have to pay relatively high fees for medical care themselves, meaning that unit sales of prescription-only medicines developed at a modest rate due to fewer visits to the doctor. Unit sales of OTC products on the other hand were up slightly. Lloydspharma was able to increase its market share in the reporting period.

Czech Republic. Despite a weak market environment, our Czech pharmacies enjoyed a robust development. While revenue with prescription-only medicines lost ground due to price cuts by the government, unit sales developed well for our non-prescription range, thanks largely to the marketing activities which we stepped up in 2010.

Sweden. In Sweden, the lifting of the government monopoly on pharmacies enabled us to enter the market. We opened up our first 50 DocMorris pharmacies in 2010. This means that we are building up our pharmacy chain at a faster rate than originally planned. Our medium-term aim is to be represented in Sweden as the market leader with more than 100 of our own DocMorris pharmacies. Initially, the one-off expenses

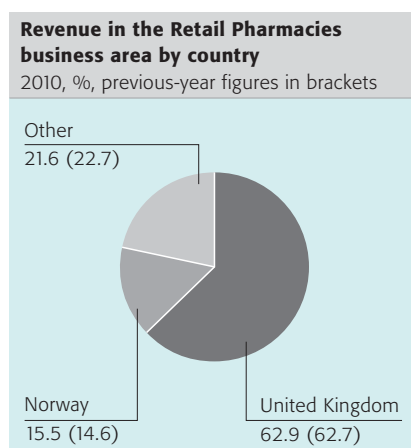
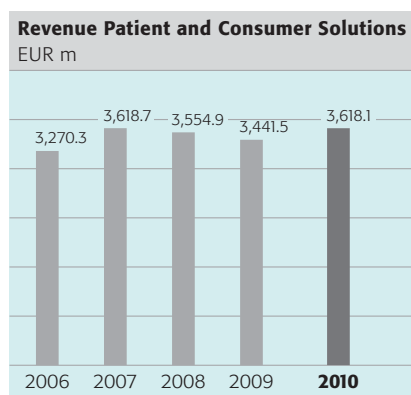
and start-up losses associated with market entry will have an impact on the earnings base of the Patient and Consumer Solutions division. With better service, longer opening times, fair prices and a modern look, our pharmacy chain has already become well established among patients and consumers in Sweden.

Mail-order Pharmacies

Our DocMorris pharmacy performed exceedingly well, driven by strong customer growth, with the focus remaining firmly on business with prescription-only pharmaceuticals. A number of marketing measures contributed positively to revenue with OTC products, including some related to the ten-year anniversary of DocMorris. Furthermore, we optimised our warehouse processes, which yielded efficiency wins. In September 2010, DocMorris announced a cooperation with the Klingel Group, one of Europe's largest mail-order companies. Klingel already provides mail-order services for beauty products and health products that do not have to be sold through pharmacies. The cooperation is to launch a new mail-order pharmacy in 2011. Thanks to the cooperation between the DocMorris mail-order pharmacy and the direct insurer Asstel, which was also agreed in 2010, DocMorris customers now have the option to purchase health-related insurance policies via the docmorris.com website. Our British mail-order activities, which are still comparatively modest, developed at a satisfactory rate. We extended our portfolio in the UK by acquiring Betterlife Healthcare, the UK's largest distributor of specialist healthcare products other than pharmaceuticals, such as wheelchairs or walking aids. Our mail-order activities in Norway, which were launched in 2009, were still in the start-up phase in the reporting period. These activities are in preparation for the electronic prescription system planned by the government.

Other business areas

After it became clear in 2009 that the timeframe for our intended expansion of the brand partnerships was too ambitious, we carried out a thorough overhaul of the plan in 2010. We gradually began to implement the improved version in the fourth quarter. Independent pharmacists can benefit from our redesigned, significantly wider offering in the areas of product range, marketing and service. As a DocMorris brand partner, pharmacies can position themselves far more effectively with a clear brand concept. This is becoming increasingly important in light of steadily growing pressure from competition among independent pharmacists. As at 31 December 2010, there were 159 pharmacies (previous year 152) involved in a DocMorris brand partnership in Germany. We anticipate a significant increase in brand partnerships in 2011 based on the optimisation of the model. It remains our aim to have 500 brand partners by the end of 2015 at the earliest. Furthermore, where permissible under the relevant legal frameworks, we will also launch the DocMorris brand partnership model as a franchise opportunity in other European countries.



Revenue and earnings development

Revenue

Revenue totalled EUR 3,618.1m in the Patient and Consumer Solutions division in 2010, an increase of 5.1% on the previous year. The Mail-order Pharmacies business area reported a particularly large increase of 13.4% (increase of 13.3% in local currency) – this corresponds to an increase to EUR 291.2m and is mainly attributable to the development of the DocMorris mail-order pharmacy. The positive development of revenue was also buoyed by currency effects in the Retail Pharmacies business area, which contributed 4.5%. We increased revenue in this business area by 0.6% in local currency, despite the effects of government measures. In particular, this is based on a larger number of prescriptions being processed in the UK, Norway and Italy, which more than compensated for the weaker development in countries such as the Netherlands or Ireland. Revenue in the other business areas came to EUR 4.3m, compared to EUR 4.8m in the previous year.

Development of Retail Pharmacies by country	Revenue 2009 EUR m	Revenue 2010 EUR m	Change on a euro basis %	Change in local currency %	Retail Pharmacies 31/12/2010
United Kingdom	1,993.8	2,089.4	4.8	0.9	1,657
Norway	465.1	513.8	10.5	1.4	176
Italy	204.1	208.5	2.1	2.1	162
Netherlands ¹⁾	173.4	155.7	– 10.2	– 10.2	(64)
Ireland	152.5	142.8	– 6.3	– 6.3	72
Belgium	135.9	136.6	0.6	0.6	110
Czech Republic	55.2	54.2	– 1.8	– 6.0	49
Sweden ²⁾	–	21.6	> 100.0	> 100.0	50
Total	3,180.0	3,322.6	4.5	0.6	2,277

¹⁾ Until 1 December 2010.

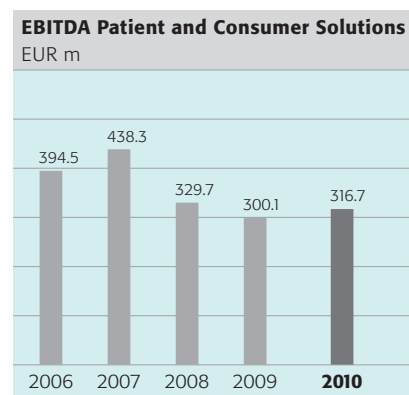
²⁾ Since February 2010.

Gross profit

Gross profit increased by 4.6% to EUR 1,217.5m in the Patient and Consumer Solutions division. The increase came to 0.8% in local currency. At 33.6%, the gross profit margin was more or less stable (previous year 33.8%) – despite an increase in the share of revenue attributable to our mail-order business where margins are lower than at retail pharmacies.

EBITDA

EBITDA outpaced revenue in this division with an increase of 5.5%. The increase in local currency was 2.0%. The main driver was the Mail-order Pharmacies business area, which reported an improvement in EBITDA from EUR – 3.6m to EUR 12.8m. Spending on advertising for the DocMorris pharmacy in the previous year led to an increase in the customer base and an improved development of earnings in 2010. EBITDA of the Retail Pharmacies business area decreased slightly by 0.6% to EUR 304.7m (a decrease of 4.1% in local currency); the burden of government measures was reflected here – especially in the first and fourth quarters – as were start-up expenses for our chain of pharmacies in Sweden. The other business areas reported EBITDA of EUR – 0.8m (previous year EUR – 3.0m).



Revenue and earnings development Patient and Consumer Solutions		2009		2010		Change on a euro basis %	Change in local currency %
		EUR m	% of revenue	EUR m	% of revenue		
Retail Pharmacies	Revenue	3,180.0	100.0	3,322.6	100.0	4.5	0.6
	Gross profit	1,118.0	35.2	1,165.8	35.1	4.3	0.3
	EBITDA	306.7	9.6	304.7	9.2	– 0.6	– 4.1
Mail-order Pharmacies	Revenue	256.7	100.0	291.2	100.0	13.4	13.3
	Gross profit	42.8	16.7	48.2	16.5	12.5	12.2
	EBITDA	– 3.6	–	12.8	4.4	> 100.0	> 100.0
Other business areas	Revenue	4.8	100.0	4.3	100.0	– 11.5	– 11.5
	Gross profit	3.1	63.7	3.5	80.9	13.8	13.8
	EBITDA	– 3.0	–	– 0.8	–	71.2	71.2
Total	Revenue	3,441.5	100.0	3,618.1	100.0	5.1	1.5
	Gross profit	1,163.9	33.8	1,217.5	33.6	4.6	0.8
	EBITDA	300.1	8.7	316.7	8.8	5.5	2.0

Pharmacy Solutions division

In our Pharmacy Solutions division, we cater to the needs of pharmacies, providing them with solutions key to their success. The focus of this division is our comprehensive pharmaceutical wholesale business which is stable and relatively unaffected by economic developments. The steady cash flow from this business area is an important cornerstone for financing Celesio's growth. In addition to the pharmaceutical wholesale business, the Pharmacy Solutions division also operates in other smaller – but nevertheless growth-driven – business areas in which we offer services and products to pharmacists which go beyond the traditional wholesale business. With these additional services, we help our customers strengthen their competitive position.

Business areas

Wholesale

As a full-line pharmaceutical wholesaler, Celesio is an essential bridge between the pharmaceutical industry and pharmacies. We procure medicines approved in each country as well as other products sold in pharmacies directly from the manufacturers – in Germany, for example, over 125,000 different products from more than 3,000 manufacturers. We then store them at regional wholesale branches with the support of our efficient warehousing management system. With a complex delivery system refined over many years, we ensure rapid and safe supply directly to our pharmacy customers nationwide. We generally receive a price-related margin for our wholesale services. This varies from country to country, but is usually regulated by the government in the case of pharmaceuticals. Competition between wholesalers everywhere forces us to pass on some of this margin to our pharmacy customers in the form of discounts. We are represented on the pharmaceutical wholesale market with subsidiaries in twelve European countries and Brazil. We lead the market in France, the UK, Norway, Austria and Slovenia. We are among the market leaders in all other countries, with the exception of Italy, where we only operate regionally. Our 133 branches supply over 65,000 pharmacies on a daily basis. We work steadily on our wholesale range in all countries and offer supplementary services for pharmacists. This can include the organisation and management of pharmacy cooperations. For example, we have »Pharmactiv« in France, »gesund leben« in Germany and »Herba Family« in Austria. Within these frameworks, we support our business partners with seasonal offers and campaigns, as well as by providing platforms to exchange information. This is all complemented by attractive own brands which we offer in addition to the regular product portfolio, together with trainings and seminars for pharmacy personnel.

Other business areas

Rudolf Spiegel Versand, which specialises in pharmacy fittings and equipment, is included in the other business areas of the Pharmacy Solutions division. We operate in seven countries with this provider of specialist mail-order services. In Germany, we own a leading development and marketing firm for pharmacy locations, Inten. The Apo Interim pilot project supported pharmacists in 2009 and 2010 by arranging temporary employees to cover in the event of illness or holiday. Following completion of the test phase, we discontinued the Apo Interim activities as at the end of the reporting period.

Market environment

The pharmaceutical wholesale business is solid and only indirectly affected by economic cycles and is anchored in a relatively stable market environment. However, even the pharmaceutical wholesale business is currently affected to a greater degree than usual as a result of government austerity measures in response to stretched government budgets in Europe. This manifests itself in the form of price cuts for medicines or the reduction of wholesale margins. The effects can be softened somewhat by increasing productivity, or, depending on the competition situation, by adjusting the discounts granted to our pharmacy customers. In the UK, some pharmaceutical manufacturers are pushing direct-to-pharmacy (DTP) delivery. Others reduce the number of wholesale partners (reduced-wholesale model). As a leading provider, we are one of the preferred partners for these models. However, there are limitations in applying them to other countries. For example, in France and Germany pharmaceutical manufacturers are legally obliged to supply products to ensure that the wholesalers can fulfil their supply obligation.

The market environments relevant to our other business areas were satisfactory in 2010 and form a good basis for the future development of these activities.

Business development

Wholesale

Our wholesale business developed well in its core markets in 2010, albeit with considerable differences between countries. As expected, development of both the market and our wholesale business in Brazil was much stronger than in Europe, where we managed to maintain our position in an environment shaped by government measures and competitive discounts. As part of Agenda 2015, we launched a range of initiatives in our wholesale business. For example, »Optimisation of all Transport« was an opportunity to thoroughly review many processes along the delivery chain, keeping an eye on the competition, of course. Our aim is to streamline processes while cutting the associated costs – for us and for our customers. »Optimisation of all Transport«

should contribute significantly to increasing profitability, one of the growth pillars in our Agenda programme. IT projects were introduced in several countries to leverage efficiency benefits, especially with regard to inventory management. We have also been offering our customers various innovative services for some time, and continue to refine these. One such example is Wawi Top, an inventory control system offered by GEHE to support pharmacists in storage management. It leaves our customers free to concentrate on their pharmaceutical core competences, while at the same time helping to set our wholesale business apart from the competition and strengthen partnerships with pharmacies.

France. In our most important wholesale market, our subsidiary OCP's business was characterised by irrational competition on discounts. What started with a further consolidation phase on the market, was followed by a counter-trend in which competitors started opening additional branches which were unnecessary from a supply point of view. Confronted with this development from its position as market leader, OCP initially prioritised profitability over market share. OCP then managed to stabilise the market share towards the end of 2010, while at the same time maintaining a satisfactory profitability level. Furthermore, OCP opened two new warehouses, in Orange and Poitiers. With the aim of bundling capacities in Brittany, OCP opened a modern and very central branch in Carhaix, closing three other locations in Brittany, i.e. Brest, Saint-Brieuc and Lorient. Even though we do not envisage any improvement in the discount situation in the near future, our many years of experience make us confident that the market participants will return to reason in the medium term. Our »Pharmactiv« pharmacy cooperation developed very well, gaining a number of new cooperation partners.

Germany. The German wholesale market enjoyed a good level of growth in the first seven months of the year, driven in part by the 15th amendment to the Arzneimittelgesetz (AMG, Medicinal Products Act) which includes an obligation on the part of manufacturers to supply wholesalers. From August 2010, the higher manufacturer discount and price moratorium had an indirect negative impact. In imposing the moratorium, the federal government froze prices for reimbursable medicines in the period from 1 August 2010 to 31 December 2013. GEHE, our wholesale subsidiary, slightly outperformed the market with growth in its 175th anniversary year. As part of our growth programme Agenda 2015, we realised an innovative business idea and launched our first wound centre in 2010. By setting up centres of this kind in Germany, we are responding to the growing demand for professional care for patients with chronic wounds. This innovative service approach targets a new customer group. We are also expanding our customer base by supplying blistering centres, where patient-specific combinations of medicines are packaged. Not until 2011 will we feel the effects of the Gesetz zur Neuordnung des Arzneimittelmarktes (AMNOG, Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance), which was enacted in November 2010.

United Kingdom. Despite government burdens, our British wholesaler AAH developed positively in the reporting period. Under the Pharmaceutical Price Regulation Scheme (PPRS), prices for patented pharmaceuticals were cut by an average of 3.9% as at 1 February 2009, followed by an additional 1.9% in January 2010. Wholesale income was affected accordingly. Alongside the DTP model (direct to pharmacy), the trend towards reduced wholesale models also continued. However, thanks to our market position, we are one of the preferred partners for manufactures pursuing either model. In 2010 AAH launched »All About Health«, a customer loyalty programme which helps keep patients and consumers better informed about pharmacy services and makes it easier for them to take a responsible approach to their health.

Brazil. The integration of Panpharma, the leading Brazilian wholesaler acquired in August 2009, went according to plan in 2010. Together with Panpharma's management and our minority shareholder in Brazil, the Panarello family, we started to improve the operating business and its strategic outline from both an operational and sales perspective. As a result, Panpharma's development in the past fiscal year exceeded our expectations, with profitability above average compared to western European standards. Growth was also buoyed by an increase in prices for pharmaceuticals of between 4.0% and 5.0% as at 1 April 2010. Furthermore, Panpharma managed to generate an above-market increase in revenue from generic medicines.

Austria. The business of our Austrian wholesaler Herba Chemosan was characterised by weak market growth. In a highly competitive environment, it nevertheless managed to increase its market share among dispensing physicians. Furthermore, high-performance IT programs and structures were successfully implemented in Austria. For example, we improved the operating business at Herba Chemosan, especially with respect to resource management, by introducing enterprise resource planning (ERP) systems. Furthermore, the process of converting our warehouses to use uniform, fully-integrated logistics software is almost complete, opening up new possibilities for inventory and logistics management.

Portugal. In a tough market environment, our wholesaler OCP Portugal recorded good revenue figures and a decent market share. OCP Portugal was affected by government price cuts in both May and October of 2010. OCP Portugal upped its efforts to enter into cooperation arrangements with industry players, and managed to increase the number of new OTC sales agreements in the 2010 reporting period.

Norway. Our wholesaler Norsk Medisinaldepot (NMD), which leads the Norwegian market, exhibited solid growth, especially in the hospital business. As part of the drive to streamline the branch network, NMD closed a branch in Trondheim in 2010 and started work on constructing a new branch in Oslo as planned.

Belgium. In 2009, our Belgian wholesaler Pharma Belgium acquired Laboratoria Flandria, a wholesale company operating in the northwest Flanders region. This investment was intended to expand our regional representation in Belgium and realise synergy effects. The initial focus was on achieving a uniform discount policy for both companies. However, this turned out to be difficult in the highly competitive environment, and we suffered market losses. The integration of the company and introduction of uniform IT systems and organisational structures progressed well, realising synergy effects as planned. To make cooperations even more appealing for Belgian pharmacies while also contributing to strong customer relationships, we have started to build up the established French pharmacy cooperation programme »Pharmactiv« in Belgium as well.

Denmark. Measures started in 2009 to restructure our branch network were completed in 2010. As a result, we were able to leverage significant cost savings without affecting the presence of our wholesale subsidiary Tjellesen Max Jenne on the Danish market. The projects aimed at achieving a uniform IT infrastructure also produced good results; Tjellesen Max Jenne increased its profitability, although there continues to be room for improvement.

Ireland. As in the previous year, government measures had a negative impact on the development of earnings at our Irish wholesaler Cahill May Roberts. We also began a comprehensive IT project in Ireland to implement an ERP system with the aim of helping to improve operating processes. Furthermore, Cahill May Roberts invested in conveyor technology at one of its branches, which contributes to a further increase in the level of automation.

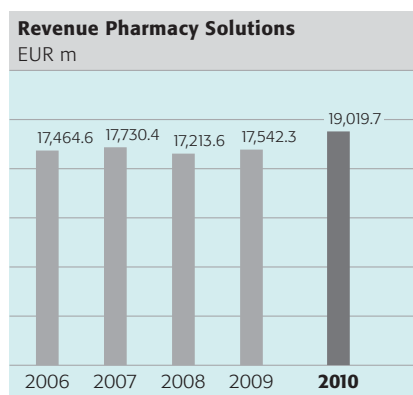
Czech Republic. The Czech market was characterised by government price cuts of 7% in 2010. GEHE Pharma Praha managed to successfully build on its market position and increase revenue accordingly. One of our branches in Brno was relocated and modernised, which gave a significant boost to its productivity.

Slovenia. In what remains an attractive market environment, our pharmaceutical wholesale business in Slovenia enjoyed a steady development despite the fact that one of the pharmacy chains started to supply its own branches. Our wholesale subsidiary Kemofarmacija once again reached a good level of profitability and held on to its leadership of the market.

Italy. Competition in Italy became even tougher in the reporting period as a result of further price decreases and a higher level of discounts. Our Italian wholesale subsidiary AFM managed to go some way towards compensating for this on the cost side, for instance by improving route planning to save transport costs. In addition, AFM started its realignment of the entire sales force.

Other business areas

Rudolf Spiegel Versand, our mail-order business for pharmacy and laboratory equipment, faced aggressive competition in Germany in 2010. At the same time, it pressed ahead with its internationalisation drive by entering the Italian market in its 25th anniversary year. It is now represented on seven European markets. We integrated the sales organisation of our subsidiary Inten into the sales force of GEHE, our German wholesaler. This not only allows us to avoid redundancies, but also strengthens the structure of our sales force. The Apo Interim pilot project did not develop according to our expectations and was therefore discontinued in 2010.



Revenue and earnings development

Revenue

Revenue in the Pharmacy Solutions division was up by a significant 8.4% on the previous year at EUR 19,019.7m. In local currency, this is an increase of 6.2%. After eliminating currency and acquisition effects, revenue growth came to 0.7%. The Wholesale business area accounted for the largest share in revenue, with EUR 19,014.4m. In addition to the generally good development of operations in our wholesale business, the positive change in revenue was mainly attributable to the inclusion of contributions from our Brazilian wholesaler Panpharma now that it has been consolidated for a full year, as well as contributions from our Belgian wholesaler Laboratoria Flandria. Revenue from other business areas remained stable at EUR 5.3m.

Development of Wholesale by country	Revenue 2009 EUR m	Revenue 2010 EUR m	Change on a euro basis %	Change in local currency %	Branches 31/12/2010
France	6,903.1	6,704.8	-2.9	-2.9	44
Germany	3,677.0	3,972.3	8.0	8.0	21
United Kingdom	2,610.1	2,644.5	1.3	-2.5	19
Brazil ¹⁾	400.5	1,503.5	> 100.0	> 100.0	16
Austria	1,004.9	1,019.4	1.4	1.4	7
Portugal	531.5	535.2	0.7	0.7	7
Norway	455.3	501.7	10.2	1.1	2
Belgium ²⁾	434.4	544.9	25.4	25.4	6
Denmark	421.5	460.4	9.2	9.2	2
Ireland	339.1	318.0	-6.2	-6.2	3
Czech Republic	312.2	355.1	13.7	8.9	3
Slovenia	297.2	301.9	1.6	1.6	2
Italy	150.2	152.7	1.6	1.6	1
Total	17,537.0	19,014.4	8.4	6.2	133

¹⁾ Since September 2009.

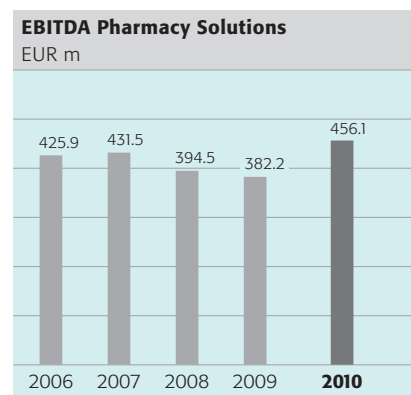
²⁾ Since 1 October 2009 including Laboratoria Flandria.

Gross profit

The gross profit of the division increased at a higher rate than revenue, by 11.1% to EUR 1,208.8m (increase of 8.1% in local currency). The gross profit margin saw a slight increase from 6.2% to 6.4%. The development was helped by the higher profit margins in Brazil compared to Europe.

EBITDA

EBITDA of the Pharmacy Solutions division outpaced revenue and gross profit with an increase of 19.3% (increase of 16.0% in local currency). Adjusted for portfolio and currency effects, this represents an increase of 6.2% compared to the previous year. In the Wholesale business area, EBITDA came to EUR 459.2m, and thus exceeded the previous-year figure by 17.6%. The main drivers were once again the consolidation of Panpharma in Brazil, as well as the good development of revenue at GEHE in Germany and AAH in the UK. This also more than made up for the poorer development of certain countries, such as France. In the Wholesale business area the EBITDA margin was up 0.2 percentage points to 2.4%. EBITDA of other business areas improved from EUR –8.1m to EUR –3.1m in the reporting period. Provisions at Inten had burdened this business area in the previous year.



Revenue and earnings development Pharmacy Solutions		2009		2010		Change on a euro basis %	Change in local currency %
		EUR m	% of revenue	EUR m	% of revenue		
Wholesale	Revenue	17,537.0	100.0	19,014.4	100.0	8.4	6.2
	Gross profit	1,085.8	6.2	1,206.5	6.3	11.1	8.1
	EBITDA	390.3	2.2	459.2	2.4	17.6	14.4
Other business areas¹⁾	Revenue	5.3	100.0	5.3	100.0	–0.3	–0.3
	Gross profit	2.4	44.7	2.3	43.4	–2.1	–2.1
	EBITDA	–8.1	–	–3.1	–	62.0	62.0
Total	Revenue	17,542.3	100.0	19,019.7	100.0	8.4	6.2
	Gross profit	1,088.2	6.2	1,208.8	6.4	11.1	8.1
	EBITDA	382.2	2.2	456.1	2.4	19.3	16.0

¹⁾ 2009 figures have been restated to reflect the inclusion of Inten GmbH with effect as at 1 January 2010. Inten GmbH was previously reported in the »others« segment.

Manufacturer Solutions division

With its service offering, the Manufacturer Solutions division is geared towards the pharmaceutical industry. Unlike our pharmacy and wholesale activities, it is therefore only affected by government intervention indirectly, a reason why it is one of our areas of growth for the future. Pharmaceutical manufacturers find themselves faced with increasing competition and greater pressure on costs as a result of higher expenses for product innovations, a lower overall number of new products launched as well as the expiry of patents on blockbuster medicines which generate high revenue. Many pharmaceutical manufacturers are thus increasingly focusing on their core competences, relying on external providers of pharmaceutical services at certain points along the value-added chain.

Business areas

Movianto

With our Movianto business area, we offer specialised pharmaceutical logistics and related services tailored to the pharmaceutical industry's need for storage, order picking, transport and packaging in thirteen European countries. We count most of the world's largest pharmaceutical manufacturers among our more than 600 customers. Movianto's core competences include logistics services for particularly sensitive and premium medicines. An increasing number of pharmaceutical products require special transport logistics such as a delivery chain at a regulated temperature.

Pharmexx

Pharmexx is one of the world's leading contract sales organisations and offers pharmaceutical companies innovative marketing and sales solutions. These include, for example, personnel services, direct marketing of OTC and medical products as well as sales support, for example with new product launches. In 2010, Pharmexx supported more than 250 customers in over 22 countries, including the top 25 pharmaceutical manufacturers, and was in contact with around 32,000 doctors, pharmacists and patients per day.

Other business areas

Other business areas include our British subsidiary Evolution Homecare, which operates in the supply of medicines at home (specialty pharmacy). It coordinates treatment using special pharmaceuticals which are brought to the patient at home and administered there. This is particularly useful for diseases which are not medically treated at a clinic for reasons of cost or in the interest of the patient, but which nevertheless require complex and time-consuming treatment with the need for advice. Once again in 2010, Evolution Homecare operated exclusively in the UK, continuing our efforts to build up the company. We benefit from the overlap with our other UK activi-

ties such as wholesale, manufacturer logistics and our network of pharmacies. Other business areas also included Celesio Manufacturer Solutions Sales (CMSS), which we are integrating into Movianto and Pharmexx from 2011 to optimise our internal sales structures.

Market environment

Many pharmaceutical manufacturers worldwide are increasingly having their earnings squeezed. The main reasons for this are:

- Expiry of numerous patents for top-selling blockbusters.
- Government price regulation in many countries.
- A smaller number of new medicines and active agents reaching market maturity compared to earlier years.
- The increasing use of cost-benefit analyses in assessing new medicines and active agents.

More and more pharmaceutical manufacturers are therefore increasingly turning their focus to core competences, i.e. the development and manufacture of medicines. Activities along the pharmaceutical value-added chain, which do not belong to this core area, are increasingly assumed by specialist outsourcing partners who carry out these services for several customers, enjoying economies of scale which afford them greater efficiency than a sole manufacturer would. This trend continued in 2010 and the basis for our expectations for growth in this area.

Business development

Movianto

The Movianto business area developed extremely well in 2010, mainly driven by new agreements and the extension of existing ones. These are the fruits of the past years' labours, in which Movianto's focus was on improving and standardising the range of services alongside its rolling efficiency drive and optimisation of internal processes. Movianto enjoyed not only organic growth in the reporting period but also increased its geographic reach. For instance, in 2010 we entered the Slovakian market with our new warehouse near Bratislava. Furthermore, we opened new warehouses in Aalst, Belgium, and near Orléans in France as well as one near Lisbon in Portugal. Movianto increased total warehouse capacity to around 225,000 pallets, up almost 30% compared to the previous year.

With its services Movianto has successfully positioned itself as the pharmaceutical industry's partner for logistics solutions in Europe. We are particularly successful with our specialised services to complement the logistics business, for example, with complete solutions along the value-added chain from order intake to invoicing and accounts receivable accounting.

Pharmexx

On 20 September 2010, we issued a notification concerning the acquisition of full ownership of Pharmexx. We had already raised our 30% investment to 65% in July 2009 and have reported Pharmexx as a separate business area within the Manufacturer Solutions division since then. In the second half of 2009, we launched a comprehensive integration and restructuring process for Pharmexx, a rapidly growing and formerly privately-owned company. The measures of this process were more closely defined and to a large extent implemented in the takeover. The one-off expenses associated with restructuring, for winding up residual contracts for instance, already took effect in the past fiscal year. However, the process of implementing the measures in all Pharmexx companies will last beyond 2010. In addition to these restructuring expenses, the business development in 2010 was also negatively affected by order losses in Spain, the UK and Turkey.

Pharmexx continues to focus on further developing and tailoring its service offering to the specific demands of the pharmaceutical industry. Examples of this include documentation services for our sales representatives' visits to doctors, or the assumption of complete marketing rights for individual product lines. A further component is the international standardisation of the range of services. Thanks to reorganisation efforts and measures to improve the content of the range, Pharmexx is well placed from a current perspective to benefit from rising demand for pharmaceutical sales solutions.

Other business areas

The process of building up Evolution Homecare in the UK went according to plan and was, as expected, still associated with start-up expenses. The number of medicine deliveries and patient administrations increased significantly compared to the previous year.

Medco Celesio

From 2011 we will report a new business area within our Manufacturer Solutions division: Efficient Care Pharma. Efficient Care Pharma will encompass all activities relating to solutions and services offered to pharmaceutical manufacturers or payers, such as insurance companies and health insurance funds, with the aim of improving the quality of care while at the same time boosting cost efficiency. In addition to Evolution Homecare, this business area will also contain our investment in the joint venture Medco Celesio from 2011 onwards. In the 2010 fiscal year, we reported this investment in the segment »others Manufacturer Solutions«.

On 21 June 2010, we announced the foundation of a joint venture with the US healthcare group Medco Health Solutions, Inc. The company offers innovative solutions in the area of Efficient Care Pharma. These cover cross sectoral pharmaceutical services for patients with chronic or complex diseases such as diabetes, cancer, cardiovascular or respiratory disorders. The focus here is on improving patient adherence, i.e. the accuracy of administering pharmaceuticals according to physicians' instructions. As a result, patients with chronic conditions in Europe should have access to a significantly improved quality of pharmaceutical treatment, while the healthcare systems benefit from the considerable contribution made to cutting costs.

Further information on Medco Celesio is available on the internet at medcotelesio.com

Medco Celesio's initial focus lies in the following three service areas:

- **Advanced Clinical Solutions (ACS).** Our customers here are payers in the healthcare system, i.e. national health authorities and private and statutory health insurers. On their behalf and with the consent of patients, we carry out clinical analyses of anonymous patient data with the aim of revealing gaps in care and taking early action to close them. Gaps in care arise when medicines are taken incorrectly, irregularly or not at all. This can lead to severe related disorders. Experts estimate an annual bill of EUR 200 to 300bn for related disorders of this kind in Europe. In order to counter gaps in care, Medco Celesio develops patient-specific plans of action. These incorporate patient advice from specially trained pharmacists on the pharmaceutical treatment prescribed by a doctor. Patients benefit from a better treatment outcome, while the overall costs for the healthcare system are reduced.
- **Specialty Care Solutions.** The focus of Specialty Care Solutions is on offering personalised support for patients in need of medicines which are expensive and difficult to administer. It is particularly useful in the case of diseases where treatment is complex and requires lots of advice. Under contract to manufacturers and payers on the healthcare market, Medco Celesio will support patients in taking medicines correctly at home according to instructions from the physician in charge to achieve the greatest possible effect. This is more efficient and less costly because it reduces the need for expensive hospital stays.
- **Mail-order Pharmacies.** Celesio will contribute the Apotheke DocMorris mail-order pharmacy and Medco will contribute Europa Apotheek Venlo mail-order pharmacy to the joint venture to allow for the most efficient supply of pharmaceuticals to chronically ill patients. We expect synergy effects and opportunities to offer our customers an even better service as a result of combining these two mail-order pharmacies to create what is easily the largest mail-order pharmacy in Europe.

Medco Celesio is registered in Amsterdam, with both companies holding a 50% share each. We plan to expand Medco Celesio gradually into all EU member states plus Switzerland and Norway. The expansion stages will be aligned to the market demand in each case, as well as the development of the regulatory frameworks and national compensation structures.

The development of earnings in this business area will initially be negatively impacted as a result of start-up expenses for our joint venture.

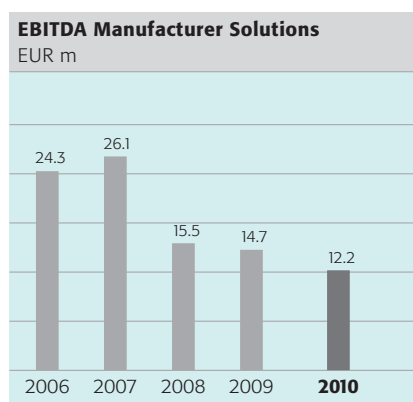
Earnings development

Gross profit¹⁾

In the Manufacturer Solutions division, gross profit increased by a significant 61.5% compared to the previous year to EUR 411.8m. This development is attributable to the full inclusion of Pharmexx for the first time. The increase came to 59.1% in local currency. Pharmexx accounted for EUR 224.8m of the division's gross profit. We generated gross profit of EUR 185.0m in the Movianto business area, an increase of 10.2% on the previous year (increase of 8.8% in local currency). The other business areas saw gross profit increase by EUR 0.9m to EUR 2.0m.

EBITDA

EBITDA of this division decreased by EUR 2.5m or 17.4% to EUR 12.2m (decrease of 18.0% in local currency). This is largely attributable to expenses for the integration and restructuring process at Pharmexx, which was essentially completed at the end of 2010. The Movianto business area reaped the rewards of the optimisation measures implemented in 2009, with EBITDA increasing by 15.0% to EUR 17.9m (increase of EUR 13.7% in local currency). The ratio of EBITDA to gross profit improved by 0.4 percentage points to 9.7%. Owing to start-up expenses for Evolution Homecare, EBITDA of the other business areas came to EUR – 3.4m (previous year EUR – 2.9m).



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

Manufacturer Solutions

Earnings development Manufacturer Solutions		2009		2010		Change on a euro basis %	Change in local currency %
		EUR m	% of gross profit	EUR m	% of gross profit		
Movianto	Gross profit	167.9	100.0	185.0	100.0	10.2	8.8
	EBITDA	15.6	9.3	17.9	9.7	15.0	13.7
Pharmexx¹⁾	Gross profit	86.2	100.0	224.8	100.0	> 100.0	> 100.0
	EBITDA	2.0	2.3	– 2.3	–	–	–
Other business areas	Gross profit	0.9	100.0	2.0	100.0	> 100.0	> 100.0
	EBITDA	– 2.9	–	– 3.4	–	– 21.6	– 18.5
Total	Gross profit	255.0	100.0	411.8	100.0	61.5	59.1
	EBITDA	14.7	5.8	12.2	3.0	– 17.4	– 18.0

¹⁾ Fully included in the consolidated financial statements of Celesio since July 2009.

Financial position

Statement of cash flows

The financial position of the Celesio Group improved considerably on the previous year. We saw a substantial rise in the free cash flow and reduced our financial liabilities significantly, as announced.

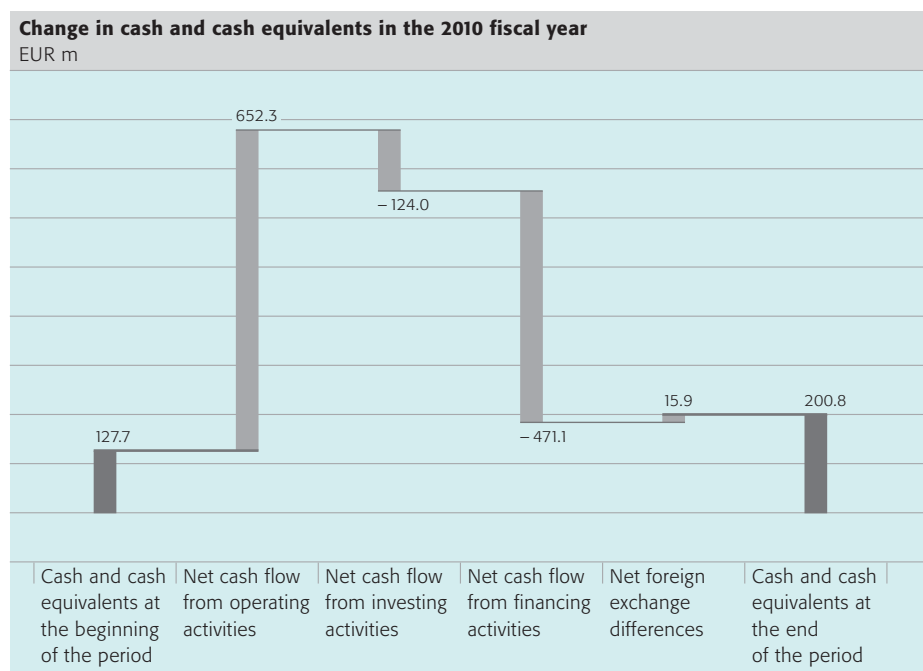
Net cash flow from operating activities. Net cash flow from operating activities increased by EUR 74.1m to EUR 652.3m. In addition to the higher operating result (EBITDA), this is also attributable to the EUR 18.3m increase in the net cash flow after eliminating consolidation and currency effects from the change in net working capital¹⁾.

Net cash flow from investing activities. The net cash flow from investing activities came to EUR – 124.0, a decrease of EUR 79.1m on the previous year. The decrease primarily stems from the lower amount of cash paid for business combinations, which came to EUR 32.3m (previous year EUR 119.0m). Capital expenditures totalled EUR 128.3m and mainly included investments in our branch structure in the wholesale business and spending on the modernisation of pharmacies, building up our chain of pharmacies in Sweden, and IT investments.

Free cash flow. The free cash flow of EUR 432.3m was up EUR 128.4m on the previous year, a significant increase, driven by the sharp rise in cash inflow from operating activities and the reduction in cash outflow from investing activities. We were thus able to lower our financial liabilities by a total of EUR 283.8m.

Celesio Group statement of cash flows	2009 EUR m	2010 EUR m
Net cash flow from operating activities	578.2	652.3
Net cash flow from investing activities	– 203.1	– 124.0
Interest paid and received	– 71.2	– 96.0
Free cash flow	303.9	432.3
Payments made to shareholders	– 83.8	– 89.0
Net cash flow from change in borrowings	– 147.9	– 283.8
Changes in ownership interests in subsidiaries that do not result in a loss of control	0.0	– 2.3
Net change in cash and cash equivalents	72.2	57.2
Net foreign exchange difference	2.1	15.9
Change in cash and cash equivalents	74.3	73.1

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



Net working capital

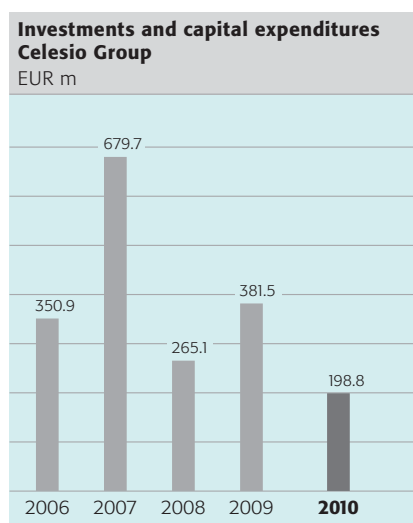
We managed once again to improve our net working capital (adjusted for exchange and consolidation effects as well as valuation allowances on receivables and inventories and the reclassification of disposal groups) as at 31 December 2010. We decreased trade receivables by EUR 36.6m. While receivables increased in line with the rise in revenue initially, our use of factoring in Norway, Scotland and Wales for the first time had a positive year-on-year effect and made up for this increase. Trade payables were up EUR 168.1m. An increase in inventories of EUR 80.9m had the opposite effect.

The cash-related change in operating assets and operating liabilities is derived from the statement of financial position as follows:

Operating assets and liabilities	31/12/2009	31/12/2010	Change	Change adjusted ¹⁾
	EUR m	EUR m	EUR m	EUR m
Inventories	1,624.3	1,688.1	63.8	80.9
Trade receivables	2,558.2	2,522.0	– 36.2	– 36.6
Trade payables	2,312.4	2,514.6	202.2	168.1
	1,870.1	1,695.5	– 174.6	– 123.8
Other operating assets	321.7	502.3	180.6	29.3
Other operating liabilities ²⁾	875.8	922.6	46.8	– 17.1
Operating assets and liabilities	1,316.0	1,275.2	– 40.8	– 77.4
Other non-cash changes				19.8
Net cash flow from change in net working capital				57.6

¹⁾ Adjusted for exchange and consolidation effects as well as valuation allowances on receivables and inventories and the reclassification of disposal groups.

²⁾ Previous-year figures restated due to the completion of purchase price allocation for the Panpharma acquisition.



Investments and capital expenditures³⁾

Investments and capital expenditures recognised in the statement of financial position decreased to EUR 198.8m in the 2010 fiscal year, compared to EUR 381.5m in the previous year. In line with internal reporting, we differentiate between investments in acquisitions and opening new pharmacies and capital expenditures on operating business.

Investments in acquisitions and opening new pharmacies. Of the overall investment volume, EUR 71.7m (previous year EUR 261.6m) or 36.1% was spent on acquiring existing pharmacies and opening new ones of our own. Again, the number of pharmacy acquisitions decreased significantly on the previous year. We acquired just six pharmacies in 2010 (previous year 13 pharmacies), while the number of new pharmacies opened increased to 60 (previous year 15) as a result of building up our own pharmacy chain in Sweden. This reflects our realigned strategy to build and expand our own pharmacy chains mainly by means of new openings because this conserves capital and goodwill.

³⁾ Pursuant to internal reporting, investments are defined as additions to non-current assets recognised in the financial statements. Since the 2010 fiscal year, investments and capital expenditures do not include additions to non-current financial assets or loans. Previous-year figures have been restated accordingly. Deviations from the net cash flows from investing activities recognised in the statement of cash flows stem mainly from future purchase price obligations and current net assets acquired in the course of business combinations, finance lease transactions and other non-cash changes to non-current assets.

Capital expenditures in operating business. We made capital expenditures of EUR 127.1m (previous year EUR 119.9m) in operating business, equivalent to 63.9% of the total investment volume. Spending on operating business includes the redesign or relocation of pharmacies and the optimisation of our branch network. In 2010 we also focused in particular on the extensive expansion, modernisation and standardisation of our IT applications as well as the project started in 2009 to systematically outsource our group-wide IT infrastructure.

Investments and capital expenditures by division	2009 EUR m	2010 EUR m	Change %
Patient and Consumer Solutions	88.8	85.0	– 4.3
Pharmacy Solutions	127.4	79.2	– 37.8
Manufacturer Solutions	145.1	14.0	– 90.4
Other/group holding	20.2	20.6	2.0
Total	381.5	198.8	– 47.9

Financing

Financing strategy and financial management

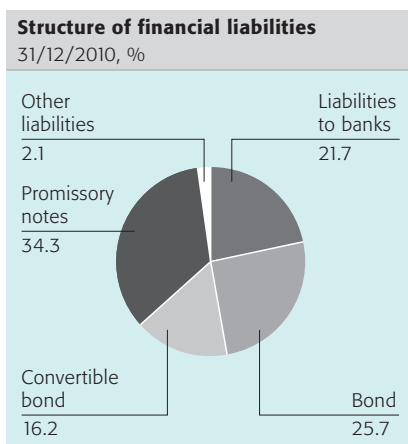
Our financing is solid and we pursue a financing strategy with three objectives:

1. Safeguarding liquidity
2. Ensuring entrepreneurial flexibility
3. Minimising financing costs

We will scale back our bank financing further in favour of capital market sources to improve the balance of our group financing. Bank liabilities will be reduced to between 20% and 30% in the medium term. In 2010, key steps along the way to achieving this goal included our bond issue and factoring.

Within our financial management we make use of various sources of financing and continually examine new financing options. Via our finance company, Celesio Finance B.V., the Netherlands, and the group holding company, we ensure that the financing needs of individual Celesio group companies are adequately covered by internal as well as external sources of financing. We ensure that a balanced maturity profile is maintained for our financial liabilities, and that we have a broad base of investors and creditors. This is an effective way to avoid cluster risks. We expect trust, reliability and sustainability from the banks we work with. That is why we operate on the basis of fixed standards that give lenders the requisite transparency and fairness. Thanks to this approach, we have enjoyed successful working relationships with our partners for many years.

Our active management of net working capital enabled us to reduce our net financial debt to well under EUR 2bn as at 31 December 2010.



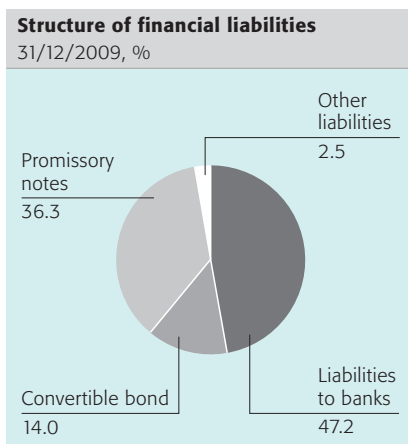
Financial instruments

Credit lines. The focus of our financial management lies on long-term, secured bilateral credit lines which we agree with selected banks. These credit lines revolve on an annual basis, i.e. the loan commitments are renewed annually. They can be drawn in several currencies and have terms of up to five years. Only one bank was responsible for just over 10% of all loan commitments at the end of the reporting period. This was due to the further diversification of financing and the associated repayment of credit lines. We continue to have at our disposal approved but undrawn credit lines. We also currently have an undrawn syndicated loan which provides us with additional financial leeway.

Bonds. In 2010, we once again took measures to further diversify our financing. This was achieved largely thanks to the issue of our first ever corporate bond, which we placed with institutional and private investors in Germany and other countries on 16 April 2010. The bond has a term to maturity of seven years, a nominal volume of EUR 500m and is split into EUR 1,000 tranches. Interest is charged at a fixed coupon rate of 4.5% per annum. With an order book of over EUR 5bn, there was very high demand for the issue. The bond extends our financing base, strengthens our capital market financing and optimises the maturity profile of our liabilities.

Promissory notes. Our promissory notes have terms of up to seven years. As at 31 December 2010, our promissory notes had an equivalent value of EUR 658.9m (previous year EUR 788.3m), of which 37.0% was denominated in pounds sterling (previous year 44.6%).

Factoring. To optimise our financing risk we once again sold receivables of Lloyds-pharmacy from the National Health Service (NHS) in the UK of EUR 172.8m in 2010 (previous year EUR 135.0m). For the first time, these include receivables from the NHS in Scotland and Wales of EUR 26.2m. We also sold receivables of our Norwegian wholesale subsidiary from hospital pharmacies of EUR 39.7m for the first time. Using factoring in this way helps to reduce our currency risk. The receivables sold are derecognised from the statement of financial position to reflect the transfer of significant risks.



Financial position

Financial liabilities Celesio Group	31/12/2009	31/12/2010	Change
Carrying amounts	EUR m	EUR m	%
Liabilities to banks	1,022.7	418.2	– 59.1
Bond	–	493.4	> 100.0
Convertible bond	303.5	311.8	2.7
Promissory notes	788.3	658.9	– 16.4
Other	53.6	41.0	– 23.5
Total	2,168.1	1,923.3	– 11.3

Financing costs

We rely on the active management of cash available in the cash pool as well as the use of derivatives to mitigate market price risks in order to optimise our financing costs. We are in a position to arrange fixed and long-term conditions with our lenders, since we are seen as a company with a good credit standing. At the end of the reporting period our loan and bond agreements were free of financial covenants for the Celesio Group. We kept our financing costs steady at a low level in 2010 despite the issue of the bond.

On 31 December 2010, Celesio AG and its group companies had met all loan obligations and other obligations arising from financing agreements. More detailed information on our financial liabilities in the 2010 fiscal year is provided on page 169 of the notes to the consolidated financial statements.

Assets position

The structure of our group statement of financial position was once again sound in 2010. Special effects in the reporting period resulted from our DocMorris mail-order pharmacy due to its classification under disposal groups held for sale to reflect the fact that we are contributing it to the joint venture with Medco. As a result, the assets and liabilities affected by the contribution were reclassified and disclosed in a separate item in the statement of financial position under current assets and current liabilities. Our Dutch subsidiary Lloyds Nederland was derecognised following its contribution to Brocacef Holding N.V. as at 30 November 2010 as part of our collaboration with Phoenix. Our 45% investment in Brocacef Holding N.V. is now recognised as an associate in the item »associates accounted for using the equity method«. Both the reclassification of the DocMorris retail pharmacy and the disposal of Lloyds Nederland affected intangible assets in particular, as well as current assets and liabilities.

Total assets. Total assets of the Celesio Group came to EUR 8,402.7m as at 31 December 2010. The EUR 327.1m increase compared to the end of the previous reporting period stems primarily from currency translation differences of EUR 196.7m. The gearing developed positively with a decrease from 0.87 to 0.66. This indicator reflects the relationship between net financial debt and equity and measures the debt-equity ratio.

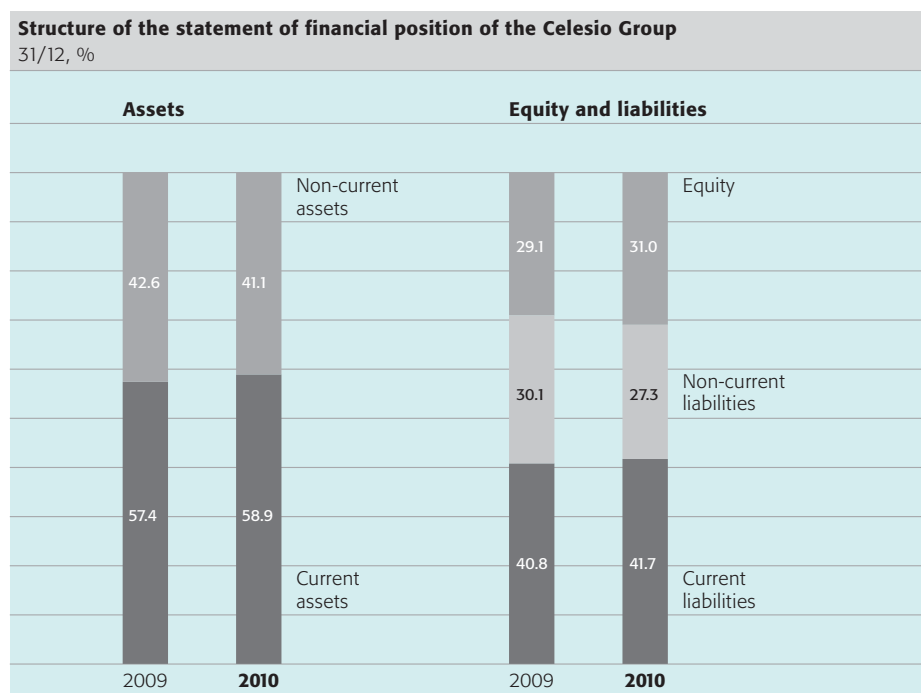
Non-current assets. Non-current assets increased by EUR 7.7m to EUR 3,450.8m, caused in part by currency effects of EUR 82.3m. The reclassification of assets had a compensatory effect and pertained to disposal groups held for sale and the discontinued subsidiary Lloyds Nederland. The item »associates accounted for using the equity method« increased accordingly by EUR 59.9m to EUR 80.6m. Furthermore, we also disposed of our no longer strategic investment in ANZAG in the reporting period; it had been recognised under other financial assets. This item amounted to EUR 107.6m at the end of the reporting period compared to EUR 155.4m at the end of the previous year.

Current assets. Current assets increased by EUR 319.4m to EUR 4,951.9m, in part due to the aforementioned reclassification of non-current assets to the item »assets of a disposal group classified as held for sale«. This item now amounts to EUR 144.1m. Currency effects had an impact of EUR 114.3m. Cash and cash equivalents increased by EUR 73.1m to EUR 200.8m. Inventories increased by EUR 63.8m, while trade receivables fell by EUR 36.2m to EUR 2,522.0m. The use of factoring for the first time in Norway, Scotland and Wales contributed to this development with an effect of EUR 65.9m.

Equity. Equity of EUR 2,601.1m was up EUR 249.0m compared to the end of the previous-year reporting period. This was mainly due to the rise in net profit. An additional factor was the EUR 78.2m increase in reserves recognised in other comprehensive income, which reflects the improvement in the translation reserves. The equity ratio came to 31.0% (previous year 29.1%) as at 31 December 2010.

Non-current liabilities. Non-current liabilities came to EUR 2,292.6m, a decrease of EUR 140.3m. The main reason for this was the EUR 156.2m decrease in financial liabilities, which reflects the repayments made from our high level of free cash flows. Compensatory effects were seen in the EUR 49.6m increase in other liabilities resulting from the update of the expected purchase price for Panpharma as well as foreign currency and unwinding effects.

Current liabilities. Current liabilities increased by EUR 218.4m to EUR 3,509.0m. Trade payables played a major role in this, increasing by EUR 202.2m as a result of currency effects and net working capital measures, among other things. Following the reclassification of the DocMorris mail-order pharmacy, the item »liabilities of disposal groups classified as held for sale« came to EUR 41.5m. Backed by the good level of free cash flows, we were able to reduce current financial liabilities by EUR 88.6m.



Celesio AG financial statements (Holding)

The financial statements of Celesio AG reflect its activities as a management holding. Celesio AG holds investments in the national companies – most of which are operating companies – either directly or indirectly via national holdings. Furthermore, the financing of working capital required by the operating companies is provided to a large extent via Celesio AG. The financial statements of Celesio AG were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB, German Commercial Code).

Total assets increased by EUR 34.2m to EUR 2,861.1m as at 31 December 2010. Non-current assets increased by EUR 38.8m, mainly as a result of investments in software. In future, this software is to be used across the group with a view to standardising and modernising the application environment. In 2010, the investment in the Dutch company Lloyds Nederland B.V. was contributed to Brocacef Holding N.V. in return for a 45% interest in the company. The equity of Celesio AG increased by 4.2% because the net profit for 2010 was considerably higher than the dividend of EUR 85.1m for the 2009 fiscal year. The equity ratio came to 60.3% (previous year 58.6%).

Compared to 2009, Celesio AG's net profit for the year decreased by EUR 14.7m to EUR 152.3m. It mainly comprises investment result, interest result and the management holding's net expenses.

The investment result comprises the profit transferred or loss absorbed from subsidiaries in Germany as well as profit distributions from foreign subsidiaries and changes in the value of financial assets. The year-on-year increase of 8.2% in the investment result to EUR 252.1m is partly attributable to the EUR 7.1m increase in distributions from German subsidiaries. Another factor is the lower level of impairment losses recognised on financial assets of EUR 16.1m (previous year EUR 186.2m). They relate to impairment losses on shares in affiliates. The investment result also contains a write-up of financial assets of EUR 38.8m (previous year EUR 0.0m) originating from the reinstatement of the carrying amount of an investment now that the reasons for the impairment no longer apply. This was partly counterbalanced by the decrease of EUR 186.6m in distributions from foreign subsidiaries.

The management holding's net expenses primarily consist of personnel expenses and other expenses. Other expenses and other income both increased significantly as a result of the strategic growth programme Agenda 2015, which has been running since 2009, as well as the fact that a portion of the expenses for modernising and standardising the group-wide IT systems were cross-charged to investments. Personnel expenses only increased slightly because there was only a small increase in the average headcount.

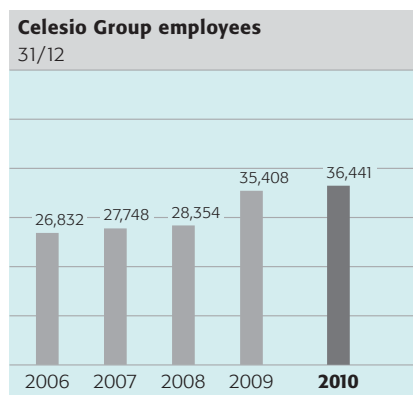
Net profit for the year and the contribution to revenue reserves resulted in profit available for distribution of EUR 85.1m. At the annual general meeting, a proposal will be made to distribute the entire profit available for distribution as a dividend.

The business and earnings development of Celesio AG as management holding is closely connected to that of the Celesio Group. In 2011 and 2012, the earnings development of Celesio AG will once again depend to a large extent on the distributions of foreign subsidiaries, profits transferred and losses absorbed from German subsidiaries and the results of the financing function. For a description of the development of the divisions of the Celesio Group, please refer to the outlook section from page 111 onwards.

Over the next two years, investing activities will continue to focus on software for use across the group.

Based on the current situation, we expect the number of employees to remain more or less stable in 2011.

Employees



Our employees form the foundations for our success. Especially in these changing times, where we are exploring a new way to get ahead, we need employees with an entrepreneurial, pioneering spirit. They are core contributors to the success of our innovations, including for example our newly founded joint venture Medco Celesio. We want to identify and develop our employees' talents and make the best use of their strengths. That is where our active personnel management comes in. We also use it to accompany the group integration process for acquisitions. One example from 2010 is the comprehensive support provided by our Corporate Human Resources department in the integration and restructuring of Pharmexx. The ongoing development of our employees is also essential to allow efficiency improvements at the company.

Number of employees¹⁾

As at 31 December 2010, 36,441 full-time equivalents worked for Celesio – an increase of 2.9% compared to the end of the previous-year period. The increase was mainly attributable to the consolidation of a former Pharmexx associate in France and its subsidiaries as at 1 January 2010. A total of 15,615 employees were employed in the Patient and Consumer Solutions division at the end of the reporting period, a decrease of 1.7% year-on-year. This division accounted for the largest share of employees in the group at 42.9% (previous year 44.9%). The Pharmacy Solutions division had 14,050 employees as at year-end, an increase of 0.1% year-on-year. In our third division, Manufacturer Solutions, the number of employees rose by 24.8% to 6,488. The remaining 288 employees (previous year 288 employees) worked at group level. Most of our employees worked outside of Germany. With activities in 27 countries at the end of 2010 and a 92.1% share of employees located abroad (previous year 92.3%), we are one of the most internationally structured German groups.

Celesio Group employees	Full-time equivalents				Headcount			
	Annual average		31/12		Annual average		31/12	
	2009	2010	2009	2010	2009	2010	2009	2010
Patient and Consumer Solutions	15,589	15,916	15,887	15,615	23,219	23,541	23,580	23,249
Pharmacy Solutions	12,027	13,604	14,036	14,050	14,253	16,009	16,808	16,551
Manufacturer Solutions	2,772	6,360	5,197	6,488	2,867	6,588	5,387	6,713
Group holding	260	294	288	288	288	315	320	313
Total	30,648	36,174	35,408	36,441	40,627	46,453	46,095	46,826

¹⁾ Unless otherwise indicated, the employee figures relate to full-time equivalents.

Personnel management

As a group with business activities spanning various service areas and countries, our personnel management is decentralised, which affords our subsidiaries the flexibility to shape the details of their personnel policy based on individual local requirements. Our Corporate Human Resources department is responsible for the exchange of information across borders and disciplines, and coordinates the management development efforts which target executive employees and those with high potential at the level of the group and subsidiaries. In future, we would like to offer our employees even greater opportunities for an international career, which is why we actively promote the international exchange of specialists and executives. Our personnel work also focuses on increasing the uniformity and thus comparability of remuneration systems within the group as a whole.

Recruitment and staffing

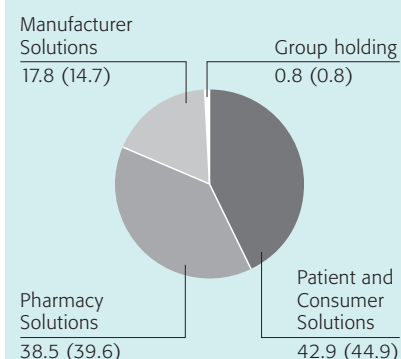
The primary aim of our personnel management is to attract qualified employees to work at Celesio and retain them in the company long-term. Our pharmacies are excellent employers, as reflected in the various awards that we have received in recent years. In 2010, our Irish pharmacy chain Unicarepharmacy was once again awarded the title of best employer in the country; this was confirmed by the organisation »Retail Excellence Ireland« and the »Great Place to Work Institute«, a research and consultancy firm. Employees and teams in the UK were also once again singled out for their achievements, winning the awards »Prescriber of the Year« and »Best Customer Service Team«. In order to raise our profile as an attractive employer beyond pharmacy circles, we regularly present our group at universities or job fairs and host our own information events for students. To reflect the growing importance of the internet in job searches, we fundamentally redesigned the career portal on our homepage in 2010. By including reports on the experiences of individual employees, we are now able to give potential applicants an authentic impression of Celesio, while at the same time creating effective opportunities for contact. We prefer to promote specialists from within the company wherever possible to fill vacant executive positions in the group. This approach ensures that we can conserve and expand on knowledge held in the group. We analyse and manage succession for key positions in annual planning sessions.

Employee development

Employee development is one of our priorities. We provide varied education and training programmes to qualify our employees for the roles at the company. We give young people the opportunity to complete a vocational training course at the company, for instance in wholesale and export trade or warehouse logistics. In Germany we work together with the Cooperative State University Stuttgart, adding an option to study Business Information Technology in 2010 in addition to the dual-track International Business course. Our trainee programme launched in 2008 prepares selected graduates to work in the group's finance departments: over a period of 18 months, entry-level employees familiarise themselves with various finance-related departments and

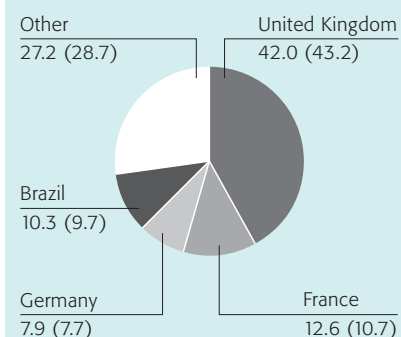
Celesio Group employees by division

31/12/2010, %, previous-year figures in brackets



Celesio Group employees by country

31/12/2010, %, previous-year figures in brackets



complete at least one placement abroad as well as attending accompanying seminars. The group employees with the highest potential are promoted in management development programmes aimed at various career levels.

At our pharmacies, we offer patients and consumers consistently reliable, high-quality advice. To safeguard this for the future, we prioritise regular and structured further training of pharmacists and pharmaceutical technicians. In addition to deepening pharmaceutical knowledge, stimulating training sessions deal with issues such as advising customers, communication skills and organisation in the workplace. We also regularly offer preparatory courses for pharmacy graduates wishing to be admitted to the relevant professional organisation.

Remuneration

In addition to their salary, which is regulated by collectively bargained agreements or individual employment agreements, employee remuneration also contains other components. These are linked to the duties of the individual employees and usually include performance-related elements. We are planning a change to the way we remunerate our top-level managers in 2011. In future, it will be based on the long-term development of our share price and on achieving our Agenda 2015 goals.

Research and development

As a service provider, we have no need to pursue any major research and development activities in the course of our business. It is therefore not necessary to provide any details in the group management report.

Overall picture of the economic situation

As one of the leading service providers within the pharmaceutical and healthcare markets worldwide, we operate in an industry which is fundamentally characterised by good long-term development prospects. Growth is driven globally by the rising population, higher life expectancy and an increasing willingness for people to invest in their health outside the government reimbursement systems. Advances in medicine and pharmaceuticals and better patient and consumer access to these innovations provide additional positive effects. Most of the pharmaceutical markets of Europe are impacted by the curbing influence of government intervention in setting prices and margins for the market participants. These measures are directly linked to the development of national budgets and national deficits. We diversify this risk and ensure our participation in general market growth through our presence in 27 countries, our comprehensive portfolio of services along the pharmaceutical value-added chain, as well as the expansion of business not subject to price regulation. Combined with our sound financing, which we improved still further in 2010, we still consider the economic situation of the Celesio Group to be positive.

Risk and opportunities report

As an international company operating across a wide range of activities, we face numerous risks and opportunities on a daily basis. These have the potential to affect operating business. We have viable systems in place to identify, evaluate and manage opportunities and risks at an early stage. Taking action in due time enables us to increase our business value in the long term. In the course of our business, we take entrepreneurial risks consciously and in a controlled manner to enable us to exploit opportunities as they arise and to achieve economic success. We regularly review the effectiveness of our risk management systems and develop them further as required.

Risk management

Our risk management is embedded in the structural and procedural organisation of the group and therefore an integral part of operating processes in all divisions, business areas and business units. In this way, we can identify risks at an early stage and – as far as possible – implement countermeasures. For this purpose, our employees are provided with an internal risk manual. This provides process guidelines, sets out areas of risk and sets group standards for a methodical, uniform approach to recording and assessing risks. Responsibility for the coordination of this lies with the Corporate Audit, Consulting and Risk Management department. Financial risks are managed centrally by our Corporate Finance and Treasury department. We conduct a risk inventory twice a year in which we evaluate all risks identified in terms of probability and potential losses. The results are then analysed, summarised and reported to the Management Board. The risk management system is a component of our regular planning and controlling system, meaning that we are always up to date on new risks as well as the most important market developments. We review the effectiveness of our risk management systems at regular intervals and refine them as required. To this end, our cross-disciplinary Risk Management Committee discusses the current and potential risks and opportunities within the Celesio Group.

Opportunity management

Recognising and exploiting trends and opportunities at an early stage is a fundamental entrepreneurial challenge. Opportunity management is therefore also an important component of the group planning and controlling systems. We identify opportunities at the level of the economy as a whole, the specific industry and the geographic region, not only by continuously monitoring the market but also by entering into active discussion with market participants, opinion leaders and decision makers. The decentralised structure of the Celesio Group promotes the rapid and flexible exploitation of

opportunities that arise locally. Our growth programme Agenda 2015, which we describe in more detail in the section on strategy on page 55, provides further opportunities for growth.

Significant specific risks and opportunities

Environment/market risks and opportunities

Economic risks and opportunities. Supplying people safely and efficiently with pharmaceuticals as well as healthcare products and services is at the heart of our entrepreneurial activity. Demand in this area is less dependent on economic cycles. Celesio is therefore directly affected by general economic fluctuations to a lesser extent than companies in other industries. Changes in consumer confidence can impact on unit sales of OTC medicines as well as cosmetics and beauty products.

Regulatory risks and opportunities. Pharmaceutical markets are subject to government measures which affect the financing of healthcare systems and therefore also the compensation schemes for service providers. Demographic development boosts demand for pharmaceuticals, leading to increased spending within healthcare systems, irrespective of the economic environment. Numerous governments therefore introduce measures affecting compensation in an attempt to make up for, or at least reduce, higher spending as demand rises. Government measures of this kind can impact the development of our business and the results of operations, and pose the largest specific risk for Celesio. We mitigate this inherent business risk on an ongoing and flexible basis using our cost management system with the aim of balancing out any negative influences. We are also pressing ahead with measures to diversify our activities and tap into new, non-regulated or less regulated markets and business areas. Thanks to our international structure and wide range of products and services for patients and consumers, pharmacies and pharmaceutical manufacturers, we can reduce our dependency on government measures in individual countries. A good way to illustrate our business diversification into markets or business areas which are not state-regulated, or only to small extent, is our market entry to the comparatively unregulated Brazilian wholesale market, or our joint venture, Medco Celesio, where business is only partly subject to government-regulated compensation schemes. In addition to intervention with regard to compensation schemes, there is also a risk of changes in country-specific regulatory frameworks, influencing the operation of pharmacies or administration of pharmaceuticals, for example.

Specific market risks and opportunities. Risks relating to changes in the health-care market are critical to our success. In particular, these include:

- Mergers of pharmaceutical manufacturers. These could potentially weaken our bargaining power when negotiating conditions and discounts in the Wholesale business area, negatively influencing revenue and profitability. We reduce this risk through geographical diversification of our business. In the Manufacturer Solutions division, mergers between pharmaceutical manufacturers could cause us to lose or gain contracts.
- Exclusive wholesale distribution models. Examples include direct-to-pharmacy (DTP) supply by the manufacturer or the reduced wholesale model. Pharmaceutical manufacturers applying the reduced wholesale model work exclusively with a few selected wholesalers. This carries a risk of revenue losses. Given our strong market position in wholesale, however, we will generally apply exclusive sales models and consider the opportunities inherent in any development in this direction to outweigh the risk.
- Competitors' market entry in logistics. Conventional logistics companies are increasingly looking for market niches for their business and aim to break into pharmaceutical distribution as well. For Celesio, this could mean more intense competition in wholesale and for Movianto. Thanks to our experience, reputation and specialisation, we are well placed to overcome competitive challenges.
- Exemption of medicines from being sold in pharmacies only. Risks could arise if certain non-prescription medicines become exempt from mandatory sale in a pharmacy, meaning that they could be sold at grocery stores or petrol stations as well. We counter this risk by positioning the pharmacy as the correct – i.e. safe – sales channel for pharmaceuticals by political lobbying and through marketing.

Corporate strategy risks and opportunities

Making acquisitions and starting new activities are important components of our growth strategy. Decisions on these matters are always associated with risks relating to employing and tying up capital. Acquisition and investment plans as well as the associated potential risks are examined in a due diligence process and analysed in terms of return on risks. Complex acquisition plans are prepared by our Corporate M&A and Business Development department, which sets up a detailed analysis of the market and the competition in a preparatory step. For individual aspects, it gathers input from the respective specialist departments, all of which comment on the plan from their overall perspective. There is a clearly defined review and authorisation process even for smaller acquisitions, such as individual pharmacies, using local resources and expertise on the market and competition. After completion of a transaction, the acquisition is integrated into the group based on a detailed schedule and action plan as well as clearly defined areas of responsibility. Risks can arise from acquisitions when the business acquired is integrated into the group. Furthermore, changes in the market or environmental conditions could lead to failure to meet original targets in full or in part, despite extensive due diligence and market analyses.

We therefore conduct annual impairment tests, which can lead to an adjustment of goodwill. Since 2010 we have been exposed to other risks arising from interests in joint ventures in which our responsibility for the company is shared or limited.

Operating business risks

A complex infrastructure consisting of suppliers, transport, storage and dispensing processes, qualified personnel and high-performance IT is necessary in order to guarantee the safety and quality of pharmaceuticals supply in all countries. For Celesio, the risks set out below are particularly relevant to the operating business:

- **Interruption of operating business.** We have developed comprehensive contingency plans for each of the divisions to safeguard operating business and the supply of pharmaceuticals even in the event of unforeseen circumstances. For example, if a wholesale branch were temporarily unable to operate, customer supply would quickly be secured via neighbouring or regional branches. We also have insurance policies to cover business interruptions.
- **Counterfeit pharmaceuticals.** We have implemented quality control mechanisms to ensure that only products from a validated source of procurement can be distributed. To minimise the risks of counterfeit medicines getting into the distribution chain and reaching patients, we began our »Fight the fakes« programme in 2007. This comprises quality control processes, internal communication measures and dedicated training for employees working in the relevant fields. We develop individual components of this programme on an ongoing basis.
- **Dispensing errors.** We insist on regular training for our pharmacists and pharmaceutical technicians to minimise the risk of dispensing errors.

Financial risks

Currency risks. Currency risks are a significant issue on account of our international presence. We take a systematic approach to minimising these, divided into transaction risks and translation risks:

- **Transaction risks** arise as a result of changes in the value of future cash inflows from purchases and sales denominated in foreign currency. This risk is low at Celesio because our subsidiaries conduct almost all business within a single currency zone. In the event that transaction risks arise as a result of international supply relationships, we hedge these in full, e.g. by means of forward exchange transactions.

- Translation risks result from the conversion into euro of income generated outside of the euro zone as well as from the conversion of items in the financial statements. At Celesio, this is particularly relevant for the consolidation of subsidiaries. We do not employ derivative financial instruments to secure the risk from translation of income because it does not make good economic sense. The risk from converting items of the financial statements is reduced by using natural hedging. This means that we refinance our subsidiaries in local currency to the extent possible; funds thus originate and are appropriated in the same currency.
- Owing to the large share in earnings contributed by our business in the UK, the largest currency risk is in pound sterling. Income from this currency area contributed a total of 42.9% (previous year 47.4%) to group EBITDA. Over time, we are keen to sustainably lower the relative significance of the pound sterling for the earnings of the group. Other currencies of significance to us are the Norwegian krone and the Brazilian real. The inclusion of the Brazilian real following the acquisition of Pan-pharma improved our currency portfolio notably.

Risk of default on receivables. Thanks to our highly diversified customer structure in the Pharmacy Solutions division as well as government or equivalent payers in the Patient and Consumer Solutions division, risks from payment defaults are lower than for companies that operate in other industries. We mitigate any remaining risk of default using our strict receivables management. This comprises continuous checks of payment behaviour as well as comprehensive testing of credit standing. In general, the financial situation of the pharmacies being supplied or of the government payer also depends on the development of the economy. A persistently weak economy could harbour the risk that receivables outstanding will increase in general, while the quality of individual receivables will fall. Factoring in England, Scotland and Wales, as well as Norway, reduced our risk of default on receivables in the reporting period because the risk of default was transferred.

Liquidity and financing risks. The aim of our systematic liquidity management is to ensure that Celesio is always in a position to meet its obligations and to afford the company both short and long-term financial flexibility. To this end, we maintain a balanced maturity profile for our financial liabilities, work with a broad base of fixed income investors and carefully selected international banks and make use of a number of financing sources. Despite the ripple effect of the financial crisis, we managed to reduce our dependence on bank financing in 2010 by issuing a bond and making use of factoring agreements. We carefully manage our maturity profile to avoid high repayments in individual years. Examples of how we optimise our liquidity requirements include cash pooling and strict management of our net working capital items, contributing to the successful avoidance of liquidity and financing risks.

Interest rate risks. Changes in market interest rates affect future interest payments on liabilities with a floating rate of interest. In managing the interest risk, we focus on reducing the fluctuation range of expected interest payments. To this end, we currently make use of both long-term fixed interest agreements and interest rate derivatives with interest caps. We make use of interest swaps to minimise interest rate risks, arranging to exchange interest obligations with another market participant for a certain period of time.

Counterparty risks from derivatives. We enter into derivatives for hedging purposes. Were the counterparty to default on a transaction of this kind, there is a risk that we would have to restore current items to the market at less favourable conditions (replacement risk). We maintain the counterparty risk at a low level by only selecting lending banks with a defined minimum rating as trading partners and by monitoring the market values of individual derivatives.

Measurement risks. Fluctuations on the international financial and capital markets and the associated volatility of security prices mean that the measurement of investments held to cover pension obligations could be subject to change. There will however be no further measurement risks from fluctuations in the ANZAG share price following the disposal of our ANZAG shares in October 2010.

Information technology risks

We make use of complex information technologies for the operating and strategic management of the company. In order to ensure smooth operating business, our IT systems need to be fully operational at all times as well as being secured against unauthorised data access and data manipulation. Regular capital expenditure to ensure synchronisation across the group safeguards the maintenance and ongoing development of our IT systems. In addition, numerous data security processes are employed and security tests conducted to safeguard the accessibility of vital business data. Opportunities are presented by the Europe-wide outsourcing of our IT infrastructure to an external service provider that was started in spring 2009. We hope that it will release synergy effects from the harmonisation and standardisation of the IT infrastructure. This complex project carries the risk that predefined goals might not be achieved, which would mean that our IT operating costs would not be reduced as planned. Furthermore, hardware or IT services might not be provided within the necessary timeframe. We counter these risks by way of ongoing monitoring and the regular exchange of information with our service provider, coupled with corresponding security mechanisms in the contractual and legal framework.

Personnel risks

Competent and committed employees are a major success factor for Celesio. That is why our personnel work focuses on recruiting qualified specialists and executives. In order to achieve this, we market ourselves as an attractive employer to university students and on the employment market, offering comprehensive training and further education programmes as well as attractive development perspectives and incentives. Despite the comprehensive components in place to retain employees in the long term, there is a risk of losing specialist knowledge or customer relationships if individuals leave the company.

Legal risks

A group the size of Celesio is permanently exposed to risks which could arise from litigation and legal proceedings. At present, however, the Celesio Group is not involved in any legal proceedings which could have a significant impact on our results of operations, financial position and assets position. In the course of the acquisition, contingent liabilities were recognised at Panpharma, Brazil, for legal and tax risks. These tax risks relate primarily to VAT liabilities towards Brazilian federal states. To cover these legal and tax risks, an agreement has been entered into with the former owners for reimbursements that are limited to a maximum amount; the reimbursements can possibly be offset against future purchase price instalments. Celesio assesses its legal and tax risks at regular intervals, consulting external lawyers where necessary.

Control and risk management system with regard to the group accounting process

Pursuant to Sec. 315 (2) No. 5 Handelsgesetzbuch (HGB, German Commercial Code), the main features of the internal control and risk management system with regard to the group accounting process are described below. Our understanding of a control and risk management system with regard to the group accounting process is a comprehensive system to ensure the appropriateness and effectiveness of the accounting process as well as compliance with applicable legal requirements. With regard to group accounting, the risk management system is designed to detect any risk of misstatement in group accounting and is in line with financial reporting. Not even an appropriate and functioning internal control and risk management system can identify and manage risks with absolute certainty, however. As part of the requirements of Gesetz zur Modernisierung des Bilanzrechts (BilMoG, German Accounting Law Modernisation Act), which entered into force in 2009, we launched a project in 2010 to refine

the group-wide internal control and risk management system and to make it more systematic. The following structures and processes are a fixed component of the group accounting process:

- The Management Board bears overall responsibility for the internal control and risk management system. All business units included in the consolidated financial statements are incorporated via a defined management and reporting organisation. The Supervisory Board – and its Audit Committee in particular – as well as the internal audit department are responsible for monitoring the effectiveness of the system independently of the process. The Audit Committee therefore regularly addresses the topic of the internal control and risk management system.
- Our group guidelines and organisational instructions set out the principles governing the structures and procedures of the internal control and risk management system relating to group accounting. In particular, these include the group accounting manual pursuant to uniform International Financial Reporting Standards (IFRSs) to be employed across the group, guidelines governing the scheduling and procedural process for annual and interim financial statements, a uniform group chart of accounts and standardised forms for recording notes disclosures at the level of the divisions included in the consolidated financial statements. We revise our guidelines at regular intervals and in urgent cases to reflect current external and internal developments and provide ongoing training for the employees responsible for the financial statements.
- The consolidated financial statements are based on the separate financial statements prepared by the subsidiaries' bookkeeping departments. In some cases, these are directly prepared in accordance with uniform group accounting standards, otherwise they are reconciled to them from locally prepared accounts. Various decentralised IT systems are in use at the subsidiaries. Data reporting for the consolidated financial statements is carried out using a centrally managed group reporting and consolidation package (SAP SEM BCS) as well as an IT platform for preparing the disclosures in the notes according to IFRSs. Inclusion in the consolidated financial statements generally is paid through subgroup statements for business areas at the country level, with several legal entities combined. In addition to an internal review, data reporting is also subject to a statutory audit or review by independent auditors. The group accounting department is responsible for further consolidation into the consolidated financial statements. The group accounting department monitors reporting deadlines and the quality of data reported, ensuring that this complies with group provisions. It also serves as a central contact for any accounting or consolidation queries. The process of preparing the financial statements is divided into hard close as at 30 September of a given year, equivalent in terms of nature and scope to preparing separate financial statements, and the fast close as at 31 December.

In connection with the group accounting process, we attach particular importance to the following components of the internal control and risk management system which safeguard group accounting and the overall picture conveyed by the consolidated financial statements as well as the group management report:

- Identification by the group accounting department of the significant areas of risk and control relevant for the group accounting process. In particular, this includes unusual and complex business events as well as non-routine transactions.
- Judgements in recognition and measurement of assets and liabilities. There is an inherent risk here that they may not be presented correctly in the consolidated financial statements. Our group accounting department regularly reviews the significant areas of risk based on findings arising in the course of preparing the consolidated financial statements as well as the ongoing assessment of special accounting questions. The hard close as well as other interim financial statements allow us to identify any new critical issues at an early stage and deal with these before year-end.
- Preventative control measures in the finance and accounting departments of the group and divisions included in the consolidated financial statements. Operating and business processes are also included since these generate important information for the preparation of the financial statements of the divisions incorporated as well as for the consolidated financial statements including the group management report. In this respect, we would like to highlight the segregation of functions in group accounting and at the business units incorporated, the principle of dual control and the predefined approval processes in the relevant areas. This approach is supported by the IT system in place across the group as well as the later preparation of the consolidated financial statements.
- Monitoring of the group accounting process and its findings at the level of the Management Board or relevant departments and at the level of the business units operated. In particular, this consists of monitoring the accounting on a rolling basis by submitting monthly reports to the Management Board, performing quality control on reported data in group accounting and group controlling as well as assessing the significant accounting judgements made by the divisions included in the consolidated financial statements.
- Measures to safeguard the appropriate use of computer-assisted processing of issues and data relating to group accounting, in particular centrally managed user access to the group reporting package, access controls on accounting-related IT systems as well as automated validation of reported data applying centrally defined controls prior to further processing by the group accounting department.

- Selective measures for monitoring the internal control and risk management system relating to group accounting, especially by the internal audit department.
- If necessary, consulting external experts for specific accounting and measurement questions relating to the preparation of the financial statements, for example, when preparing pension appraisals or appraisals on purchase price allocation in the event of business combinations.

Overall assessment of risks and opportunities by management

Management assesses the overall risk based on the risk management system that is in place. The significant potential risks to our future development mainly stem from government measures in individual healthcare systems. There are also currency risks which primarily take the form of translation risks. Thanks to our solid financing and unused financial latitude, we have sufficient options to finance growth. Based on the information currently available, none of the risks described affect our results of operations, financial position or assets position to the extent of jeopardising the company's ability to continue as a going concern.

Subsequent events

There were no events after the end of the reporting period which are subject to reporting requirements.

Outlook

Economic environment

After recovering noticeably in 2010, the growth rate of the global economy is expected to dip slightly in 2011 and 2012. The International Monetary Fund (IMF) forecasts global gross domestic product (GDP) growth of 4.4% for 2011 and 4.5% for 2012, compared to growth of 5.0% in 2010. This growth will primarily be driven by domestic demand in emerging economies. While GDP is expected to rise by 1.5% and 1.7% in the euro zone in the years 2011 and 2012, respectively, the IMF anticipates growth of 4.5% in Brazil in 2011 and 4.1% in 2012. The IMF expects the highest growth rates for China, at 9.6% and 9.5%.

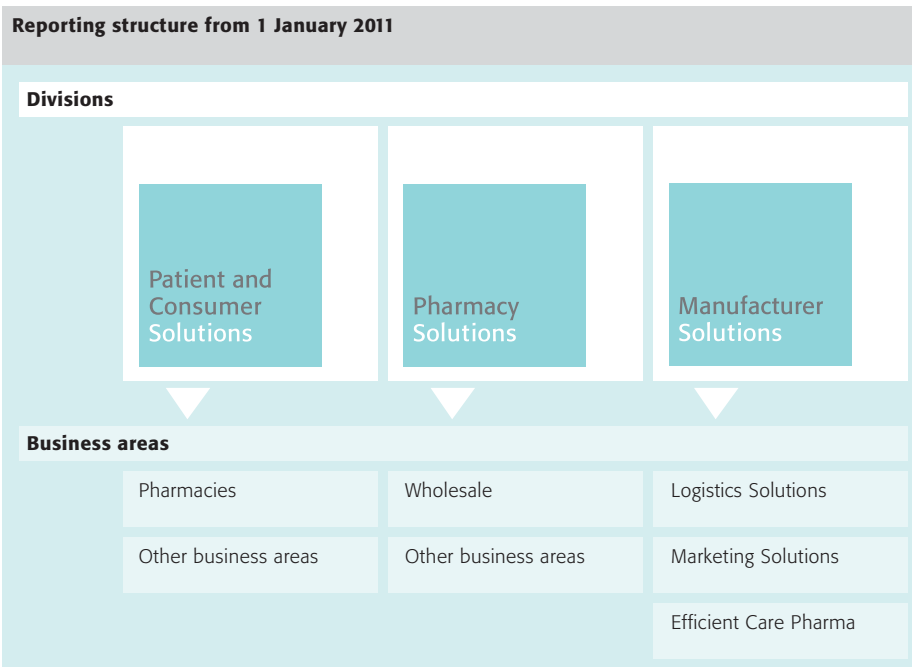
This implies that the economic recovery is expected to stabilise and a sustained upswing phase will set in. Nevertheless, the extraordinarily high sovereign debt of a number of European states and the USA, in particular, coupled with the future monetary policies of the central banks pose risks to the general economic upturn.

Economic situation of the industry

The market research institute IMS Health expects the European pharmaceutical market to display average annual growth of 4.2% on a euro basis until 2014. For the same period, IMS Health forecasts average annual growth of 13.9% for the Brazilian pharmaceutical market measured in local currency. The pharmaceutical and healthcare markets are directly affected by economic cycles only to a small extent. This is especially true for the primary healthcare market, where compensation takes the form of government or public systems. However, economic developments can have an indirect impact on the primary healthcare market via government budgets. In spite of the expected economic upturn, no real improvement in public debt is evident. For this reason, we are working on the assumption that public budgets will remain extremely tight in 2011 and 2012, at least in Europe. We therefore expect continued pressure on government healthcare systems to contain their costs, which will go hand in hand with restrictions on the healthcare costs borne by the government, i.e. on the primary healthcare market. Generic medicines will gain importance in Europe and in Brazil as patents for a large number of top-selling pharmaceuticals expire. In light of the value placed on health, even the secondary healthcare market, in which patients and consumers bear the costs themselves, is at least less dependent on economic cycles than other consumer goods markets.

New reporting structure

Following the decision taken in 2010 to realign and reorganise our pharmacy business to follow a systematic branding concept, coupled with the foundation of the joint venture, Medco Celesio, we have changed our reporting structure in the Patient and Consumer Solutions division and the Manufacturer Solutions division with effect as at 1 January 2011. From then we will report the »Pharmacies business area« and »other business areas« under the Patient and Consumer Solutions division. The Pharmacies business area comprises our retail pharmacies, the brand partnership models and our British and Norwegian mail-order activities, which were reported under the Mail-order Pharmacies business area up until 2010. Within the Pharmacies business area, we will report revenue for both the DocMorris and Lloydspharmacy brands. We will report our investment in Brocacef Holding N.V. in the Netherlands as an associate under other business areas. The DocMorris mail-order pharmacy will become part of the Medco Celesio joint venture, which will be recognised using the equity method within the Manufacturer Solutions division in a new business area, »Efficient Care Pharma« (ECP), in 2011. This business area also contains Evolution Homecare, our specialty pharmacy business in the UK. In addition to the Efficient Care Pharma business area, there is also the Logistics Solutions business area, which includes Movianto, and the Marketing Solutions business area, which includes Pharmexx. The structure of the Pharmacy Solutions division will remain unchanged.



Business development Patient and Consumer Solutions

In the coming years, we will successively implement our new brand strategy to concentrate our **pharmacy business** activities on two brands: Lloydspharmacy in the UK and DocMorris elsewhere. In 2011, we will start the process of aligning our 72 Irish pharmacies (as at 31 December 2010) to the DocMorris brand, which is scheduled for completion in 2012. The DocMorris-International Retail unit, which manages the European DocMorris business and the process of realigning all non-British pharmacies, is associated with additional expenses and capital expenditures. These will be offset to some extent by cost savings when the DocMorris International Retail unit assumes tasks and functions previously performed by the local units. The plan to develop DocMorris into the leading pharmacy brand in Europe will lay the foundation for us to expand the business in non-reimbursable products using a strong retail brand and strong product brands to reduce our relative dependence on the regulated prices dominating the primary healthcare market. At the same time, this will allow us to exploit cross-border synergies, for example, in marketing, product range and purchasing. We will build up the presence of our brands in the coming years with a clear focus on markets outside of the UK, adopting a method which conserves capital, i.e. primarily by opening new pharmacies, relocating existing ones and building up our brand and franchise systems. In 2011, our efforts will focus on the further expansion of our pharmacy chain in Sweden. After opening the first 50 pharmacies in Sweden in 2010, we intend to drive forward the expansion at a similar rate in 2011. In the medium term, we aim to have more than 100 pharmacies in Sweden. The associated start-up expenses will once again burden earnings in this business area in 2011. We expect a clear rise in the number of brand and franchise partners in Germany in 2011 after having completely revised the brand partnership concept in 2010. We expect the expansion of our DocMorris brand to have a positive impact on earnings from 2012 onwards.

It is already foreseeable that government intervention will dampen the profitability of pharmacies in a number of countries in 2011. This particularly applies to pharmacies in the UK, Ireland and the Netherlands. A drastic reduction in the prices paid for generic medicines last October will burden the total UK pharmacy market by approximately GBP 225m on a full-year basis compared to the previous year. In Ireland, the prices paid for generic medicines were also cut drastically, by 40% in fact, with a patient surcharge of EUR 0.50 being introduced for each reimbursable product. Further price cuts were implemented on 1 January 2011. It is not yet possible to put a reliable figure on the overall burden for the Irish pharmacy market.

In the Netherlands, the line fee paid for prescribed medicines was reduced once again for 2011. This is confirmation of our decision to combine our local activities with Phoenix to retain our market share and exploit additional synergies to offset the impact of government intervention. It is not possible to make any reliable forecast at this stage as to whether there will be any further government intervention in the compensation paid to pharmacies in the Netherlands and other countries in 2011. Reducing expenses is a priority on most European healthcare markets. To what extent the government intervention already announced will actually burden the earnings of the division in 2011 remains to be seen. We are unable to make any reliable comment on how high the final gross effect on our pharmacies will be or on the extent to which the various countries will be able to compensate for the effect, i.e. the net effect. Likewise, we are not currently in a position to state to what degree the growth potential of the pharmacy sector in other countries can compensate for a negative impact at divisional level as this depends in turn on whether and to what extent these countries are also subject to government intervention.

There are likely to be major structural effects on revenue and earnings as a result of the deconsolidation of the DocMorris mail-order pharmacy upon contribution to the Medco Celesio joint venture in 2011, after which it will be reported under that segment using the equity method. The same applies to the deconsolidation of our Dutch pharmacies, which will be consolidated using the equity method as a part of Brocacef Holding N.V. under **other business areas** starting in 2011.

Business development Pharmacy Solutions

In the Pharmacy Solutions division, we expect the European pharmaceutical **whole-sale** business to develop solidly. Due to our wide and relatively balanced country portfolio, we assume that we can counterbalance any potential burden from government intervention in individual countries. In France, we need to be prepared once again for an extremely challenging market environment and do not expect any short-term improvement in the irrational discount-driven price war. However, in the medium term, we assume that market players will return to reason and once again act in a profit-oriented manner. In Germany, the Gesetz zur Neuordnung des Arzneimittelmarktes (AMNOG, Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance), came into force on 1 January 2011. Among other factors, it introduces a mandatory rebate for wholesalers of 0.85% on the manufacturer selling price. The impact on our business will depend largely on the behaviour of all market players and cannot currently be quantified. A new compensation structure for the wholesale market will come into force on 1 January 2012 which will introduce fixed prices instead of purely margin-based prices. This will do justice to the major shift in the product mix, in particular, the huge rise in the volume of generic medicines in recent years. At present, no further changes are planned until 2013 to the Pharmaceutical Pricing

Regulation Scheme (PPRS) in force in the UK. For this reason, we expect the wholesale business in the UK to develop satisfactorily. We predict significantly higher growth rates in the Brazilian pharmaceutical market and the related pharmaceutical wholesale market than in Europe, with considerably less government intervention. We assume that the wholesale market in Brazil will consolidate at a faster rate in the coming two years. We expect the earnings of the **other business areas** to continue developing positively.

Business development Manufacturer Solutions

The contract-based business of **Movianto** is naturally more volatile and therefore more difficult to predict than the wholesale business, for example. The non-renewal of a contract with a major customer will have a negative impact in the year 2011. However, on account of the streamlining measures already conducted and the wide customer base, we assume that business development will at least remain stable in 2011 and 2012.

With the acquisition of the remaining shares in **Pharmexx** in the reporting year, the measures of the integration and restructuring process were defined in more detail and implemented to a large extent. However, the process of implementing the measures in all Pharmexx companies will last beyond 2010. Nevertheless, we do not expect any further special burden on earnings. The focus will therefore be placed on sales services and broadening the portfolio of services offered. From 2011 onwards, we expect positive and significantly growing contributions to earnings and significant growth.

The development of the new business area, **Efficient Care Pharma**, will be dominated by the start-up expenses of the joint venture Medco Celesio. The earnings generated by the mail-order pharmacies contributed to the joint venture and the intended synergies from merging the mail-order activities are unlikely to compensate for the start-up expenses in 2011 and 2012. For this reason, we expect this business area to make a loss in the next two years. This also applies to the Evolution Homecare reporting unit.

Investments and capital expenditures

We expect our investments and capital expenditures to rise in 2011 and 2012 in comparison to 2010. This is primarily a result of additional investments in standardising and modernising our group-wide IT applications and implementing our brand strategy in the Patient and Consumer Solutions division, and the associated redesign of our pharmacies outside of the UK. We expect to invest a similar amount in our chain of pharmacies in Sweden as in 2010. Investments in possible acquisitions have not been considered.

Financial result and tax rate

The special effects described in the financial result section under earnings development will continue to impact the 2011 and 2012 fiscal years. The presentation of the unwinding of the purchase price liabilities for the outstanding shares in Panpharma will have a significant impact in this regard.

The group's tax rate may be influenced by a change in the mix of earnings returned by the different countries in which the group operates or a change in the specific effective tax rates in each country. These can also display some volatility over the course of the year. After eliminating possible special effects from unwinding discounted liabilities, as referred to above, we do not expect any significant change on the previous year.

Employees

Based on the current situation, we do not expect the number of employees to change significantly in 2011 and 2012.

Earnings forecast

Further government intervention will have a significant impact on our earnings in the 2011 fiscal year, particularly in the pharmacy business in the UK. The impact expected at present will burden the group's EBITDA by more than EUR 100m, a similar magnitude to that of 2008. We expect that our organic growth and our proven strength at compensating for government intervention, coupled with initiatives to improve profitability within the framework of Agenda 2015, will largely make up for these effects. We have assumed here that exchange rates will remain stable in comparison to January 2011.

Further to the additional government intervention mentioned above, both revenue and EBITDA will be burdened by structural measures originating from the changes to the portfolio in the year 2010. These are the disposal of our investment in Andreae-Noris Zahn AG, the deconsolidation of our Dutch pharmacies in return for an investment in Brocacef Holding N.V., which we account for using the equity method, and the deconsolidation of the DocMorris mail-order pharmacy planned for 2011 in connection with the contribution to the Medco Celesio joint venture. The foundation of the Medco Celesio joint venture and expansion of our chain of pharmacies in Sweden are associated with start-up expenses. We have taken a conscious decision to shoulder these burdens in 2011 as an investment in the future of Celesio.

In spite of government intervention in our core business, our initiatives in all of the growth pillars of Agenda 2015 are proving to be the right tools and levers to attain both the strategic goal and growth target of Agenda 2015. Action taken in optimising the portfolio and innovation pillars could prove decisive for the development of the 2011 and 2012 fiscal years. There is no dependable way to predict how government intervention will evolve beyond that.

As a result, there is still considerable uncertainty as to how group EBITDA will develop overall in 2011 and 2012, although we expect the contribution to earnings from the initiatives taken as part of Agenda 2015 to increase further in 2012.

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Group income statement for the 2010 fiscal year

	Notes No.	2009 EUR m	2010 EUR m
Revenue	1	21,497.2	23,277.6
Own work capitalised		0.9	0.1
Total operating performance		21,498.1	23,277.7
Cost of raw materials, consumables and supplies and of purchased goods		– 18,990.9	– 20,439.6
Gross profit		2,507.2	2,838.1
Other income	2	201.9	240.7
Other expenses	3	– 834.4	– 925.8
Personnel expenses	4	– 1,261.4	– 1,460.7
Result from associates accounted for using the equity method	5	0.5	– 0.2
Result from other investments	5	13.8	7.1
EBITDA		627.6	699.2
Amortisation of intangible assets and depreciation of property, plant and equipment	6	– 115.7	– 133.0
Impairment losses recorded on intangible assets	6	– 274.3	– 0.6
EBIT		237.6	565.6
Interest expense ¹⁾	7	– 125.7	– 150.5
Interest income	7	12.8	12.2
Other financial result	7	– 5.2	– 18.0
Profit before tax¹⁾		119.5	409.3
Income taxes	8	– 113.0	– 144.3
Net profit¹⁾		6.5	265.0
Profit attributable to non-controlling interests		3.1	5.8
Profit attributable to shareholders of Celesio AG¹⁾		3.4	259.2
Earnings per share – basic (EUR)¹⁾	9	0.02	1.52
Earnings per share – diluted (EUR)¹⁾	9	0.02	1.48

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

Group statement of comprehensive income for the 2010 fiscal year

	2009 EUR m	2010 EUR m
Net profit/loss¹⁾	6.5	265.0
Revaluation in the course of business combinations achieved in stages	0.9	– 1.3
Gains/losses from marking available-for-sale financial assets to market	2.2	0.0
<i>Of which income taxes</i>	<i>0.0</i>	<i>0.0</i>
Gains/losses from derivative financial instruments to hedge cash flows	8.7	– 1.6
<i>Of which income taxes</i>	<i>1.8</i>	<i>3.8</i>
Exchange differences ¹⁾	109.7	81.1
<i>Of which non-controlling interests</i>	<i>0.2</i>	<i>0.0</i>
Other comprehensive income¹⁾	121.5	78.2
Comprehensive income¹⁾	128.0	343.2
Share of comprehensive income attributable to non-controlling interests	3.3	5.8
Share of comprehensive income attributable to shareholders of Celesio AG¹⁾	124.7	337.4

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

For more information please refer to note (10).

Group statement of financial position as at 31 December 2010

Assets	Notes No.	31/12/2009 EUR m	31/12/2010 EUR m
Non-current assets			
Intangible assets ¹⁾	11	2,539.4	2,545.9
Property, plant and equipment	12	607.2	592.3
Associates accounted for using the equity method	13	20.7	80.6
Other financial assets	13	155.4	107.6
Income tax receivables		3.5	3.1
Deferred tax assets ¹⁾	14	116.9	121.3
		3,443.1	3,450.8
Current assets			
Inventories	15	1,624.3	1,688.1
Trade receivables	17	2,558.2	2,522.0
Income tax receivables		25.4	28.9
Other receivables and other assets	17	296.7	365.5
Cash and cash equivalents	18	127.7	200.8
Non-current assets held for sale	16	0.2	2.5
Assets of a disposal group classified as held for sale	16	0.0	144.1
		4,632.5	4,951.9
Total assets		8,075.6	8,402.7
Equity and liabilities			
	Notes No.	31/12/2009 EUR m	31/12/2010 EUR m
Equity	19		
Issued capital		217.7	217.7
Capital reserves		1,145.2	1,145.2
Revenue reserves ¹⁾		1,221.7	1,393.7
Revaluation reserves ¹⁾		– 245.6	– 167.4
Equity attributable to shareholders of Celesio AG¹⁾		2,339.0	2,589.2
Non-controlling interests		13.1	11.9
		2,352.1	2,601.1
Liabilities			
Non-current liabilities			
Financial liabilities	23	1,945.8	1,789.6
Pension provisions	20	143.1	142.1
Other non-current provisions ¹⁾	21	149.5	120.3
Other liabilities ¹⁾	22	104.7	154.3
Deferred tax liabilities	14	89.8	86.3
		2,432.9	2,292.6
Current liabilities			
Financial liabilities	23	222.3	133.7
Trade payables	24	2,312.4	2,514.6
Other current provisions ¹⁾	21	155.9	162.0
Income tax liabilities		77.8	72.3
Other liabilities	24	522.2	584.9
Liabilities of a disposal group classified as held for sale	16	0.0	41.5
		3,290.6	3,509.0
Total liabilities		5,723.5	5,801.6
Total equity and liabilities		8,075.6	8,402.7

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

Group statement of cash flows for the 2010 fiscal year

	2009 EUR m	2010 EUR m
Profit before tax ¹⁾	119.5	409.3
Financial result ¹⁾	– 118.1	– 156.3
EBIT	237.6	565.6
Amortisation of intangible assets and depreciation of property, plant and equipment	– 115.7	– 133.0
Impairment losses recorded on intangible assets	– 274.3	– 0.6
EBITDA	627.6	699.2
Net result from the disposal of non-current assets and subsidiaries	– 17.4	– 28.1
Impairment of operating assets	49.6	51.4
Non-cash change in pension provisions	17.7	19.1
Other non-cash income and expenses	0.8	3.4
Income taxes paid	– 139.4	– 150.3
Change in operating assets	144.8	– 100.1
Change in operating liabilities	– 105.5	157.7
Net cash flow from operating activities	578.2	652.3
Proceeds from the disposal of non-current assets	38.6	40.3
Capital expenditure on non-current assets	– 147.2	– 128.3
Proceeds from the sale of subsidiaries	24.5	– 3.7
Cash paid for business combinations	– 119.0	– 32.3
Net cash flow from investing activities	– 203.1	– 124.0
Payments made to shareholders	– 83.8	– 89.0
Change in ownership interests in subsidiaries that do not result in a loss of control	–	– 2.3
Proceeds from borrowings	991.4	633.7
Repayment of borrowings	– 1,139.3	– 917.5
Interest paid	– 83.5	– 106.1
Interest received	12.3	10.1
Net cash flow from financing activities	– 302.9	– 471.1
Net change in cash and cash equivalents	72.2	57.2
Net foreign exchange difference	2.1	15.9
Cash and cash equivalents at the beginning of the period	53.4	127.7
Cash and cash equivalents at the end of the period	127.7	200.8

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

Cash flows from operating activities include received dividend payments of EUR 9.0m (previous year EUR 10.1m).

More information on the group statement of cash flows can be found on page 186.

Group statement of changes in equity for the 2010 fiscal year

	Issued capital	Capital reserves	Revenue reserves ¹⁾	
	EUR m	EUR m	EUR m	
As at 01/01/2010	217.7	1,145.2	1,221.7	
Change in capital	0.0	0.0	0.0	
Dividends	0.0	0.0	– 85.0	
Change in ownership interests in subsidiaries that do not result in a loss of control	0.0	0.0	– 2.2	
Changes to the consolidated group	0.0	0.0	0.0	
Other comprehensive income	0.0	0.0	0.0	
Net profit/loss	0.0	0.0	259.2	
Comprehensive income	0.0	0.0	259.2	
As at 31/12/2010	217.7	1,145.2	1,393.7	
As at 01/01/2009	217.7	1,113.0	1,299.9	
Change in capital	0.0	32.2	0.0	
Dividends	0.0	0.0	– 81.6	
Changes to the consolidated group	0.0	0.0	0.0	
Other comprehensive income	0.0	0.0	0.0	
Net profit/loss	0.0	0.0	3.4	
Comprehensive income	0.0	0.0	3.4	
As at 31/12/2009¹⁾	217.7	1,145.2	1,221.7	

¹⁾ Figures restated due to the completion of purchase price allocation for the Panpharma acquisition.

For more information please refer to note (19).

	Revaluation reserves				Equity attributable to shareholders of Celesio AG ¹⁾ EUR m	Non-controlling interests EUR m	Equity ¹⁾ EUR m
	Translation reserves ¹⁾ EUR m	Asset revaluation reserves EUR m	Available-for-sale financial assets EUR m	Cash flow hedges EUR m			
	- 232.6	0.9	- 0.6	- 13.3	2,339.0	13.1	2,352.1
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	- 85.0	- 4.0	- 89.0
	0.0	0.0	0.0	0.0	- 2.2	- 0.1	- 2.3
	0.0	0.0	0.0	0.0	0.0	- 2.9	- 2.9
	81.1	- 1.3	0.0	- 1.6	78.2	0.0	78.2
	0.0	0.0	0.0	0.0	259.2	5.8	265.0
	81.1	- 1.3	0.0	- 1.6	337.4	5.8	343.2
	- 151.5	- 0.4	- 0.6	- 14.9	2,589.2	11.9	2,601.1
	- 344.9	0.0	- 2.8	- 22.0	2,260.9	8.7	2,269.6
	0.0	0.0	0.0	0.0	32.2	0.0	32.2
	0.0	0.0	0.0	0.0	- 81.6	- 2.2	- 83.8
	2.8	0.0	0.0	0.0	2.8	3.3	6.1
	109.5	0.9	2.2	8.7	121.3	0.2	121.5
	0.0	0.0	0.0	0.0	3.4	3.1	6.5
	109.5	0.9	2.2	8.7	124.7	3.3	128.0
	- 232.6	0.9	- 0.6	- 13.3	2,339.0	13.1	2,352.1

Group segment reporting by business area for the 2010 fiscal year

	Patient and Consumer Solutions				
	Retail Pharmacies	Mail-order Pharmacies	Other business areas	Total Patient and Consumer Solutions	
	EUR m	EUR m	EUR m	EUR m	
Income statement					
Revenue	3,322.6	291.2	4.3	3,618.1	
External revenue	3,322.6	291.2	4.3	3,618.1	
Inter-segment revenue	0.0	0.0	0.0	0.0	
Gross profit	1,165.8	48.2	3.5	1,217.5	
EBITDA	304.7	12.8	- 0.8	316.7	
<i>Of which other significant non-cash income</i>	<i>1.6</i>	<i>0.1</i>	<i>0.7</i>	<i>2.4</i>	
<i>Of which other significant non-cash expenses</i>	<i>- 7.5</i>	<i>- 0.9</i>	<i>- 0.1</i>	<i>- 8.5</i>	
<i>Of which result from associates accounted for using the equity method</i>	<i>- 1.2</i>	<i>0.0</i>	<i>0.7</i>	<i>- 0.5</i>	
Amortisation of non-current intangible assets and depreciation of property, plant and equipment	- 55.2	- 1.8	- 0.1	- 57.1	
Impairment losses recorded on intangible assets	0.0	0.0	0.0	0.0	
EBIT	249.5	11.0	- 0.9	259.6	
Segment assets¹⁾	1,828.3	121.6	103.9	2,053.8	
<i>Of which non-current assets and disposal groups held for sale</i>	<i>0.0</i>	<i>99.6</i>	<i>0.0</i>	<i>99.6</i>	
<i>Of which goodwill</i>	<i>1,548.9</i>	<i>8.0</i>	<i>0.0</i>	<i>1,556.9</i>	
<i>Of which associates accounted for using the equity method</i>	<i>3.6</i>	<i>0.0</i>	<i>69.6</i>	<i>73.2</i>	
Capital expenditures²⁾	71.6	13.4	0.0	85.0	
Employees					
Annual average	23,109	425	7	23,541	
As at 31/12	22,797	440	12	23,249	
Full-time equivalents annual average	15,561	348	7	15,916	
As at 31/12	15,242	361	12	15,615	

¹⁾ Since 1 January 2010 segment assets pursuant to IFRS 8 correspond with the tied capital, which is calculated as the sum of the carrying amount of all non-interest bearing assets (except for income tax assets) less non-interest-bearing liabilities (except for income tax liabilities). Previous-year figures restated due to the new definition.

²⁾ Since the 2010 fiscal year, investments and capital expenditures do not include additions to non-current financial assets or loans. Previous-year figures have been restated accordingly.

More information on the group segment reporting can be found on page 187.

Notes

	Pharmacy Solutions			Manufacturer Solutions				Others	Consolidation	Group
	Wholesale	Other business areas	Total Pharmacy Solutions	Movianto	Pharmexx	Other business areas	Total Manufacturer Solutions			
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m			
	19,015.5	5.3	19,020.8	444.2	231.6	38.8	714.6	0.0	- 75.9	23,277.6
	19,014.4	5.3	19,019.7	373.9	230.5	35.4	639.8	0.0	0.0	23,277.6
	1.1	0.0	1.1	70.3	1.1	3.4	74.8	0.0	- 75.9	0.0
	1,206.5	2.3	1,208.8	185.0	224.8	2.0	411.8	0.0	0.0	2,838.1
	459.2	- 3.1	456.1	17.9	- 2.3	- 3.4	12.2	- 85.8	0.0	699.2
	20.5	0.0	20.5	0.2	0.5	0.0	0.7	2.1	0.0	25.7
	- 65.8	- 0.6	- 66.4	- 1.9	- 0.7	- 0.1	- 2.7	- 0.8	0.0	- 78.4
	0.2	0.0	0.2	0.0	0.2	- 0.1	0.1	0.0	0.0	- 0.2
	- 56.4	- 0.4	- 56.8	- 7.6	- 4.4	- 0.1	- 12.1	- 7.0	0.0	- 133.0
	0.0	0.0	0.0	- 0.1	- 0.5	0.0	- 0.6	0.0	0.0	- 0.6
	402.8	- 3.5	399.3	10.2	- 7.2	- 3.5	- 0.5	- 92.8	0.0	565.6
	2,190.5	12.2	2,202.7	170.7	161.1	7.0	338.8	11.3	- 4.5	4,602.1
	2.5	0.0	2.5	0.0	0.0	0.0	0.0	3.0	0.0	105.1
	527.5	0.8	528.3	96.9	136.1	0.0	233.0	0.1	0.0	2,318.3
	4.5	0.0	4.5	0.0	2.2	0.7	2.9	0.0	0.0	80.6
	78.7	0.5	79.2	13.0	0.9	0.1	14.0	20.6	0.0	198.8
	15,969	40	16,009	1,703	4,847	38	6,588	315	0	46,453
	16,512	39	16,551	1,730	4,922	61	6,713	313	0	46,826
	13,575	29	13,604	1,626	4,698	36	6,360	294	0	36,174
	14,021	29	14,050	1,650	4,780	58	6,488	288	0	36,441

Group segment reporting by business area for the 2009 fiscal year

	Patient and Consumer Solutions				
	Retail Pharmacies	Mail-order Pharmacies	Other business areas	Total Patient and Consumer Solutions	
	EUR m	EUR m	EUR m	EUR m	
Income statement					
Revenue	3,180.0	256.7	4.8	3,441.5	
External revenue	3,180.0	256.7	4.8	3,441.5	
Inter-segment revenue	0.0	0.0	0.0	0.0	
Gross profit	1,118.0	42.8	3.1	1,163.9	
EBITDA	306.7	-3.6	-3.0	300.1	
<i>Of which other significant non-cash income</i>	<i>1.9</i>	<i>0.2</i>	<i>0.0</i>	<i>2.1</i>	
<i>Of which other significant non-cash expenses</i>	<i>-1.7</i>	<i>-1.1</i>	<i>-0.1</i>	<i>-2.9</i>	
<i>Of which result from associates accounted for using the equity method</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	
Amortisation of non-current intangible assets and depreciation of property, plant and equipment	-49.2	-3.3	-0.1	-52.6	
Impairment losses recorded on intangible assets	-203.3	0.0	-71.0	-274.3	
EBIT	54.2	-6.9	-74.1	-26.8	
Segment assets^{1) 4)}	1,858.4	113.8	31.5	2,003.7	
<i>Of which non-current assets and disposal groups held for sale</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	
<i>Of which goodwill</i>	<i>1,530.7</i>	<i>69.1</i>	<i>0.0</i>	<i>1,599.8</i>	
<i>Of which associates accounted for using the equity method</i>	<i>4.8</i>	<i>0.0</i>	<i>0.0</i>	<i>4.8</i>	
Capital expenditures^{2) 4)}	86.2	2.6	0.0	88.8	
Employees					
Annual average	22,789	407	23	23,219	
As at 31/12	23,165	392	23	23,580	
Full-time equivalents annual average	15,234	332	23	15,589	
As at 31/12	15,544	320	23	15,887	

¹⁾ Since 1 January 2010 segment assets pursuant to IFRS 8 correspond with the tied capital, which is calculated as the sum of the carrying amount of all non-interest bearing assets (except for income tax assets) less non-interest-bearing liabilities (except for income tax liabilities). Previous-year figures restated due to the new definition.

²⁾ Since the 2010 fiscal year, investments and capital expenditures do not include additions to non-current financial assets or loans. Previous-year figures have been restated accordingly.

³⁾ Previous-year figures have been restated on account of the inclusion of Inten GmbH from 1 January 2010. Previously, Inten GmbH was reported in the "Others" segment.

⁴⁾ Previous-year figures restated due to the completion of purchase price allocation for the Panpharma acquisition.

More information on the group segment reporting can be found on page 187.

Notes

	Pharmacy Solutions			Manufacturer Solutions				Others ³⁾	Consolidation	Group
	Wholesale	Other business areas ³⁾	Total Pharmacy Solutions	Movianto	Pharmexx	Other business areas	Total Manufacturer Solutions			
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m			
	17,537.5	5.3	17,542.8	499.3	92.8	18.4	610.5	0.0	- 97.6	21,497.2
	17,537.0	5.3	17,542.3	405.3	92.5	15.6	513.4	0.0	0.0	21,497.2
	0.5	0.0	0.5	94.0	0.3	2.8	97.1	0.0	- 97.6	0.0
	1,085.8	2.4	1,088.2	167.9	86.2	0.9	255.0	0.1	0.0	2,507.2
	390.3	- 8.1	382.2	15.6	2.0	- 2.9	14.7	- 69.4	0.0	627.6
	15.1	0.0	15.1	0.2	1.5	0.0	1.7	6.2	0.0	25.1
	- 58.8	- 0.2	- 59.0	- 2.0	- 1.2	- 0.1	- 3.3	- 4.4	0.0	- 69.6
	0.1	0.0	0.1	0.0	0.4	0.0	0.4	0.0	0.0	0.5
	- 48.8	- 1.1	- 49.9	- 7.1	- 2.2	- 0.1	- 9.4	- 3.8	0.0	- 115.7
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	- 274.3
	341.5	- 9.2	332.3	8.5	- 0.2	- 3.0	5.3	- 73.2	0.0	237.6
	2,371.5	- 1.0	2,370.5	154.5	146.2	2.8	303.5	66.4	- 25.6	4,718.5
	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2
	485.6	0.8	486.4	95.2	123.5	0.0	218.7	0.1	0.0	2,305.0
	4.7	0.0	4.7	0.0	11.2	0.0	11.2	0.0	0.0	20.7
	127.2	0.2	127.4	29.3	115.6	0.2	145.1	20.2	0.0	381.5
	14,235	18	14,253	1,651	1,205	11	2,867	288	0	40,627
	16,775	33	16,808	1,667	3,685	35	5,387	320	0	46,095
	12,016	11	12,027	1,578	1,183	11	2,772	260	0	30,648
	14,014	22	14,036	1,593	3,570	34	5,197	288	0	35,408

Group segment reporting by country for the 2010 fiscal year

	Germany		France		United Kingdom		Other countries		Group	
	2009 EUR m	2010 EUR m	2009 EUR m	2010 EUR m	2009 EUR m	2010 EUR m	2009 EUR m	2010 EUR m	2009 EUR m	2010 EUR m
External revenue	3,988.8	4,346.4	6,971.5	6,838.4	4,691.0	4,856.9	5,845.9	7,235.9	21,497.2	23,277.6
Segment assets ¹⁾	923.0	872.7	455.3	440.1	1,638.8	1,555.3	1,701.4	1,734.0	4,718.5	4,602.1
<i>Of which non-current assets²⁾</i>	<i>291.0</i>	<i>302.0</i>	<i>214.2</i>	<i>214.7</i>	<i>1,549.1</i>	<i>1,602.8</i>	<i>1,092.3</i>	<i>1,018.7</i>	<i>3,146.6</i>	<i>3,138.2</i>

¹⁾ Since 1 January 2010 segment assets pursuant to IFRS 8 correspond with the tied capital, which is calculated as the sum of the carrying amount of all non-interest bearing assets (except for income tax assets) less non-interest-bearing liabilities (except for income tax liabilities). Previous-year figures restated due to the new definition and the completion of purchase price allocation for the Panpharma acquisition.

²⁾ Non-current assets pursuant to IFRS 8.33 b).

Please see page 187 in the notes for more commentary on the group segment reporting.

General disclosures

Accounting policies

Celesio is an international service provider in the pharmaceutical and healthcare markets. The consolidated financial statements of Celesio AG and its subsidiaries as at 31 December 2010 – comprising the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of cash flows, the group statement of changes in equity and the notes to the consolidated financial statements – have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, UK, as endorsed by the European Union and applicable at the end of the reporting period, and supplemented by the provisions of Sec. 315a (1) Handelsgesetzbuch (HGB, German Commercial Code).

The consolidated financial statements have been prepared in euro (EUR) with all figures generally presented in million euros (EUR m).

The group income statement has been prepared using the nature of expense method. The statement of financial position has been classified into current and non-current items in accordance with IAS 1. To aid clarity, a number of items have been combined, both in the group statement of financial position and in the group income statement. These are presented in detail in the notes.

The stock corporation is headquartered in Stuttgart, Germany. The address is Celesio AG, Neckartalstrasse 155, 70376 Stuttgart (Celesio AG). The shares of Celesio AG are traded on the public exchange.

The consolidated financial statements were authorised for issue by the Management Board on 21 February 2011.

Basis of consolidation

The consolidated financial statements have been prepared from the separate financial statements of the consolidated group entities as at 31 December 2010. These have been prepared in compliance with the group's uniform accounting policies, based on IFRSs. All consolidated companies have reported for the same reporting period as that used for the consolidated financial statements.

Subsidiaries over which Celesio AG has either direct or indirect control as defined by IAS 27 »Consolidated and Separate Financial Statements« and SIC 12 »Consolidation – Special Purpose Entities« have been fully consolidated in the consolidated financial statements. Subsidiaries are fully consolidated in the consolidated financial statements on the date on which control is transferred to the group. They are deconsolidated on the date on which control passes from the group. Potential voting rights that can be presently exercised or converted, including potential voting rights held by other entities, are considered when assessing whether an entity is controlled or not. In the course of business combinations, put and call options and combinations of such options have been entered into for the remaining non-controlling interests. If the risks and opportunities inherent in the options have already passed to Celesio, the entities acquired in the business combination are fully consolidated taking account of the original shares and options. The shares attributable to the options are not treated as non-controlling interests but are recognised as a purchase price liability in accordance with IAS 32.23.

If the risks and opportunities inherent in the options remain with the former owner, the entities acquired in the business combination are fully consolidated taking account of the original shares which are reported as non-controlling interests. A purchase price liability is recognised in addition. Later adjustments to the fair value of purchase price instalments that are contingent on future events that constitute an asset or a liability are treated in accordance with IAS 39. No adjustment is made if purchase price instalments which are contingent upon future events are treated as equity.

The consolidation of investments is performed in accordance with the revaluation method pursuant to IFRS 3. This entails revaluing assets, liabilities and contingencies that meet the recognition criteria of IFRS 3 at fair value on the date on which control passes to the group. Any difference remaining between the consideration paid and the share in the net assets of the company acquired is allocated to the respective assets and liabilities where their carrying amounts differ from their fair values. The cost of a business combination is measured at the fair value of the assets issued to make the combination less the liabilities entered into or assumed on the date of acquisition. The acquisition-related costs of a business combination are expensed at the time they are incurred and presented under other expenses. Since 1 January 2010, contingent consideration is measured at fair value in the course of purchase accounting. Any adjustments of contingent consideration that was reported as a liability at the time of the combination are posted through profit or loss. For business combinations prior to 1 January 2010, any purchase

price payments that were contingent on future events were only considered in the purchase accounting if they were probable and could be reliably estimated. If the future events do not occur on the scale originally expected, the costs of the business combination and the purchase price liability are adjusted accordingly.

For business combinations achieved in stages, the shares held are revalued through profit or loss at their fair value on the date control passes to the purchaser. Transactions of non-controlling interests that do not result in a loss of control are recorded as an equity transaction under other comprehensive income. However, if transactions lead to a loss of control the resulting gain or loss is posted through profit or loss. The profit or loss also includes the effect from revaluing the remaining shares in the equity of the investment at fair value.

Any excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill under non-current assets and subject to an impairment test at least once a year in accordance with IFRS 3 and IAS 36. Where any negative goodwill remains after the test, it is posted through profit or loss on the date of purchase accounting.

Non-controlling interests represent the portion of profit or loss and net assets that is not allocable to the majority shareholder of the group. Non-controlling interests are measured at their share in the fair value of the identifiable net assets. These shares are presented in the group income statement and the group statement of financial position separately as non-controlling interests. In the group statement of financial position they are presented under equity, separately from the share of equity attributable to the shareholders of the parent company.

Pursuant to IAS 28, associates are included in the consolidated financial statements using the equity method at the time significant influence is acquired. Entities over which Celesio exercises common control together with other parties (joint ventures) are consolidated using the equity method pursuant to IAS 31. Other investments are recognised at fair value in accordance with IAS 39 or, if no market value is available and fair value cannot be reliably determined, at acquisition cost.

The effects of intercompany transactions are eliminated. Intercompany profits and losses, revenue, income and expenses as well as all receivables and liabilities between consolidated companies are offset against each other. Intercompany profits and losses originating from intercompany deliveries of non-current and current assets are eliminated. Pursuant to IAS 12, deferred taxes are recognised on any differences arising from consolidation.

Currency translation

All financial statements included in the consolidated financial statements that have been prepared in foreign currency are translated into euro using the functional currency concept. Since the companies of the Celesio Group operate their businesses independently, the assets and liabilities have been translated at the mean rate at the end of the reporting period in accordance with IAS 21. Income statement items are translated using the annual average exchange rates. Any differences arising from currency translation are posted to other comprehensive income. Goodwill arising from business combinations is recorded in the currency of the acquiree and thus translated at the end of the reporting period using the mean closing rate. In the event that group companies are deconsolidated, any currency differences carried in equity are released to profit or loss.

The table below shows the changes in exchange rates relevant for the Celesio Group on the previous year:

Country	Currency	Closing rate		Average exchange rate	
		31/12/2009	31/12/2010	2009	2010
United Kingdom	GBP	0.8881	0.8608	0.8903	0.8571
Brazil	BRL	2.5113	2.2177	2.7562	2.3265
Norway	NOK	8.3000	7.8000	8.7198	8.0025
Czech Republic	CZK	26.4730	25.0610	26.4053	25.2726
Denmark	DKK	7.4418	7.4535	7.4462	7.4473

Foreign currency positions in the separate statements of financial position of the consolidated companies are measured at the closing rate pursuant to IAS 21. Any unrealised gains or losses from these positions are offset against any gains or losses from marking to market any derivatives used to hedge the foreign exchange exposures in the income statement. Non-monetary items denominated in foreign currency are translated using the historical rate.

New International Financial Reporting Standards

The IASB and the International Financial Reporting Standards Interpretations Committee (IFRS IC) have issued amendments to existing IFRSs and new standards and interpretations whose application has been mandatory since 1 January 2010. The following standards and interpretations have been applied by the Celesio Group for the first time in this reporting period:

- In the 2010 fiscal year, Celesio adopted **IFRS 3 – Business Combinations**, issued by the IASB in January 2008, which redefines the purchase method of accounting for business combinations. Significant changes relate to the measurement of non-controlling interests, the treatment of business combinations achieved in stages as well as the treatment of contingent consideration and acquisition-related costs. Under the new rules, non-controlling interests can be either measured at the fair value of goodwill (the full goodwill method) or at their share in the fair value of the identifiable net assets. For business combinations achieved in stages, the shares held must be revalued through profit or loss at their fair value on the date control passes to the purchaser. Any adjustments of contingent consideration that is reported as a liability at the time of the combination must be posted through profit or loss. The acquisition-related costs of a business combination are expensed at the time they are incurred and presented under other expenses. The first-time application of IFRS 3 (2008) had an impact on the consolidated financial statements for the 2010 fiscal year.
- The amendments to **IAS 27 (2008) – Consolidated and Separate Financial Statements** require the impact of all transactions with the owners of non-controlling interests to be recorded in equity if there is no change in the control relationship. However, if transactions lead to a loss of control the resulting gain or loss must be posted through profit or loss. The profit or loss also includes the effect from revaluing the remaining shares in the equity of the investment at fair value. There were some transactions in the 2010 fiscal year which were within the scope of the revised IAS 27 (2008). These led to changes in equity as a result of increasing interests in entities where there was already a control relationship.
- In association with the revision of **IAS 27 (2008)**, **IAS 7 – Statement of Cash Flows** was amended to the effect that the presentation of cash flows from corporate transactions now shows that control was either obtained or lost in the process and whether the transactions were with owners of the entity or not. The item **Net cash flow from financing activities** in the statement of cash flows was restated accordingly.
- The **omnibus of amendments** – Improvements to IFRSs issued by the IASB in 2009 resulted in smaller changes to the IFRSs, some of which had already been adopted in the annual report 2009. The majority of the amendments only come into force retrospectively for fiscal years beginning on or after 1 January 2010. However, this did not result in additional effects for the Celesio consolidated financial statements for the 2010 fiscal year.
- The first-time adoption of **IFRS 2 – Share-based Payment**, **IAS 39 – Financial Instruments: Recognition and Measurement: Eligible Hedged Items**, **IAS 39 – Financial Instruments: Recognition and Measurement: Embedded Derivatives**, **IFRIC 9 – Reassessment of Embedded Derivatives**, **IFRIC 12 – Service Concession Arrangements**, **IFRIC 15 – Agreements for the Construction of Real Estate**, **IFRIC 16 – Hedges of a Net Investment in a Foreign Operation**, **IFRIC 17 – Distributions of Non-cash Assets to Owners** and **IFRIC 18 – Transfers of Assets from Customers** did not have any effect on the consolidated financial statements.

The IASB and the IFRS IC have issued additional standards and interpretations that are not yet mandatory for the 2010 fiscal year. The adoption of these standards is contingent upon the European Union recognising those standards which it had not as yet in some cases recognised by the date on which the financial statements were completed. Specifically, the standards and interpretations concerned are:

- The revisions to »**IAS 32** – Classification of Rights Issues« were issued by the IASB in October 2009. The revision clarifies that an entity must report options and option certificates denominated in a currency other than its functional currency as equity instruments. The revised standard is mandatory for fiscal years beginning on or after 1 February 2010. The revision does not have any impact on the consolidated financial statements of Celesio.
- The IASB issued »**IFRS 9** – Financial Instruments: Classification and Measurement« in November 2009, which governs the accounting of financial liabilities. This publication is the first part of a three-stage project to replace »**IAS 39** – Financial Instruments: Recognition and Measurement«. IFRS 9 introduces new rules on classifying and measuring financial liabilities. The new rules must be applied from 1 January 2013. Celesio is currently reviewing the future impact of the changes on the consolidated financial statements of Celesio from applying the standard.
- In November 2009, the IASB issued amendments to »**IAS 24** – Related Party Disclosures«. The amendment includes a clearer definition of a related party and simplification of the disclosures required of entities that are government controlled. Moreover, the amendments clarify when a pending transaction constitutes a transaction subject to mandatory reporting. The new standard is mandatory for fiscal years beginning on or after 1 January 2011. It is expected that this revision will have an impact on the consolidated financial statements of Celesio.
- In a further **omnibus of amendments** released in May 2010, »Improvements to International Financial Reporting Standards«, the IASB published a number of smaller amendments to the IFRSs. While most of the amendments apply retroactively for fiscal years beginning on or after 1 January 2011, the amendments to »**IFRS 3** – Business Combinations« must be applied to fiscal years beginning on or after 1 July 2010, with earlier adoption permitted. The standards will not have any significant impact on the consolidated financial statements.
- In October 2010 IASB issued »**IFRS 9** – Financial Instruments: Classification and Measurement« governing the accounting of financial liabilities. The most significant change concerns the measurement of financial liabilities pursuant to the fair value option. The new rules must be applied from 1 January 2013. Currently, Celesio is examining whether this will have any impact on the consolidated financial statements of Celesio.
- In October 2010, IASB released a revision to »**IFRS 7** – Disclosures: Transfers of Financial Assets«. These revisions require additional disclosures for financial assets that have been transferred but not fully derecognised, regarding the relationships between these assets and associated liabilities as well as the nature and risk from a continuing engagement for any transferred and derecognised financial assets. The new standard is mandatory for fiscal years beginning on or after 1 July 2011. It is not expected that these revisions will have any impact on the consolidated financial statements.
- The IASB released »**IAS 12** – Income Taxes - Deferred Tax: Recovery of Underlying Assets«, a revision of IAS 12 in December 2010. The revised standard is mandatory for fiscal years beginning on or after 1 January 2012. This adjustment will not have any impact on the Celesio consolidated financial statements.
- In November 2009, the IFRS IC issued amendments to »**IFRIC 14** – Prepayments of a Minimum Funding Requirement«. The revisions are mandatory for fiscal years beginning on or after 1 January 2011. The amendment to the interpretation will not have any impact on the Celesio consolidated financial statements.
- In November 2009, the IFRS IC ratified »**IFRIC 19** – Extinguishing Financial Liabilities with Equity Instruments«. IFRIC 19 explains the accounting treatment under IFRSs for when an entity wholly or partly settles a financial liability by issuing shares or other equity instruments. IFRIC 19 is mandatory for fiscal years beginning on or after 1 July 2010. The interpretation does not have any impact on the consolidated financial statements of Celesio.

The group has not availed itself of the option to early adopt the standards and interpretations.

Accounting policies

The consolidated financial statements have been prepared in accordance with the historical cost convention (by which items are measured at historical cost or amortised cost) with the exception of derivative financial instruments, available-for-sale financial assets and financial assets measured at fair value through profit or loss which are recognised at fair value.

Pursuant to IAS 38, acquired **intangible assets** are recognised at historical cost plus any incidental costs of acquisition and less any trade discounts or rebates. If the asset has a limited useful life, it is amortised using the straight-line method.

Internally generated intangible assets from which future benefits are likely to flow to the group and whose cost can be reliably measured are recognised at the cost of production. The cost of production includes all costs directly allocable to development as well as an appropriate portion of allocable production-related overheads. Payments on account include expenses recognised for software being developed including own work capitalised.

Concessions, industrial rights, licences, patents and software have useful lives ranging from two to 20 years. Intangible assets that are amortised are subject to an impairment test if there are any indications or changes in the underlying assumptions which suggest that the carrying value of the asset is no longer recoverable. Where necessary, impairment losses are recorded in accordance with IAS 36. These are reversed as soon as the reasons for the impairment cease to exist.

It is assumed that goodwill has an indefinite useful life. This also applies to brands acquired by the group provided that there is an intention to use them for an indefinite period. According to IAS 38, intangible assets with an indefinite useful life are not amortised. Rather, they are reviewed at least once annually in accordance with IAS 36 and, if there is any indication of impairment, subjected to an impairment test.

Impairment losses are determined by allocating goodwill or brands at the level of the cash-generating units. The cash-generating units in the Retail Pharmacies and Wholesale business areas correspond, as in the previous year, to the business area of the respective country (e.g. Wholesale Germany). Within the Manufacturer Solutions division, Movianto and the Pharmexx Group are each considered as a separate cash-generating unit.

Impairment losses are recognised at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit concerned and is determined using the discounted cash flow method. This relies on the latest business planning approved by management for the next five years (detailed planning period). The planning projections are rolled forward to the following years using a constant growth rate. The growth rates after the detailed planning period are based on historical growth rates, external studies on future market developments for the mid-term taking account of the development of Celesio in comparison to the market and the expectation for long-term market growth with a view to demographic developments. The planning is based on past developments and expectations of future market developments. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period. Other significant assumptions include the expected impact of government measures on the healthcare sector for the Retail Pharmacies and Wholesale business areas, the development in the number of brand partnerships for Franchise Systems and the international standardisation in the services portfolio at Pharmexx. Government intervention is regularly considered in the business planning as soon as it has been enacted or become foreseeable. Cash flows are discounted using the weighted average cost of capital (before tax) which is determined for each cash-generating unit. The cost of capital is composed of borrowing costs, which are based on the interest rates obtainable on the capital markets, and the costs of equity, which are calculated from a risk-free basic rate of return, a premium for the industry risk and a country-specific risk premium.

Celesio conducts its annual impairment tests on goodwill and brands in the third quarter of each year. The following overview summarises the parameters for each division used to determine the value in use. In the previous year, the

weighted average cost of capital was calculated separately for the detailed planning period and the following periods for each significant cash-generating unit.

	Goodwill		Weighted average cost of capital		Growth rate after the detailed planning period	
	2009 EUR m	2010 EUR m	2009 %	2010 %	2009 %	2010 %
Patient and Consumer Solutions	1,599.8	1,556.9	9.0 – 11.3	8.5 – 10.7	1.5 – 3.0	1.5 – 3.0
<i>Of which Retail Pharmacies United Kingdom</i>	1,144.8	1,183.5	11.1 / 11.0	9.3	2.0	2.0
<i>Of which Retail Pharmacies Norway</i>	123.5	134.7	11.1 / 11.0	8.8	3.0	3.0
Pharmacy Solutions ¹⁾	486.4	528.3	10.6 – 13.0	8.7 – 12.8	2.0	2.0
<i>Of which Wholesale France</i>	134.1	134.1	12.0 / 11.9	10.1	2.0	2.0
<i>Of which Wholesale United Kingdom</i>	140.6	145.1	11.1 / 11.0	9.4	2.0	2.0
Manufacturer Solutions	218.7	233.0	11.3 – 11.9	9.3 – 10.0	2.0 – 3.0	2.0
<i>Of which Pharmexx</i>	123.5	136.1	11.9 / 11.8	10.0	2.0	2.0

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

Scenarios for critical calculation parameters such as the weighted average cost of capital and the growth rate after the detailed planning period are carried out to validate the values in use. As at 31 December 2010, management considered an increase of 0.5 percentage points in the weighted average cost of capital and a decrease in the growth rate of 0.5 percentage points after the detailed planning period (terminal phase) to be possible. At the Pharmexx cash-generating unit, the value in use exceeds the carrying amount by EUR 12.5m under the above assumptions. A decrease of 0.49 percentage points in the growth rate after the detailed planning phase would mean that the carrying amount of the cash-generating unit would correspond to its value in use. The scenario analysis did not reveal any need to record impairment losses on the intangible assets of the cash-generating units listed above.

Fair values are calculated, where appropriate, in a second step based on observable comparable market transactions. The costs to make the sale correspond to the best estimate made on past experience.

The DocMorris brand (2010: EUR 57.3m, previous year EUR 57.3m) represents an asset of the company as defined by IAS 36.100 which is currently mainly carried by the two cash-generating units, Mail-order Pharmacies Germany and Franchise Systems Germany. A weighted average cost of capital of 8.3% to 9.1% (previous year 9.4% to 9.5%) was applied for the impairment test of the DocMorris brand and a growth rate of 2.0% (previous year 3.0%) for the period following the detailed planning period.

Property, plant and equipment are carried at amortised cost in accordance with IAS 16. Subsequent costs of purchase are capitalised. The manufacturing costs of internally constructed property, plant and equipment includes all costs which can be directly allocated to the production process as well as an appropriate portion of production-related overheads including depreciation.

Pursuant to IAS 20, any government grants or subsidies received for the acquisition or production of an asset (government grants) are deducted from the cost of the subsidised asset. As in the previous year, government grants were immaterial.

With the exception of land, items of property, plant and equipment are depreciated on a straight-line basis over their useful lives. The useful lives of the assets are as follows:

	Years
Buildings	10 – 50
Plant and machinery	3 – 15
Other equipment, furniture and fixtures	3 – 10

Where necessary, impairment losses are recorded on property, plant and equipment pursuant to IAS 36. These are reversed as soon as the reasons for impairment no longer exist.

If the economic ownership of a leased asset can be allocated to a group company (finance leases), the asset is capitalised at the inception of the lease at the present value of the lease payments plus any incidental costs borne by the lessee or at its fair value if lower pursuant to IAS 17.

Generally, the leases are for real estate and computer hardware. The leases for real estate have terms of up to eight years and some contain purchase options. The leased computer hardware generally relates to equipment needed to accommodate the outsourcing of IT services that began in 2009. The leases have a residual term of up to 60 months. The depreciation methods and useful lives applied correspond to the lower of the term of the lease and the useful life of comparable assets acquired for a consideration.

There are no significant finance leases in place that contain contingent lease instalments. Finance leases for real estate contain purchase options.

In addition to the finance leases, the Celesio Group entered into rental agreements under which the economic title to the assets remains with the lessor (operating leases). The lease payments are recorded through profit or loss on a straight-line basis over the term of the lease. Depending on the type of assets, the leases contain the customary rental conditions and right of first refusal. Celesio reviews agreements that are not structured as leases from a legal perspective but which nevertheless grant a right to use an asset to determine whether they constitute a lease arrangement.

Borrowing costs are capitalised if they are directly related to the acquisition or construction of an asset that needs a substantial period of time to prepare it for its intended use or sale. All other borrowing costs are expensed in the period. Celesio did not capitalise any borrowing costs in 2010.

Investments and financial assets classified as available-for-sale financial assets or financial assets measured at fair value through profit or loss are allocated to a category on the date they are acquired and measured at fair value in accordance with IAS 39. Acquisitions and sales are recognised on their settlement date. These assets are measured at fair value in following periods, if this can be reliably determined. Fair value is determined from the official listings issued by stock exchanges. No held-to-maturity financial investments were carried on the reporting date.

Financial instruments are allocated to the available-for-sale category if they are not loans or receivables and are not financial assets measured at fair value through profit or loss. They are initially recognised at fair value plus transaction costs. The unrealised gains and losses from their subsequent measurement are posted to the reserve for available-for-sale financial assets without affecting income until they are realised, taking account of any deferred taxes. If the fair value of an available-for-sale financial asset falls below its carrying amount, and there are objective indications that the asset is permanently impaired, the accumulated losses recorded under other comprehensive income are released through profit or loss. Pursuant to IAS 39.59, the following criteria are considered to be objective indications of an impairment, particularly for debt instruments: significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. According to IAS 39.61, there is objective evidence of an impairment in an investment in an equity instrument if the fair value of an available-for-sale equity instrument falls significantly or for a prolonged time below its acquisition cost. If the reasons for an impairment loss no longer apply, the assets are reinstated accordingly. Reversals of impairment losses recorded on equity instruments are posted to other comprehensive income

whereas debt instruments, provided they meet the criteria of IAS 39, are written up through profit or loss. When financial assets are sold, any gains previously recorded in other comprehensive income are reclassified to profit or loss. If no active market exists for the assets and their fair value cannot be determined without incurring an unreasonable expense, these financial assets are reported at historical cost.

Any transaction costs incurred for financial assets in the category »financial assets measured at fair value through profit or loss« are posted to profit or loss upon being recorded. When the assets are subsequently measured, any fluctuations in market value are posted directly to profit or loss. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to listed market bid prices at the close of business at the end of the reporting period. For financial instruments for which there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions between knowledgeable, willing and independent parties, referring to the current fair value of another instrument that is substantially the same or to discounted cash flow methods.

The amortised cost of financial assets is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

The fair value option was exercised with regard to the investment in Andreae-Noris Zahn AG (ANZAG). This allocation was due to an existing repurchase right of the seller that was in place until the end of 2006. Generally, this kind of seller purchase option is accounted for as a derivative at fair value through profit or loss. However, had the fair value option not been exercised, the investment would have been classified as available-for-sale financial assets. Classifying the assets in this way avoids incongruence in their measurement. The purchase option lapsed at the end of 2006. This does not affect the classification of the financial asset at fair value through profit or loss, resulting in any fluctuations in the fair value of the asset being posted through profit or loss. Due to the sale of the investment in ANZAG in the reporting year, the fair value option is no longer applied in the Celesio Group for any financial instruments.

Loans to investments and **other loans** are receivables extended by the entity and are measured at amortised cost and allocated to the loans and receivables category in accordance with IAS 39. Carrying amounts generally correspond with fair value.

Interests in associates are accounted for using the equity method pursuant to IAS 28. Associates are entities over which Celesio exercises significant influence, but does not have control. Generally, 20% to 50% of the voting rights are held in an associate. Beginning with the historical cost at the time of acquisition of the shares, the respective carrying amount of the investment is increased or decreased by any changes in the equity of the investment, regardless of their impact on profit or loss, that are attributable to Celesio's interest in the associate. The goodwill included in the carrying amounts of the investments, determined in accordance with the policies applying to fully consolidated subsidiaries, is not subject to amortisation. An impairment test is carried out if there is any indication that the total carrying amount of the investment is impaired. Listed market prices do not exist for any of the associates accounted for using the equity method.

Interests in joint ventures are accounted for using the equity method pursuant to IAS 31. The same principles apply here as those for associates. An operation qualifies as a joint venture if Celesio AG can only make the strategic, financial and operating decisions relating to the activity with the unanimous consent of the parties sharing control.

Raw materials, consumables and supplies, finished goods and **merchandise** are recognised at cost based on weighted average purchase prices and the first-in-first-out method. In the Patient and Consumer Solutions division the retail method is also applied. Pursuant to IAS 2 the positions are measured at the lower of cost or net realisable value (selling price less costs of completion and the estimated costs necessary to make the sale). This involves accounting for risks associated with holding and selling inventories by recognising specific valuation allowances. The company has not entered into any long-term construction contracts pursuant to IAS 11.

Non-current assets held for sale and assets and liabilities of disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell if their carrying amount is likely to be principally realised from a sale and not from their continued use. This is assumed if the sale is deemed to be highly probable, the asset is available for immediate sale in its present condition, there is an intention to sell the asset and a sale is expected within twelve months.

Receivables and other assets are measured at amortised cost, including transaction costs, with the exception of financial derivatives, and allocated to loans and receivables in accordance with IAS 39. All objectively discernible specific risks are therefore accounted for by appropriate valuation allowances. The criteria listed in IAS 39.59 and explained in the section on available-for-sale financial assets are considered as objective indications of an impairment. The valuation allowances are posted to a separate allowance account. Receivables are written off as soon as a receivable is actually defaulted on. Corresponding reinstatements are posted through profit or loss. Carrying amounts generally correspond with fair value. Receivables denominated in foreign currency were translated using the mean exchange rate prevailing at the end of the reporting period. Changes in value due to exchange rate fluctuations were posted to profit or loss.

Financial assets are derecognised if legal title to them has been transferred and all related risks and rewards of ownership have passed to the buyer. If all the risks and rewards incidental to ownership in the financial assets of the Celesio Group are neither transferred nor retained, an assessment has to be made as to whether the group still has the power of disposal over the asset or not. If the Celesio Group no longer holds the power of disposal over the financial asset, it is derecognised. If the Celesio Group has retained the power of disposal over the financial asset, the asset is recognised at the amount at which a sustained engagement is retained in the asset.

Income tax receivables and income tax liabilities are measured at the amount expected to be received from or paid to the tax authorities.

Cash and cash equivalents are recognised at face value. Foreign cash reserves have been valued using the mean rate at the end of the reporting period.

All **derivative financial instruments** entered into within the Celesio Group such as forward exchange contracts, options or swaps are used solely to hedge foreign currency exposures, interest exposures and the risks of price fluctuations inherent in our operating business and to reduce the related financing requirements. According to IAS 39 these items are initially recognised at fair value in the statement of financial position and subsequently measured at their market value at the end of the reporting period. Depending on their fair value at the end of the reporting period, derivative financial instruments are reported under other financial assets or other financial liabilities respectively.

Hedges are used to secure both the net realisable value of items in the statement of financial position and future cash flows. This includes exchange rate hedges for intended purchases of merchandise within a twelve-month period, although no such cases were carried as at the reporting date.

The provisions of IAS 39 have been applied for hedge accounting. At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which the group wishes to apply hedge accounting and the risk strategy and risk management objective for undertaking the hedge. The documentation contains a definition of the hedging instrument, the hedged item or the hedged transaction and the nature of the risk being hedged. Likewise, the documentation contains a description of how the Celesio Group will determine the effectiveness of the hedging instrument to compensate the risks. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedge accounting involves qualifying a derivative either as a fair value hedge or as a cash flow hedge. Changes in the value of a fair value hedge are recorded directly in profit or loss for the period. By contrast, that portion of the change in value of a cash flow hedge qualifying as highly effective is initially posted to other comprehensive income where it will be reclassified to profit or loss when the underlying future cash flow eventuates.

Currency derivatives used as hedges for fair value risks are not formally subject to the rules on hedge accounting. The changes in the fair value of these derivatives which, from an economic point of view, are effective regarding the group's hedging strategy, are recognised in profit or loss. They are offset by the contrary movements in the fair value of the hedged items.

Derivative financial instruments that are not in an effective hedge as defined by IAS 39 are recognised at fair value and classified as a financial asset or financial liability held for trading.

The market values of derivatives are determined by reference to capital market data at the end of the reporting period and by use of suitable valuation methods such as the discounted cash flow method and 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 taken.

Deferred tax assets and liabilities are deferred in accordance with IAS 12 using the balance sheet liability method. This involves recognising deferred taxes for all temporary differences between the carrying amounts recognised in the consolidated financial statements and the tax base of assets and liabilities as well as any deferred taxes arising from consolidation. No deferred tax liabilities are recorded for the retained earnings of domestic and foreign subsidiaries if they are expected to remain within the company in the long term. Deferred tax assets on unused tax losses are recognised at the amount at which the associated tax benefits are likely to be realised through future taxable profit and these can be reliably measured. This is based on the tax planning which considers future tax strategies. The calculation of deferred taxes is based on the tax rates valid in the countries concerned at the time they were recognised or on tax rates enacted for future periods. For the German companies, the average tax rate since 1 July 2007 is 30.7%.

Provisions for pensions and similar obligations are determined using the actuarial projected unit credit method in accordance with IAS 19. This method involves considering the biometric parameters and the respective long-term interest rates on the capital markets as well as the latest assumptions on future salary and pension increases. Actuarial gains and losses are not posted to income until they lie outside

a corridor of 10% of the higher of the present value of the pension obligation and the plan assets at the end of the previous period (corridor method). Any amount above this corridor is amortised over the average remaining period of service of the workforce. The interest portion contained in the pension expense and the estimated return on the plan assets are reported under the interest result.

Pursuant to IAS 37, **other provisions** should be recorded if there is a constructive or legal obligation to a third party based on a past business transaction or event. The flow of economic benefits required to settle the obligation must be probable and reliably measurable. Provisions are measured at the amount needed to settle the obligation taking account of all discernible risks. The most likely amount is taken. Any reimbursement claims are not offset against provisions. If it is not possible to recognise a provision because one of the above criteria is not met, the obligation is disclosed under contingent liabilities. Provisions for onerous contracts are recognised if the contractual obligation is higher than the expected economic benefits. Provisions with a term of more than twelve months are discounted. This involves applying risk-free interest rates ranging from 1.3% to 10.8% (previous year 1.8% to 4.5%) depending on the term and currency zone.

Share-based compensation programmes are accounted for in accordance with IFRS 2. The programmes in the Celesio Group qualify as cash-settled share-based payment transactions. The expenses generated by the programmes and the obligations to settle these benefits are recognised over the vesting period. The debt is remeasured at each reporting date. Changes in fair value are recognised in the income statement. The resulting expense is reported as personnel expenses and the obligation is presented under other provisions.

Where no derivative financial instruments are concerned, **liabilities** are carried at amortised cost which generally corresponds to the amount needed to settle the obligation. Financial derivatives are recognised at fair value in accordance with IAS 39.

The debt component of convertible bonds is measured using the market interest rate obtainable on a similar debt instrument but one that is not convertible. These debt components are measured as liabilities at amortised cost until they are converted into equity or become due for repayment. The remaining component of the proceeds from the bond represents the value of the conversion right. This is presented

under capital reserves in equity after deducting any income tax impact. The financial liability rises over the course of time by the difference between the effective interest rate and the hypothetical market interest rate. Transaction costs related to the issue of the instrument are allocated to the debt and equity components of the convertible bond in proportion to the capital extended to the group by the instrument.

The issued bond is measured at cost as a liability using the effective interest rate method.

Financial liabilities designated as the hedged item of a fair value hedge are recognised at amortised cost plus any gain or loss allocated to the hedged risk (known as a basis adjustment). No fair value hedges were in place on the reporting date. The fair values of financial liabilities have been determined using interest rates valid for the corresponding maturities and repayment schedules at the end of the reporting period.

All liabilities denominated in foreign currency (including any hedged items) are translated using the mean closing rate at the end of the reporting period. Any resulting changes in value are posted to the income statement.

Current portions of originally non-current assets and liabilities whose residual terms are less than one year are reported on principle as current items in the statement of financial position.

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period and the initial amount recognised less cumulative amortisation.

Contingent liabilities include present obligations that arise from past events where an outflow of resources embodying economic benefits is not probable or where the amount of the obligation cannot be estimated reliably. Contingent liabilities are recognised at their fair value if they were acquired in the course of a business combination. Subsequent measurement is based on the obligation initially recognised. If the obligation has been extinguished, the contingent liability is released. Contingent liabilities not assumed in the course of a business combination are not recognised. Contingent assets are not recognised. Unless the outflow of economic benefits is remote, disclosures on contingent liabilities are made in the notes. The same applies for contingent assets if it is likely that economic benefits will flow to the group.

Revenue in the Patient and Consumer Solutions and Pharmacy Solutions divisions mainly originates from the sale of merchandise and, to a lesser extent, from the provision of services and receipt of royalties. In the Manufacturer Solutions division revenue is also generated from services for manufacturers. Revenue and other operating income are recognised when the goods or services are delivered provided that the amount can be reliably measured and it is likely that economic benefits will flow to the group. Any deductions from sales such as returned goods, rebates, discounts allowed and bonuses are deducted from gross revenue.

Upon the sale of merchandise to customers, the date on which the goods are delivered is also the date on which economic title to the merchandise passes to the customer. In this case, the transfer of economic title is not attached to the transfer of legal title. Deliveries of merchandise where past experience shows that returns should be expected are not recognised in income. Rather, an asset is recognised under other assets of an amount equal to the acquisition costs of the delivered merchandise, deducting the costs for handling any returns and potential losses on exploiting the returned goods.

If Celesio collects amounts in the interest of third parties, these do not represent revenue as they do not represent an inflow of economic benefits for the company. Only the remuneration for arranging the transaction and not the total proceeds are recognised as revenue of the entity. Celesio is only regarded as the principal of such agency transactions if it bears the significant risks and rewards associated with the sale of the goods or the rendering of the services. In this case, all the cash received is recognised as revenue.

Revenue from the rendering of services is recognised using the percentage of completion method. The revenue from long-term service agreements is recognised on a straight-line basis over the term of the agreement or – if the services are not spread uniformly over this term – in accordance with the costs already incurred in relation to total costs measured on the basis of past experience.

Income from sale and lease back transactions is recognised immediately in profit or loss providing the lease qualifies as an operating lease and the sales price corresponds to the fair value of the asset.

Operating expenses are recognised in profit or loss when a service is used or when the costs are incurred. Expenses within the framework of rental agreements and leases that qualify as operating leases are recognised contemporaneously to the use of the rented or leased asset.

Interest is recorded as an expense or income respectively in the period in which it arises unless the criteria of IAS 23 are satisfied for capitalising it in the cost of an asset or liability.

Dividends are recognised when the legal right to receive the payment is established.

Management estimates and judgements

The preparation of the consolidated financial statements according to IFRSs requires that assumptions, judgements and estimates be made which have an effect on the carrying amount of assets and liabilities as well as expenses and income.

Accounting for business combinations

Goodwill (2010: EUR 2,318.3m) is disclosed in the course of business combinations. Upon first-time consolidation, all the identifiable assets, liabilities and contingent liabilities are carried at fair value. The carrying amounts are subject to significant uncertainty. If intangible assets are identified, the fair value of the intangible asset is determined based on the nature of the asset using appropriate valuation techniques. These measurements are closely associated with assumptions of management about the future development of the value of the asset and the discount rates used.

Accounting for share swaps

In corporate transactions where shares in investments held by Celesio are swapped for shares in third parties, the fair value of the shares given and received first needs to be determined. The fair value is measured using appropriate valuation techniques and the result represents a significant business estimate. These measurements are closely associated with the assumptions of management about the future development of the value of the asset and the discount rates used.

Impairment of goodwill and commercial brands

The annual impairment test of goodwill and commercial brands with an indefinite useful life (2010: EUR 2,398.0m) is based on assumptions pertaining to the future. The management planning for the next five years is derived from past developments and the expectations with respect to future market developments and does not include any restructuring activities that the group is not yet committed to or any capital expenditure related to its ordinary business that will enhance the earnings of the cash-generating unit being tested. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period. Other significant assumptions include the expected impact of government measures on the healthcare sector for the Retail Pharmacies and Wholesale business areas, the development in the number of brand partnerships for Franchise Systems and the international standardisation in the services portfolio at Pharmexx. The assessment of the cash flows from new business activities, which are needed to assess the recoverable amount of the cash-generating units, is particularly reliant on management estimates of the future development of these market segments. In these cases historical information is available to a limited extent only. Moreover, unforeseen government measures could have a negative impact on future revenue and cash flows in the Wholesale and Retail Pharmacies business areas. If demand for these products and services does not develop as expected, or if unexpected government measures are introduced, this could reduce income and cash flows and possibly lead to a need to record an impairment loss. These premises and the underlying calculation model can have a material impact on the respective values and ultimately on the amount of a possible goodwill impairment.

Trade receivables and other assets

Provision for bad debts is based to a large extent on estimates and judgements of individual receivables taking the credit-worthiness of the respective customer, the current economic situation and the analysis of historical bad debts on a portfolio basis into account. To the extent that impairments are derived from historical bad debt rates on a portfolio basis, a drop in the total volume of receivables reduces such provisions and vice versa. For more information please refer to note (17).

Pension benefits

The cost of defined benefit post-employment plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected returns on plan assets, future wage and salary increases, the mortality rate and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective country with top ratings. The mortality rate is based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates for the respective country. For more information please refer to note (20).

Provisions

When measuring provisions (2010: EUR 282.3m), particularly relating to property, litigation and tax risks, potential losses and restructuring measures, assumptions and estimates play an important role in assessing the probability of utilisation, the obligation amount and the interest rates used for non-current provisions. Celesio recognises provisions for current litigation if it is more likely than not that an obligation will arise that will lead to an outflow of resources embodying economic benefits and these can be reliably measured. Celesio assesses the status of current litigation at regularly intervals, also with the involvement of external lawyers. The assessment may change as new information becomes available, making it necessary to adjust the provision for litigation to accommodate new developments. Upon conclusion of the litigation, expenses may arise for Celesio which exceed the amount provided for. For more information please refer to note (21).

Contingent liabilities

Contingent liabilities related to legal and tax risks that are recognised in the course of a business combination are subject to a high degree of planning uncertainty. Contingent liabilities were recognised at Panpharma, Brazil, for legal and tax risks (2010: EUR 105.9m). The tax risks relate primarily to VAT liabilities towards Brazilian federal states. Due to the uncertainty about the expected outflow of cash, the risk was recognised upon initial consolidation at the amount expected to be incurred. This was determined with the help of external expert's reports. These involved measuring a range of possible levels of utilisation and probabilities of occurrence. To cover these legal and tax risks, an agreement has been entered into with the former owners for reimbursements that are limited to a maximum amount; the reimbursements can, if required be offset against future purchase price instalments. As a result, the reimbursement claim reduces the purchase liability accordingly. Celesio assesses its legal and tax risks at regular intervals, also with the involvement of external lawyers. The assessment may change as new information becomes available, making it necessary to adjust the provision pursuant to IAS 37 or release the contingent liability. Upon utilisation, expenses may arise for Celesio which exceed the amount held in the provision.

Useful lives of intangible assets with finite useful lives and property, plant and equipment

The useful lives of intangible assets (2010: EUR 147.9m) with a finite useful life and property, plant and equipment (2010: EUR 592.3m) are subject to uniform corporate guidelines that have been set by management.

Measurement of inventories

Inventories (2010: EUR 1,688.1m) are measured at the lower of cost and net realisable value. If the previous assumptions on future market prices or sales opportunities are no longer valid, there may be a need to record impairment losses.

Assessing the economic risks and rewards of leases

The decisive factor when allocating leased assets is to decide which party holds economic title to the risks and rewards inherent in the asset. For this purpose, assumptions need to be made on the market price of the leased asset at the end of the lease and the present value of the minimum lease instalments.

Deferred taxes

The measurement of deferred tax assets (2010: EUR 121.3m) and liabilities (2010: EUR 86.3m) requires management to make certain assumptions and estimates. In addition to the interpretation of the tax legislation applying to the respective taxpayer, the calculation of deferred tax assets on temporary differences and unused tax losses involves an assessment of to what extent future taxable income will become available and also how tax strategies will be implemented.

All assumptions and estimates are based on circumstances prevailing at the end of the reporting period. Future events and changes in conditions often mean that the actual amounts differ materially from the estimated figures. In such cases, the assumptions and, if necessary, the carrying amounts of the assets and liabilities concerned are restated accordingly. At the time of preparing the consolidated financial statements, the underlying discretionary decisions and estimates were not expected to be subject to any major changes. Based on the information available today, no significant restatement of the carrying amounts of the assets and liabilities disclosed in the consolidated financial statements is therefore expected in the 2011 fiscal year.

Consolidated group

The consolidated group comprises 619 fully consolidated domestic and foreign companies (previous year 659). This includes seven (previous year eight) special purpose entities which are consolidated pursuant to »SIC 12 Consolidation – Special Purpose Entities«, even though Celesio AG does not hold the majority of the voting rights. The purpose of these companies is generally to lease properties. Although Celesio does not actually hold the majority of voting rights, a further twelve (previous year five) entities were consolidated on the basis of put and call options for shares not held by Celesio.

Compared to the previous year, the consolidated group has developed as follows:

	Number
As at 01/01/2010	659
Acquisition of shares	13
Formations	5
Mergers with other group entities	– 7
Disposals	– 10
Other disposals due to the loss of control	– 41
As at 31/12/2010	619
<i>Of which domestic entities</i>	<i>41</i>
<i>Of which foreign entities</i>	<i>578</i>

16 (previous year 15) associates have been consolidated using the equity method and one (previous year none) joint venture. The complete list of shareholdings is an integral component of the notes to the consolidated financial statements and will be published in the electronic version of the German Federal Gazette.

The table below lists the most significant subsidiaries in which Celesio AG holds a direct or indirect controlling interest.

Name	Domicile
AAH Pharmaceuticals Limited	Coventry, United Kingdom
Cahill May Roberts Limited	Dublin, Ireland
Distribuidora Farmacêutica Panarello Ltda.	Goiânia, Brazil
GEHE Pharma Handel GmbH	Stuttgart, Germany
Herba Chemosan Apotheker-AG	Vienna, Austria
Lloyds Pharmacy Limited	Coventry, United Kingdom
Norsk Medisinaldepot AS	Oslo, Norway
OCP Portugal, Produtos Farmaceuticos, S.A.	Maia, Portugal
OCP REPARTITION	Saint Ouen, France
PHARMA BELGIUM	Brussels, Belgium

Business combinations and disposals in the 2010 fiscal year

Business combinations

In the 2010 fiscal year, the Patient and Consumer Solutions division consolidated four retail pharmacies in Norway and one each in the UK and the Czech Republic for the first time in the course of optimising its portfolio. 100% of the voting rights were acquired in all cases, except in the acquisitions of three pharmacies. In these three pharmacy acquisitions, put and call options have been agreed on with the remaining shareholders for all shares not held by Celesio. The exercise price depends on an earnings indicator that is designed to reflect the fair value of the pharmacies. Consequently, these pharmacies were fully consolidated in the consolidated financial statements of Celesio with a corresponding liability recognised for the outstanding purchase price.

Moreover, on 4 October 2010, 80% of the voting rights in Betterlife Healthcare Ltd. were acquired in the course of a bolt-on acquisition in the Patient and Consumer Solutions division. Put and call options have been agreed on with the remaining shareholders for all voting rights not held by Celesio. Here too, the exercise price depends on an earnings indicator that is designed to reflect the fair value of the company. The contingent consideration for the remaining 20% ranges between EUR 1.0m and EUR 2.4m. At the time of acquisition, a fair value of EUR 2.3m was assumed for the contingent consideration.

Moreover, 100% of the share capital in the German Gesellschaft für Versorgungskonzepte in der Wundbehandlung GmbH, a chain of outpatient wound treatment centres, was acquired and consolidated in the Pharmacy Solutions division for the first time in the 2010 fiscal year. The purpose of this acquisition was to expand the portfolio.

In addition, the French company, RepscoPharmexx SAS, and its subsidiaries, in which Celesio holds a 40% interest, were fully consolidated as at 1 January 2010 in the Pharmexx business area. The full consolidation is based on call options that were exercisable at the end of the reporting period even though Celesio did not hold the majority of voting rights.

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

The consideration transferred amounted to EUR 29.3m. At the time control passed, the entities acquired in the combination carried cash and cash equivalents of EUR 5.0m. The considerations transferred consist of a purchase price payment of EUR 8.6m and a purchase price liability of EUR 5.6m, which relates primarily to put and call options. Moreover, they include the fair values of the investments formerly recognised using the equity method of EUR 14.7m in the course of business combinations achieved in stages. Acquisition-related costs are expensed through profit or loss in accordance with the revised IFRS 3. No equity instruments were issued to settle purchase price liabilities. Income of EUR 0.4m from the revaluation of shares in associates accounted for using the equity method was recognised under other income. In accordance with IFRS 3, this does not include additional share purchases in companies that have already been fully consolidated.

The fair value of the identifiable assets and liabilities of the entities acquired in the business combinations as at the date of acquisition in the reporting period are presented below:

	Fair value EUR m
Intangible assets	0.1
Property, plant and equipment	0.8
Deferred tax assets	0.0
Inventories	2.7
Trade receivables	12.1
Cash and cash equivalents	5.0
Other assets	3.0
	23.7
Financial liabilities	2.9
Deferred tax liabilities	0.0
Trade payables	3.8
Other liabilities	15.8
	22.5

The fair value of the receivables acquired in the business combinations amounts to EUR 14.8m. This includes trade receivables of EUR 12.1m. No valuation allowances were recognised on these receivables. Thus the fair value corresponds to the amount agreed on in the contracts.

Goodwill arising from business combinations totalled EUR 28.0m. Goodwill mainly represents the anticipated future development associated with the combination – in some cases related to the market leadership of the acquisitions – as well as the experience of the employees. The full goodwill method was not applied. Consequently, non-controlling interests were measured at their share in the fair value of the identifiable net assets. Non-controlling interests of EUR 0.1m were recognised on the date of first-time consolidation.

Revenue of EUR 70.4m was generated by the entities acquired in the reporting period and net profit for the year of EUR 3.3m. Had these entities been acquired at the beginning of the 2010 fiscal year, the entities would have contributed EUR 81.2m to group revenue. The contribution to the net profit of the group would have been EUR 3.6m.

Disposals

In the 2010 fiscal year, the Patient and Consumer Solutions division sold six retail pharmacies in the UK and three in the Netherlands. In the Pharmexx business area, four entities were deconsolidated in Germany (Synergos GmbH, HR Excellent GmbH, REXX systems GmbH und Extravert Coaching GmbH), one in Chile (Etika y Compania Limitada) together with its parent in Luxembourg (New Star Company S.A.), and two entities in Brazil (Rent Power do Brasil Representações Ltda. and Pharmexx Brasil Ltda.). The two Brazilian entities were previously consolidated on the basis of exercisable call options. These call options were not exercised and have expired in the meantime. They were deconsolidated in the reporting period accordingly. The new carrying amount corresponds to the fair value of the investment.

Moreover, on 16 June 2010 Celesio announced a merger of the activities of the Dutch subsidiary, Lloyds Nederland B.V., with the subsidiary of Phoenix, Brocacef Holding N.V., by transfer of Lloyds Nederland B.V. to Brocacef Holding N.V. In return, Celesio received 45% of shares in Brocacef Holding N.V. The contribution was realised on 30 November 2010 once the anti-trust office had issued its approval. The merger reinforces the market position in the Netherlands.

The carrying amounts of the assets and liabilities disposed of are summarised below:

	Lloyds Nederland B.V. EUR m	Other disposals EUR m	Total EUR m
Intangible assets	31.2	0.7	31.9
Property, plant and equipment	11.4	1.0	12.4
Inventories	8.9	0.4	9.3
Trade receivables	16.2	1.0	17.2
Cash and cash equivalents	4.8	1.1	5.9
Other assets	3.3	3.1	6.4
	75.8	7.3	83.1
Financial liabilities	0.1	2.0	2.1
Deferred tax liabilities	4.9	0.2	5.1
Trade payables	10.8	0.4	11.2
Other liabilities	8.2	2.3	10.5
	24.0	4.9	28.9

The proceeds from the disposals amounted to EUR 72.5m. Of this amount, EUR 68.1m is attributable to the inclusion of Lloyds Nederland B.V. The non-cash components of the proceeds from the disposal amounted to EUR 69.8m in total. These resulted primarily from the 45% holding in Brocacef Holding N.V. received as consideration and consolidated using the equity method. Moreover, the reclassifications of investments at Pharmexx Brazil and Chile from fully consolidated entities to investments measured using the equity method, due to options that have since lapsed, constitute non-cash components of the disposal. These deconsolidated entities generated revenue of EUR 162.1m in the reporting period.

Change in ownership interests in subsidiaries that do not result in a loss of control

In the 2010 fiscal year, optimisation of the portfolio led to additional share acquisitions for a number of fully consolidated entities in the Pharmexx Group and the Pharmacy Solutions division in Austria. The consideration paid to the remaining shareholders for these acquisitions amounted to EUR 2.3m. The carrying amount of the additional shares amounted to EUR 0.1m. Pursuant to the 2008 revised version of IAS 27, this did not lead to recognition of any additional goodwill but instead reduced the revenue reserves by EUR 2.2m and simultaneously reduced non-controlling interests.

Business combinations and disposals in the 2009 fiscal year

Summary of business combinations

In the 2009 fiscal year, the Patient and Consumer Solutions division acquired and consolidated individual retail pharmacies, primarily in the UK and the Czech Republic, acquiring 100% of the voting rights in each case. In the Manufacturer Solutions division a wholly-owned Movianto entity in Belgium (Dirk Raes NV) and the Pharmexx Group were consolidated for the first time. In addition, all the shares in an Irish entity (Alchemy Healthcare (Ireland) Limited) were acquired in the new Pharmexx business area. Acquisitions in the Pharmacy Solutions division include Panpharma in Brazil, in which the group holds 50.1% of the shares, a wholesaler in Slovenia (Vitapharm d.o.o.), in which the group holds 51% of the shares, and a wholesaler in Belgium (Laboratoria Flandria NV) in which the group holds 100% of the shares.

Preliminary purchase price allocations were used as the basis for consolidation, and were concluded within twelve months of the acquisition date in each case. The final figures are presented below.

The acquisition cost, including purchase price payments contingent on future events and incidental acquisition costs, amounted to EUR 352.4m. This acquisition cost includes EUR 103.3m for cash and cash equivalents acquired in the business combinations. In accordance with IFRS 3, the cost does not include additional purchases of ownership interests in companies that have already been fully consolidated. The purchase price obligations were settled in full by cash payments, i.e. no share transfers were involved.

The fair value of the identifiable assets and liabilities of the entities acquired in the business combinations as at the date of acquisition in the previous year and the corresponding carrying amounts immediately before the acquisition are presented below:

	Carrying amount before acquisition				Fair value			
	Pharmexx EUR m	Panpharma EUR m	Other acquisitions EUR m	Total EUR m	Pharmexx EUR m	Panpharma EUR m	Other acquisitions EUR m	Total EUR m
Intangible assets	0.4	0.5	0.3	1.2	20.9	39.8	2.6	63.3
Property, plant and equipment	1.8	6.2	2.0	10.0	1.8	6.2	2.1	10.1
Deferred tax assets	0.4	58.5	0.3	59.2	2.9	78.2	0.3	81.4
Inventories	2.6	139.0	13.7	155.3	1.6	142.8	13.7	158.1
Trade receivables	20.6	145.8	24.7	191.1	20.9	145.8	24.9	191.6
Cash and cash equivalents	4.1	88.8	10.4	103.3	4.1	88.8	10.4	103.3
Other assets	41.9	41.8	1.4	85.1	32.4	41.9	1.2	75.5
	71.8	480.6	52.8	605.2	84.6	543.5	55.2	683.3
Financial liabilities	67.3	27.1	2.2	96.6	67.3	23.0	1.6	91.9
Deferred tax liabilities	0.1	0.0	0.0	0.1	6.2	14.4	0.9	21.5
Trade payables	10.2	141.2	23.3	174.7	10.3	141.2	24.1	175.6
Other liabilities	42.9	51.7	10.3	104.9	52.1	175.1	10.2	237.4
	120.5	220.0	35.8	376.3	135.9	353.7	36.8	526.4

The resulting goodwill totalled EUR 198.1m. The goodwill reflects the expected future cash flows that will be generated by the combination and the expertise of the employees.

Revenue of EUR 580.3m was generated by the entities acquired in 2009 and net profit for the year of EUR 10.8m. Had these entities been acquired at the beginning of the 2009 fiscal year, they would have contributed EUR 1,687.4m to group revenue and EUR 35.6m to the group's net profit.

Significant business combinations

a) Pharmexx. In the Manufacturer Solutions division, the Pharmexx Group was fully consolidated for the first time on 14 July 2009 subsequent to the acquisition of a further 35% of the voting rights of Pharmexx GmbH. Beginning in 2006, Pharmexx was included in the consolidated financial statements of Celesio using the equity method on account of the 30% interest held by in the group.

In addition, there were put and call options for the remaining shares still held by the previous owners that are structured with identical rights on the structure and timing of the exercise. As a result, Pharmexx was fully consolidated in the consolidated financial statements, with the outstanding purchase price obligation recognised as a liability. The strike price of the put and call options is composed of several components and is primarily based on an earnings indicator that is intended to result in a price that reflects the fair value of the entity.

Acquisition costs of EUR 71.5m are attributable to the business combination with Pharmexx. This contains the acquisition cost for the 30% participation from the year 2006, the acquisition cost for the additional 35% participation in the year 2009 and the net present value of the expected amount needed to exercise the put and call options plus incidental acquisition costs of EUR 0.4m. At the time control passed, Pharmexx carried cash and cash equivalents of EUR 4.1m. The purchase price payment for the second stage of the acquisition executed in the 2009 fiscal year amounted to EUR 18.4m. First-time consolidation was performed on the basis of a preliminary purchase price allocation that was completed in July 2010 within the twelve-month valuation period, and which resulted primarily in an increase in other provisions of EUR 3.5m and associated deferred tax assets of EUR 1.0m. The revaluation reserve was restated in accordance with IFRS 3 (2004). Goodwill rose by EUR 2.7m in comparison to the preliminary purchase price allocation on 31 December 2009. Consequently, in the course of the purchase price allocation of the Pharmexx Group, some of the debit difference arising from initial recognition of the business combination was allocated, after taking account of deferred taxes, to brands acquired (EUR 5.6m), contracts with customers (EUR 13.9m) and internally generated software (EUR 1.0m) and was recognised under intangible assets. In addition, hidden liabilities (EUR 14.9m) were identified, primarily for financial assets

and provisions for legal disputes that are not yet resolved (EUR 8.0m). The goodwill arising from the combination totalled EUR 125.2m. There were no significant effects for the comparable period. Consequently, the figures for the previous year were not adjusted.

The revenue attributable to Pharmexx amounts to EUR 92.8m and the net loss of Pharmexx comes to EUR 2.6m. Had Pharmexx been consolidated from the beginning of the 2009 fiscal year, the entity would have contributed EUR 182.5m to group revenue and EUR – 1.7m to the group's net profit.

The investment in Pharmexx was increased from 65% to 100% in the third quarter of 2010. No further payments were necessary for the remaining 35%.

b) Panpharma. Panpharma was fully consolidated in the Wholesale business area as at 26 August 2009 after Celesio acquired 50.1% of the shares in Panpharma Participações S.A. Panpharma.

In addition, there are put and call options for the remaining shares still held by the previous owners that are structured with identical rights on the structure and timing of the exercise. As a result, Panpharma is fully consolidated in the consolidated financial statements, with the outstanding purchase price obligation recognised as a liability.

Acquisition costs of EUR 220.5m are attributable to the business combination with Panpharma. These comprise the acquisition cost for the direct purchase of 2.5% and a capital increase for 47.6% of the voting rights. This acquisition cost for Panpharma also comprises the net present value of the expected purchase price triggered by exercising the put and call options less the expected reimbursement claims for legal and tax risks. In addition, incidental acquisition costs of EUR 2.0m are included. At the time control passed, Panpharma carried cash and cash equivalents of EUR 88.8m.

First-time consolidation was performed on the basis of a preliminary purchase price allocation that was completed in August 2010 within the twelve-month valuation period. In this regard, the contingent liabilities related to tax and legal risks were also finally determined with a range of likelihoods and possible settlement amounts being valued. This applies to both current litigation and also potential risks for the future. To cover these legal and tax risks, an agreement has been entered into with the former owners for reimbursements that are limited to a maximum amount; the reimbursements can possibly be offset against future purchase price instalments. In the course of the final purchase price allocation of Panpharma, part of the debit difference arising from initial recognition of the business combination was allocated, after taking account of deferred taxes, to brands acquired (EUR 12.3m) and contracts with customers (EUR 27.1m) and was recognised under intangible assets. Moreover, a contingent liability was recognised for legal and tax risks (EUR 113.9m). In addition, a revaluation of inventories led to write-ups of EUR 3.8m.

For the other liabilities of EUR 13.2m, the changes made on the preliminary purchase price allocation essentially consist of the contingent liabilities for legal and tax risks, while deferred tax assets account for an amount of EUR 3.1m. Counter to this, the reimbursement claims were restated. The previous-year figures in the statement of financial position as at 31 December 2009 were restated accordingly. Due to the recognition of the consequences, goodwill as at 31 December 2009 increased by EUR 6.8m and deferred tax assets by EUR 2.3m. Other liabilities increased by EUR 1.8m and other non-current provisions by EUR 18.0m, whereas current provisions decreased by EUR 15.4m.

The goodwill arising from the business combination totalled EUR 30.7m. This corresponds to a change of EUR 7.1m compared to the preliminary purchase price allocation. The completion of the purchase price allocation and the related adjustment to the purchase price results in a net effect on the financial result for 2009 of EUR 4.2m. The previous-year figures were restated accordingly.

In 2009, revenue attributable to Panpharma amounted to EUR 400.5m while net profit came to EUR 10.9m. Had Panpharma been acquired at the beginning of the 2009 fiscal year, the entity would have contributed EUR 1,242.0m to group revenue and EUR 32.9m to the net profit of the group.

Disposals

In the 2009 fiscal year, individual retail pharmacies, primarily in the UK, one British company (Sapphire Primary Care Developments Ltd.) and one Belgian company (Pharmadeal Prodis S.A.) from the Pharmexx business area were deconsolidated. These deconsolidated entities generated revenue of EUR 22.3m in the comparable period. Net proceeds from the sales amounted to EUR 34.7m. In the process, assets, mainly inventories and other receivables totalling EUR 28.6m were sold. The non-cash components of the proceeds from the disposal amounted to EUR 9.9m.

Notes to the group income statement

(1) Revenue

A breakdown of revenue by division and country is part of segment reporting.

(2) Other income

	2009 EUR m	2010 EUR m
Advertising subsidies	67.4	74.0
Income from data sales	17.6	17.8
Income from bad debts collected	16.0	21.3
Net gain on the disposal of non-current non-financial assets	19.0	29.3
Income from rent and lease agreements	10.0	11.0
Sundry other income	71.9	87.3
Total	201.9	240.7

Other income includes income from transactions that are not part of the core business of the Celesio Group. In the Patient and Consumer Solutions and Pharmacy Solutions divisions, this includes income from marketing activities, services and data processing and IT services as well as income from renting out buildings. As at the reporting date, the future minimum lease payments expected from uncancellable operating leases came to EUR 47.7m. Of this amount EUR 8.8m will be received within the space of one year. Another EUR 26.6m will be received inbetween one and five years and EUR 12.3m after five years. An amount of EUR 2.2m was received as income from contingent rent payments in the 2010 fiscal year.

Income from bad debts collected comprises income from the reversal of valuation allowances and collections of bad debts written off in previous reporting periods.

(3) Other expenses

	2009 EUR m	2010 EUR m
Transportation expenses	– 201.5	– 245.4
Building expenses	– 191.4	– 201.3
IT and communication expenses	– 117.7	– 147.3
Promotion and advertising expenses	– 62.4	– 65.9
Legal and consulting costs	– 32.9	– 44.6
Third-party personnel services	– 18.6	– 21.3
Valuation allowances for bad debts	– 40.1	– 32.5
Net loss on the disposal of non-current non-financial assets	– 1.6	– 1.7
Sundry other expenses	– 168.2	– 165.8
Total	– 834.4	– 925.8

The third-party personnel services mainly include expenses for recruiting as well as basic and advanced staff training.

Expenses from valuation allowances for bad debts consist of the cost of recognising valuation allowances and expenses from writing off bad debts on which no allowances had been recognised.

Building expenses include rent and lease expenses of EUR 114.2m (previous year EUR 105.3m).

IT and communication expenses rose during the reporting year due to the Europe-wide outsourcing of the IT infrastructure.

Sundry other expenses relate to the general costs of administration and sales, such as the costs of customer seminars and conferences and office supplies. This also includes travel expenses of EUR 36.8m (previous year EUR 22.1m). The net currency result from operations contains exchange rate gains of EUR 1.2m (previous year EUR 1.3m) and offsetting exchange rate losses of EUR 0.9m (previous year EUR 1.5m), in both cases including the revaluation of the allocated derivatives posted through profit or loss. Income from the reversal of provisions related to other expenses has been deducted from sundry other expenses.

In the reporting period, research and development expenses for the development of software of EUR 11.4m (previous year EUR 14.6m) were recorded under sundry other expenses because the criteria for recognising them as assets pursuant to IAS 38 were not satisfied.

(4) Personnel expenses/employees

	2009 EUR m	2010 EUR m
Wages and salaries	- 971.7	- 1,111.1
Social security	- 171.0	- 206.2
Post-employment expenses	- 31.1	- 32.3
Personnel services	- 79.9	- 89.6
Other personnel expenses	- 7.7	- 21.5
Total	- 1,261.4	- 1,460.7

Personnel services essentially consist of expenses for free-lance locum pharmacists used to fill in for absent employees.

Income from the reversal of personnel-related provisions is offset against personnel expenses.

Personnel expenses include EUR 0.4m (previous year EUR 0.2m) from cash-settled share-based compensation programmes.

A breakdown of the headcount can be found under segment reporting.

(5) Investment result

	2009 EUR m	2010 EUR m
Result from associates accounted for using the equity method	0.5	- 0.2
Result from other investments	13.8	7.1
Total	14.3	6.9

The investment result primarily consists of changes in fair value and dividend income from Andreae-Noris Zahn AG (ANZAG), an investment measured at fair value through profit or loss which was disposed of in October 2010. Moreover, investment income includes dividend income from entities not listed on a public exchange.

(6) Depreciation and amortisation

	2009 EUR m	2010 EUR m
Depreciation of property, plant and equipment	- 90.8	- 98.0
Amortisation of intangible assets	- 24.9	- 35.0
Impairment losses on intangible assets	- 274.3	- 0.6
Total	- 390.0	- 133.6

As in the previous year, the depreciation of property, plant and equipment does not include any impairment losses. The impairment losses recorded on intangible assets in the previous year relate to impairments recorded on goodwill and other intangible assets with an indefinite useful life. In the process, goodwill in the following cash-generating units was written down in the previous year by EUR 257.7m: Retail Pharmacies Netherlands, Retail Pharmacies Ireland, Retail Pharmacies Italy, and Franchise Systems Germany. Under other intangible assets, an impairment loss of EUR 16.6m was recorded on the DocMorris brand.

(7) Financial result

	2009 EUR m	2010 EUR m
Interest and similar expenses ¹⁾	- 125.7	- 150.5
Of which paid to affiliates	0.0	- 0.1
Of which for finance leases	- 1.2	- 1.2
Of which for pensions	- 7.0	- 6.8
Interest and similar income	12.8	12.2
Of which received from affiliates	0.0	0.0
Financial result	- 5.2	- 18.0
Total¹⁾	- 118.1	- 156.3

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

Interest and similar expenses include total interest expenses of EUR 109.9m (previous year EUR 87.5m). Interest and similar income includes total interest income of EUR 9.9m (previous year EUR 12.3m) for financial liabilities and financial assets that are not measured at fair value through profit or loss.

The interest portion of lease agreements that qualify as finance leases under IAS 17 is included in interest and similar expenses.

The interest portion contained in the additions to pension provisions is also recognised under interest expenses after deducting the expected return on plan assets.

The line item other financial result relates to changes in the fair value of derivatives used to hedge financial liabilities. Changes in the market values of derivative interest hedges in the reporting period gave rise to income of EUR 2.0m (previous year expenses of EUR 1.6m). Changes in the market values of derivative exchange rate hedges gave rise to income of EUR 2.9m (previous year expenses of EUR 19.4m). Moreover, the financial result contains exchange rate gains of EUR 205.9m (previous year EUR 260.6m) and exchange rate losses of EUR 228.8m (previous year EUR 244.8m) related to non-operating receivables and liabilities denominated in foreign currencies.

The completion of the purchase price allocation for Panpharma and the related adjustment to the purchase price resulted in a net effect on the other financial result for 2009 of EUR 4.2m. The previous-year figures were restated accordingly.

(8) Income taxes

	2009 EUR m	2010 EUR m
Current taxes	- 134.8	- 140.4
Deferred taxes	21.8	- 3.9
Income taxes	- 113.0	- 144.3

Tax expenses include the corporate income taxes and trade taxes paid by German companies and comparable income taxes paid by foreign companies as well as deferred taxes. Other taxes (property tax, vehicle tax and VAT) are included in other expenses.

Temporary differences of EUR 64.3m (previous year EUR 55.8m) existed for the retained profits of domestic and foreign subsidiaries and associates.

In the past fiscal year, the deferred tax expense decreased due to the recognition of deferred tax assets on unused tax losses from previous periods of EUR 2.2m (previous year EUR 2.4m). The utilisation of unused tax losses, which in past periods was considered unlikely, resulted in a reduction of EUR 2.0m in the income tax burden in 2010 (previous year EUR 0.1m). In addition, as at the end of the reporting period, the group carried unused tax losses of EUR 335.0m (previous year EUR 298.2m) and interest carried forward of EUR 62.5m (previous year EUR 41.9m), which from a current perspective are unlikely to be utilised. Consequently, no deferred taxes have been recognised on these unused tax losses. In the reporting year, no deferred tax assets on unused tax losses (previous year EUR 0.2m) were written down. Of the existing unused tax losses and interest carried forward, a total of EUR 327.9m (previous year EUR 322.4m)

can be carried forward for an indefinite period and an amount of EUR 7.1m (previous year EUR 17.7m) lapses within the next fifteen years. In addition, deferred taxes totalling EUR 54.8m (previous year EUR 45.9m) have been recognised on unused tax losses of EUR 163.3m (previous year EUR 141.6m). EUR 125.6m of the losses (previous year EUR 99.0m) and deferred tax assets of EUR 42.7m (previous year EUR 33.7m) originate from the Wholesale Brazil segment. On the basis of the current business development, Celesio assumes that there will be sufficient taxable income available in future to offset these losses.

The current tax burden includes tax income from other periods of EUR 3.6m (previous year EUR 3.6m). Deferred taxes on temporary differences led to a total expense of EUR 11.9m (previous year income of EUR 18.0m).

The table below shows a reconciliation of the differences between the current taxes reported in the income statement and the theoretical tax expenses arising from applying the tax rate of Celesio AG to the group's profit before tax. The tax rate applying to Celesio AG remains unchanged on the previous year at 30.7%.

	31/12/2009		31/12/2010	
	EUR m	%	EUR m	%
Profit before tax ¹⁾	119.5	100.0	409.3	100.0
Expected income tax expense	36.7	30.7	125.7	30.7
Effect of differing national tax rates	13.2	11.4	- 8.8	- 2.1
Tax from previous periods	- 3.6	- 3.1	- 3.6	- 0.9
Tax effect of non-deductible expenses and tax-exempt income	10.1	9.8	15.4	3.8
Impact of changes to tax rates on deferred taxes	0.1	0.1	- 1.2	- 0.3
Non-recognition, adjustment or utilisation of tax losses	12.1	10.5	29.1	7.1
Impact of tax-neutral amortisation of goodwill	49.4	42.8	0.0	0.0
Other tax effects	- 5.0	- 4.2	- 12.3	- 3.0
Income tax expense	113.0	94.5	144.3	35.3

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

(9) Earnings per share

	2009	2010
Profit/loss attributable to shareholders of Celesio AG (EUR m) ¹⁾	3.4	259.2
Weighted number of no-par shares outstanding	170,100,000	170,100,000
Earnings per share (EUR)	0.02	1.52
Profit/loss attributable to shareholders of Celesio AG (EUR m)	–	259.2
Restatement of interest expense of convertible bond (net in EUR m)	–	16.3
Net profit used to calculate diluted earnings per share	–	275.5
Weighted number of no-par shares outstanding	–	170,100,000
Weighted adjustment of potentially dilutive shares	–	15,562,472
Weighted average number of shares used to calculate diluted earnings per share	–	185,662,472
Diluted earnings per share (EUR)	–	1.48

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

The basic earnings per share are calculated by dividing the net profit allocable to the shareholders of Celesio AG by the weighted average number of shares outstanding during the fiscal year.

The diluted earnings per share are a result of adding all options to Celesio shares associated with the convertible bond to the average number of shares outstanding. 15.6m options arose in the reporting year. In the previous year, the weighting was performed on a pro rata temporis basis (2.7m options) because the convertible bond was issued during that year. It is assumed that the convertible bond will be fully exchanged for shares. The net profit for the year is adjusted to eliminate the related interest expense and any tax effect of the bond. Due to the fact that the potential ordinary shares from the convertible bond would increase the earnings per share, no presentation was made in the previous year in accordance with IAS 33.41.

(10) Components of other comprehensive income

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

	2009 EUR m	2010 EUR m
Available-for-sale financial assets		
Gains/losses from the current year	0.7	– 3.2
Less reclassification to profit and loss	– 1.5	– 3.2
	2.2	0.0
Derivative financial instruments to hedge cash flows		
Gains/losses from the current year	– 14.2	– 27.6
Less reclassification to profit and loss	– 24.1	– 26.0
Less gains/losses offset against acquisition cost	1.2	0.0
	8.7	– 1.6

Notes to the group statement of financial position

(11) Intangible assets

	2009					
	Concessions, industrial rights and similar rights EUR m	Goodwill ¹⁾ EUR m	Other intangible assets EUR m	Payments on account EUR m	Total ¹⁾ EUR m	
Accumulated historical cost as at 01/01	137.2	2,551.5	127.3	11.1	2,827.1	
Translation differences	3.5	104.1	0.0	0.0	107.6	
Changes to consolidated group	0.9	– 3.3	64.6	0.0	62.2	
Additions ¹⁾	17.9	197.6	0.7	16.7	232.9	
Reclassifications	7.6	0.0	1.6	– 7.2	2.0	
Disposals	– 2.5	– 0.2	– 0.2	0.0	– 2.9	
As at 31/12 ¹⁾	164.6	2,849.7	194.0	20.6	3,228.9	
Accumulated depreciation and amortisation as at 01/01	91.0	287.0	11.0	0.0	389.0	
Translation differences	1.5	0.0	0.3	0.0	1.8	
Changes to consolidated group	0.0	0.0	0.0	0.0	0.0	
Additions	15.9	257.7	25.6	0.0	299.2	
Reclassifications	– 0.6	0.0	1.0	0.0	0.4	
Disposals	– 0.7	0.0	– 0.2	0.0	– 0.9	
Write-ups	0.0	0.0	0.0	0.0	0.0	
As at 31/12¹⁾	107.1	544.7	37.7	0.0	689.5	
Carrying amount as at 31/12¹⁾	57.5	2,305.0	156.3	20.6	2,539.4	

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

The changes to goodwill due to changes to the consolidated group result primarily from the deconsolidation of Lloyds Nederland. The additions to goodwill in the year 2010 primarily relate to the revision of the purchase price liability for Panpharma, the acquisition of Betterlife Healthcare and the acquisition of retail pharmacies in the Patient and Consumer Solutions division. More information on the business combinations made in the reporting period can be found from page 145 onwards. The disposals to goodwill in the year 2010 were caused by the reclassification of the assets and liabilities of mail-order pharmacy DocMorris as a disposal group.

Notes

	2010				
	Concessions, industrial rights and similar rights EUR m	Goodwill EUR m	Other intangible assets EUR m	Payments on account EUR m	Total EUR m
	164.6	2,849.7	194.0	20.6	3,228.9
	2.0	55.1	5.2	0.0	62.3
	- 1.2	- 168.0	- 1.6	- 1.4	- 172.2
	23.8	61.2	0.4	22.6	108.0
	19.1	0.0	- 1.6	- 16.6	0.9
	- 7.1	- 69.2	- 25.9	- 3.2	- 105.4
	201.2	2,728.8	170.5	22.0	3,122.5
	107.1	544.7	37.7	0.0	689.5
	1.0	0.0	0.6	0.0	1.6
	- 0.8	- 134.7	- 0.3	0.0	- 135.8
	19.9	0.5	15.2	0.0	35.6
	0.6	0.0	- 1.5	0.0	- 0.9
	- 4.5	0.0	- 8.5	0.0	- 13.0
	- 0.4	0.0	0.0	0.0	- 0.4
	122.9	410.5	43.2	0.0	576.6
	78.3	2,318.3	127.3	22.0	2,545.9

Brands with an indefinite useful life of EUR 79.7m (previous year EUR 78.5m) were capitalised in the course of acquisitions and are presented under other intangible assets.

This includes EUR 57.3m (previous year EUR 57.3m) for the DocMorris brand which was allocated to the Mail-order Pharmacies Germany and the Franchise Systems Germany cash-generating units for the purposes of impairment testing. A further EUR 5.6m (previous year EUR 5.5m) was allocated to the Phamexx cash-generating unit and EUR 9.5m (previous year EUR 8.4m) to the Wholesale Brazil cash generating unit.

(12) Property, plant and equipment

	2009					
	Land, land rights and buildings EUR m	Plant and machinery EUR m	Other equipment, furniture and fixtures EUR m	Payments on account and assets under construction EUR m	Total EUR m	
Accumulated historical cost as at 01/01	675.0	260.8	519.4	2.8	1,458.0	
Translation differences	11.2	4.6	25.3	0.0	41.1	
Changes to consolidated group	1.4	1.8	3.9	0.1	7.2	
Additions	22.7	12.5	33.8	16.8	85.8	
Reclassifications	1.2	1.6	– 4.1	– 4.9	– 6.2	
Disposals	– 7.7	– 3.4	– 61.7	– 0.3	– 73.1	
As at 31/12	703.8	277.9	516.6	14.5	1,512.8	
Accumulated depreciation and amortisation as at 01/01	317.7	193.2	346.9	0.0	857.8	
Translation differences	5.3	3.2	15.0	0.0	23.5	
Changes to consolidated group	– 0.4	0.0	– 2.1	0.0	– 2.5	
Additions	26.1	18.6	46.1	0.0	90.8	
Reclassifications	0.0	– 0.6	– 3.9	0.0	– 4.5	
Disposals	– 4.3	– 3.1	– 52.1	0.0	– 59.5	
Write-ups	0.0	0.0	0.0	0.0	0.0	
As at 31/12	344.4	211.3	349.9	0.0	905.6	
Carrying amount as at 31/12	359.4	66.6	166.7	14.5	607.2	
<i>Of which finance leases</i>						
<i>Carrying amount as at 31/12</i>	<i>35.7</i>	<i>0.9</i>	<i>3.6</i>	<i>0.0</i>	<i>40.2</i>	

Property, plant and equipment of EUR 64.8m (previous year EUR 69.8m) was pledged as collateral.

Notes

	2010				
	Land, land rights and buildings	Plant and machinery	Other equipment, furniture and fixtures	Payments on account and assets under construction	Total
	EUR m	EUR m	EUR m	EUR m	EUR m
	703.8	277.9	516.6	14.5	1,512.8
	5.7	2.5	12.5	0.2	20.9
	- 15.0	- 3.7	- 4.8	0.0	- 23.5
	30.1	17.8	41.2	11.1	100.2
	2.0	12.4	2.4	- 17.7	- 0.9
	- 27.5	- 14.0	- 21.8	- 0.3	- 63.6
	699.1	292.9	546.1	7.8	1,545.9
	344.4	211.3	349.9	0.0	905.6
	2.7	1.7	7.4	0.0	11.8
	- 6.4	- 2.1	- 3.4	0.0	- 11.9
	28.4	18.8	50.8	0.0	98.0
	0.1	1.3	- 0.5	0.0	0.9
	- 17.8	- 13.3	- 19.7	0.0	- 50.8
	0.0	0.0	0.0	0.0	0.0
	351.4	217.7	384.5	0.0	953.6
	347.7	75.2	161.6	7.8	592.3
	32.4	0.7	4.7	0.0	37.8

(13) Financial assets

Other assets mainly contain investments in entities that are not listed on the public stock exchange and over which the group has neither control nor the ability to exercise a significant influence.

If there is no active market for these financial assets, they are measured at amortised cost. As at 31 December 2010, investments in entities not listed on a public exchange of EUR 51.2m (previous year EUR 50.7m) were measured at cost for that reason.

The decrease of other assets relates primarily to the sale of the investment in Andrae-Noris Zahn AG (ANZAG), a publicly listed company.

Associates accounted for using the equity method consist primarily of the investments in Brocacef Holding N.V. The share of the net profit of all associates accounted for using the equity method allocable to Celesio, including amortisation of intangible assets identified during the purchase price allocation, amounted to EUR – 0.2m (previous year EUR 0.5m). The carrying amount of associates accounted for using the equity method came to EUR 80.6m (previous year EUR 20.7m). The purchase price allocation could not be finalised owing to the contribution of Lloyds Nederland shortly before the reporting date and the receipt of the 45% holding in Brocacef Holding N.V. on 30 November 2010. It will be finalised within twelve months of the acquisition date. These entities generated revenue of EUR 954.4m in the reporting period (previous year EUR 90.3m) and net profit of EUR 12.0m (previous year EUR 3.8m). Total assets come to EUR 460.2m (previous year EUR 39.7m) and total liabilities stand at EUR 233.9m (previous year EUR 23.4m).

(14) Deferred taxes

Depending on their origin, deferred tax assets and liabilities can be allocated to the following items in the statement of financial position:

	31/12/2009		31/12/2010	
	Assets EUR m	Liabilities EUR m	Assets EUR m	Liabilities EUR m
Intangible assets	0.8	91.2	0.8	82.0
Property, plant and equipment	3.7	48.4	3.9	42.3
Other non-current assets	3.4	0.1	2.3	9.7
Current assets	34.8	16.6	28.8	18.7
Financial liabilities	4.5	12.1	3.7	1.0
Provisions ¹⁾	57.9	0.6	51.9	0.5
Other liabilities	48.2	3.1	45.7	2.7
Sum of deferred taxes on temporary differences	153.3	172.1	137.1	156.9
Deferred taxes on unused tax losses	45.9	0.0	54.8	0.0
Less offsetting	– 82.3	– 82.3	– 70.6	– 70.6
Total	116.9	89.8	121.3	86.3

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

This includes deferred tax receivables totalling EUR 9.3m that have been offset against other comprehensive income (previous year tax receivables of EUR 5.4m). These are a result of accounting for the convertible bond, changes without any effect on income in the value of available-for-sale financial assets and derivative financial instruments used for cash flow hedges. More information on deferred taxes can be found in note (8).

(15) Inventories

	31/12/2009 EUR m	31/12/2010 EUR m
Raw materials, consumables and supplies	2.2	2.0
Finished goods and merchandise	1,621.6	1,685.7
Payments on account	0.5	0.4
Total	1,624.3	1,688.1

Inventories were written down by EUR 24.2m in the reporting period (previous year EUR 13.0m). These write-downs were offset by utilisations of valuation allowances of EUR 14.2m (previous year EUR 8.5m). The carrying amount of inventories measured at net realisable value came to EUR 51.6m (previous year EUR 40.8m). In addition to the customary retention of title clauses, inventories of EUR 113.8m at Wholesale Brazil have been pledged as collateral due to pending tax litigation.

(16) Non-current assets held for sale and assets and liabilities of disposal groups classified as held for sale

On 21 June 2010, Celesio agreed to set up a Europe-wide joint venture with the US healthcare group, Medco Health Solutions, Inc. Official approval from the anti-trust authorities was issued on 2 August 2010, with Medco Celesio B.V. being founded in the third quarter of 2010. Each partner in the joint venture, which is based in Amsterdam, holds 50% of the shares. Celesio will contribute the DocMorris mail-order pharmacy and Medco the Europa Apotheek Venlo mail-order pharmacy to the joint venture. The DocMorris mail-order pharmacy was previously disclosed in the Mail-order Pharmacies segment. In the statement of financial position as at 31 December 2010, all assets and liabilities under disposal groups classified as held for sale were reclassified to current assets or current liabilities.

Deltafarm s.r.l. was reclassified in November 2010 as a third party had announced it would exercise its purchase options for Deltafarm. Consequently, its assets and liabilities were reclassified to current assets and current liabilities in the statement of financial position as at 31 December 2010. Previously, Deltafarm was reported in the Others segment. Disposal is expected in the first quarter of 2011.

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

	Total EUR m
Intangible assets	91.4
Property, plant and equipment	4.3
Deferred tax assets	2.6
Inventories	11.5
Trade receivables	27.7
Cash and cash equivalents	0.2
Other assets	6.4
Assets	144.1
Financial liabilities	0.0
Deferred tax liabilities	3.9
Trade payables	15.2
Other liabilities	22.4
Liabilities	41.5

As part of the Europe-wide contract to outsource IT infrastructure entered into in 2009, IT hardware was already sold at its carrying amount in the previous year. In this regard, further disposals totalling EUR 0.2m will be made in 2011, all relating to the Wholesale segment.

In addition, a property in the Wholesale segment with a carrying amount of EUR 2.3m has been classified as held for sale. The disposal is expected to occur in the 2011 fiscal year.

(17) Receivables and other assets

At the end of the reporting period, current receivables and other assets are as follows:

	31/12/2009 EUR m	31/12/2010 EUR m
Trade receivables	2,558.2	2,522.0
Income tax receivables	25.4	28.9
Receivables from affiliates	7.6	8.8
Receivables from associates and other investments	2.4	1.5
Derivative financial instruments	3.2	6.2
VAT and other tax receivables	41.2	95.9
Other assets	242.3	253.1
Other receivables and other assets	296.7	365.5
Total	2,880.3	2,916.4

Among other items, other assets contain supplier bonuses, creditors with debit balances, receivables from employees and other short-term receivables.

Derivative financial instruments are used to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in more detail in note (25, g).

Receivables from affiliates and receivables from associates and other investments were neither impaired nor past due at the end of the reporting period.

To secure the outstanding receivables, collateral in the form of land and buildings with a fair value of EUR 4.5m has been received.

Bad debt allowances developed as follows over the reporting period:

	2009 EUR m	2010 EUR m
As at 01/01	72.9	122.8
Additions	32.7	29.1
Utilisation	– 13.7	– 34.4
Reversals	– 13.0	– 18.9
Currency, consolidated group and other changes	43.9	5.0
As at 31/12	122.8	103.6

The aging structure of the receivables that are not impaired but overdue at the end of the reporting period is presented below:

	31/12/2009 EUR m	31/12/2010 EUR m
Carrying amount of trade receivables	2,558.2	2,522.0
Carrying amount of impaired trade receivables	104.8	56.5
Carrying amount of trade receivables that are not impaired	2,453.4	2,465.5
Carrying amount of trade receivables that are not impaired or overdue	2,211.7	2,251.9
Carrying amount of trade receivables that are not impaired but are overdue	241.7	213.6
<i>Of which < 3 months</i>	<i>198.1</i>	<i>171.7</i>
<i>Of which 3 – 6 months</i>	<i>22.6</i>	<i>24.9</i>
<i>Of which 6 – 12 months</i>	<i>14.1</i>	<i>7.5</i>
<i>Of which > 12 months</i>	<i>6.9</i>	<i>9.5</i>

In the case of the receivables that are not impaired, there is no indication that the debtors will not be able to meet their payment obligations.

The carrying amount of trade receivables which had been renegotiated and would otherwise have had to be written off or classified as past due come to EUR 40.4m as at 31 December 2010.

The development of allowances on other receivables reported under other assets is as follows:

	2009 EUR m	2010 EUR m
As at 01/01	10.3	13.6
Additions	3.0	1.1
Utilisation	– 0.9	– 0.5
Reversals	– 0.4	0.8
Currency, consolidated group and other changes	1.6	0.3
As at 31/12	13.6	15.3

The aging structure of other receivables reported under other assets which were not impaired but are overdue at the end of the reporting period is presented below:

	31/12/2009 EUR m	31/12/2010 EUR m
Carrying amount of receivables reported under other assets	194.7	203.9
Carrying amount of impaired receivables reported under other assets	1.1	1.3
Carrying amount of receivables reported under other assets that are not impaired	193.6	202.6
Carrying amount of receivables reported under other assets that are not impaired or overdue	164.2	168.9
Carrying amount of receivables reported under other assets that are not impaired but are overdue	29.4	33.7
<i>Of which < 3 months</i>	<i>22.1</i>	<i>25.8</i>
<i>Of which 3 – 6 months</i>	<i>2.2</i>	<i>3.6</i>
<i>Of which 6 – 12 months</i>	<i>2.4</i>	<i>2.2</i>
<i>Of which > 12 months</i>	<i>2.7</i>	<i>2.1</i>

(18) Cash and cash equivalents

	31/12/2009 EUR m	31/12/2010 EUR m
Cash on hand	3.7	4.0
Cash at banks	124.0	196.8
Total	127.7	200.8

Movements in cash and cash equivalents as defined by IAS 7 are presented in the accompanying statement of cash flows.

Cash at banks is only maintained at selected banks. No bank deposits have been assigned as collateral, neither for existing loans nor approved lines of credit.

(19) Equity

The issued capital of Celesio AG is split into 170,100,000 no-par shares. Authorised capital of EUR 43.5m has been approved until 25 April 2012 (authorised capital 2007) and EUR 65.3m until 30 April 2014 (authorised capital 2009). The capital stock can be contingently increased by up to EUR 21.8m, split into 17,010,000 no-par registered shares.

In the reporting period, an ordinary dividend of EUR 0.50 per no-par share was paid for the previous year.

Convertible bond. In the previous year, Celesio Finance B.V. issued a convertible bond with a face value of EUR 350.0m guaranteed by Celesio AG. The bond is split into tranches of EUR 50,000, has a coupon of 3.75% per year – based on the outstanding amount – and matures on 29 October 2014 (maturity date) if not repaid, converted or repurchased in the meantime. The convertible bond grants the investor a right to convert the bond into no-par shares in Celesio AG. The conversion price stood at EUR 22.49, both on the date the bond was issued and at the end of the reporting period. According to the terms of the bond, the conversion price will be adjusted during the term of the bond to account for certain predefined events (capital increase, stock splits etc.). The conversion rights granted by the bond correspond to 15.6m shares to be issued from contingent capital. In the reporting period an amount of EUR 0.0m (previous year EUR 32.2m) was recorded in the capital reserves.

Reserves. In addition to the reserves carried by Celesio AG, the reserves also contain the retained profits generated by subsidiaries since their first-time consolidation and the effects of consolidation entries. Non-controlling interests are measured on the net assets of the subsidiaries concerned after being adjusted to the accounting policies of the Celesio Group.

Other comprehensive income contains the net effect arising from marking financial instruments used for cash flow hedges to market. These amount to EUR – 14.9m (previous year EUR – 13.3m). In addition, this item also includes changes in the fair value of securities categorised as available-for-sale financial assets which totalled EUR – 0.6m in the reporting period (previous year EUR – 0.6m). An amount of EUR 29.2m (previous year EUR 25.6m) was reclassified from the reserves to interest expenses and tax expenses in profit or loss in the fiscal year.

Capital management. The prime objective of the Group's capital management is to ensure that it maintains the company's financial flexibility to allow for investments that will appreciate in value while simultaneously ensuring healthy financial ratios.

The group monitors its capital based on the equity ratio, gearing and the interest coverage ratio. This does not involve any external covenants which the group would have to observe.

	31/12/2009 EUR m	31/12/2010 EUR m
Equity ¹⁾	2,352.1	2,601.1
/ Total equity and liabilities ¹⁾	8,075.6	8,402.7
Equity ratio (%)	29.1	31.0
Net financial debt ²⁾	2,040.4	1,722.5
/ Equity ¹⁾	2,352.1	2,601.1
Gearing	0.87	0.66
EBIT	237.6	565.6
/ Financial result ¹⁾	118.1	156.3
Interest coverage ratio	2.0	3.6

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

²⁾ Since 2010 net financial debt has been derived from the statement of financial position and corresponds to the difference between non-current and current financial liabilities and cash and cash equivalents. The figures for the previous year have been restated correspondingly.

(20) Pension provisions

Depending on the economic, legal and tax environment of the respective country, the employees of the Celesio Group are entitled to join various pension schemes. These include both defined benefit schemes and defined contribution schemes. The obligations arising from the defined benefit schemes are covered by external pension funds and appropriate provisions.

The actuarial reports were based on the following country-specific parameters:

	2009 %	2010 %
Discount rate by currency		
EUR	5.0 – 5.1	4.8
NOK	4.2	3.7
GBP	5.4	5.4
Future salary increases	1.8 – 4.5	2.0 – 4.4
Future pension increases	1.8 – 3.5	1.8 – 3.4
Expected return on plan assets	3.0 – 8.1	3.5 – 7.3

Pension expenses in the reporting year can be broken down as follows:

	2009 EUR m	2010 EUR m
Service cost	16.6	17.8
Past service cost	0.0	0.0
Amortisation of actuarial gains and losses	2.7	6.1
Interest expense	28.3	30.2
Expected return on plan assets	– 21.3	– 23.4
Curtailments/settlements and other changes	– 1.6	– 4.8
Total	24.7	25.9

The interest portion contained in the additions to pension provisions is recognised in the net interest result after deducting the expected return on plan assets.

Pension provisions developed as follows in the reporting period:

	2009 EUR m	2010 EUR m
Provisions for pension liabilities as at 01/01	134.4	143.1
Pension expenses	24.7	25.9
Pension payments	– 19.9	– 28.3
Currency changes	3.6	1.8
Consolidated group and other changes	0.3	– 0.4
Provisions for pension liabilities as at 31/12	143.1	142.1

The pension payments contain both payments to external pension funds and payments to pensioners.

A reconciliation of pension provisions with the defined benefit obligation is as follows:

	2009 EUR m	2010 EUR m
Present value of funded obligations	506.3	566.1
Fair value of plan assets	– 355.8	– 402.7
Funded status	150.5	163.4
Present value of unfunded obligations	112.2	108.3
Unrecognised actuarial gains/losses (accumulated)	– 119.6	– 126.6
Past service cost	0.0	– 3.0
Pension provisions as at 31/12	143.1	142.1

The defined benefit obligation and the fair value of the plan assets developed as follows:

	2009 EUR m	2010 EUR m
Defined benefit obligation as at 01/01	519.3	618.5
Service cost	16.6	17.8
Interest expense	28.3	30.2
Contributions by plan participants	0.3	0.3
Benefits paid	– 24.3	– 24.6
Unrecognised actuarial gains/losses	25.9	0.9
Past service cost	0.0	0.0
Curtailments and settlements	– 1.6	– 4.8
Currency changes	52.7	23.9
Consolidated group and other changes	1.3	12.2
Defined benefit obligation as at 31/12	618.5	674.4

	2009 EUR m	2010 EUR m
Fair value of plan assets as at 01/01	299.2	355.8
Expected return on plan assets	21.3	23.4
Contributions by employer	13.2	22.9
Contributions by plan participants	0.3	0.3
Payments from plan assets	– 17.6	– 19.2
Unrecognised actuarial gains/losses	2.5	2.8
Currency changes	36.1	16.7
Consolidated group and other changes	0.8	0.0
Fair value of plan assets as at 31/12	355.8	402.7

Developments over a five-year period can be summarised as follows:

	2006 EUR m	2007 EUR m	2008 EUR m	2009 EUR m	2010 EUR m
Defined benefit obligation	609.2	573.4	519.3	618.5	674.4
Fair value of plan assets	431.5	412.9	299.2	355.8	402.7
Deficit	177.7	160.5	220.1	262.7	271.7

The plan assets consist of the following components:

	2009 EUR m	2010 EUR m
Equity instruments	80.9	66.3
Fixed-interest securities	214.2	274.4
Real estate	22.5	17.2
Other	38.2	44.8
Fair value of plan assets as at 31/12	355.8	402.7

The expected return on plan assets may diverge from the income actually realised if capital markets fail to develop in line with expectations. The table below compares the expected return with actual income:

	2006 EUR m	2007 EUR m	2008 EUR m	2009 EUR m	2010 EUR m
Expected return on plan assets	23.7	25.5	23.4	21.3	23.4
Actual return on plan assets	25.9	5.7	- 15.4	23.8	34.0

The experience adjustments with regard to the defined benefit obligation and plan assets developed as follows:

	2007 EUR m	2008 EUR m	2009 EUR m	2010 EUR m
Experience adjustments of the defined benefit obligation	3.3	2.5	- 5.5	0.1
Experience adjustments of plan assets	- 19.8	- 38.8	2.5	10.6

For the defined contribution pension plan there were no further obligations for Celesio Group companies at the end of the reporting period other than the payment of the defined contribution to external funds. The expenses from ongoing contributions amounted to EUR 13.2m in the reporting period (previous year EUR 13.4m). In addition, employer contributions were made to state pension funds. The employer's direct contribution amounted to EUR 41.2m (previous year EUR 33.7m).

(21) Other provisions

Non-current provisions and current provisions developed as follows in the reporting period:

	2009		2010							
	Carrying amount as at 31/12	Of which due within 1 year	Changes in currency and in the consolidated group	Additions	Utilisations	Reversals	Unwinding	Reclassifications	Carrying amount as at 31/12	Of which due within 1 year
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
Provisions for obligations to personnel ¹⁾	93.8	55.0	0.1	65.5	– 55.5	– 5.4	1.2	0.4	100.1	62.3
Provisions for litigation and other legal risks ¹⁾	115.8	21.7	16.1	5.9	– 7.7	– 24.2	0.0	0.8	106.7	34.8
Other provisions	95.8	79.2	4.0	39.4	– 32.2	– 30.3	0.0	– 1.2	75.5	64.9
Total¹⁾	305.4	155.9	20.2	110.8	– 95.4	– 59.9	1.2	0.0	282.3	162.0

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

Provisions for obligations to personnel relate primarily to short-term bonuses and severance payments as well as long-term claims arising from the German phased retirement scheme (Altersteilzeit) and long-service bonuses. Moreover, provisions include provisions for ongoing litigation and contingent liabilities for pending legal disputes regarding obligations to personnel.

Share-based compensation programmes account for EUR 0.7m (previous year EUR 1.0m) of the personnel obligations. These cash-settled share-based payment transactions consist of performance cash plans for the Management Board, a share-based programme for employees and a share-based payment programme in which employees of a subsidiary were offered the opportunity of purchasing shares in entities at face value. At the same time, options were entered into allowing shares to be repurchased or sold back at a predefined price once certain conditions are met. The exercise price of the options rises the longer they are held. This results in a progressive addition at the most likely exercise price. The average residual term of share-based payment programmes is 0.1 years (previous year 5.8 years).

The change in personnel obligations from share-based payment programmes is as follows:

	2009 EUR m	2010 EUR m
As at 01/01	0.0	1.0
Additions due to changes in the consolidated group	2.2	0.0
Granted	0.2	0.4
Exercised	– 1.4	– 0.3
Forfeited/released	0.0	0.4
Expired	0.0	0.0
As at 31/12	1.0	0.7
Exercisable	1.0	0.7

The provisions for litigation and other legal risks relate to legal expenses for court costs, ongoing litigation and contingent liabilities for pending litigation. They do not include obligations to personnel and income tax liabilities.

Other provisions contain mainly obligations from real estate such as the obligation to restore rented buildings and rooms or pending losses from real estate that is no longer used but rented under non-cancellable rental agreements as well as restructuring measures, related chiefly to the reorganisation of the branch network.

In addition, contingent liabilities for legal and tax risks were recognised primarily in the course of the business combination with Panpharma. These are presented under provisions for obligations to personnel and provisions for litigation and other legal risks in accordance with the underlying issues. During the reporting period, these recognised contingent liabilities were reduced by EUR 0.7m with regard to obligations to

personnel and EUR 7.9m with regard to provisions for litigation, generally because the associated legal and tax risks are now statute-barred. Due to the fact that the recognised contingent liabilities originating from the acquisition of Panpharma are offset by rights of reimbursement against the sellers, the reduction in the contingent liabilities automatically reduces the rights of reimbursement and therefore has no impact on profit or loss.

Due to the uncertainty about the expected outflow of cash, the risk was recognised at the amount expected to be incurred.

(22) Liabilities

	31/12/2009				31/12/2010			
	Due within			Carrying amount	Due within			Carrying amount
	1 year EUR m	1 – 5 years EUR m	more than 5 years EUR m	EUR m	1 year EUR m	1 – 5 years EUR m	more than 5 years EUR m	EUR m
Financial liabilities								
Liabilities to banks	120.7	659.5	242.5	1,022.7	117.0	274.9	26.3	418.2
Promissory notes and bonds	86.5	980.3	25.0	1,091.8	0.0	945.7	518.4	1,464.1
Lease liabilities	4.7	10.7	5.7	21.1	5.1	10.0	4.1	19.2
Other financial liabilities	10.4	18.6	3.5	32.5	11.6	8.4	1.8	21.8
	222.3	1,669.1	276.7	2,168.1	133.7	1,239.0	550.6	1,923.3
Trade payables and other liabilities								
Trade payables	2,312.4	0.0	0.0	2,312.4	2,514.6	0.0	0.0	2,514.6
Income tax liabilities	77.8	0.0	0.0	77.8	72.3	0.0	0.0	72.3
Liabilities to affiliates	0.4	0.0	0.0	0.4	4.0	0.0	0.0	4.0
Liabilities to associates and other investments	2.6	0.0	0.0	2.6	2.4	0.0	0.0	2.4
Other liabilities ¹⁾	519.2	104.7	0.0	623.9	578.5	154.3	0.0	732.8
	2,912.4	104.7	0.0	3,017.1	3,171.8	154.3	0.0	3,326.1
Liabilities	3,134.7	1,773.8	276.7	5,185.2	3,305.5	1,393.3	550.6	5,249.4

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

Notes

(23) Financial liabilities

Collateral for financial liabilities has mainly been assigned to special purpose lease companies for long-term leases of real estate. In these cases, collateral equal to the secured loans (land charges) of EUR 62.7m (previous year EUR 67.4m) has been assigned.

a) Liabilities to banks. Liabilities to banks consist primarily of long-term bilateral credit lines. There is an additional liquidity reserve in the form of a syndicated loan. In addition, special purpose lease entities have arranged fixed-interest loans of EUR 62.8m to finance real estate (previous year EUR 79.9m). The market value of these fixed interest loans is EUR 72.7m (previous year EUR 74.8m). Liabilities to banks are broken down by the term of the financing.

b) Promissory notes and bonds. In the course of diversifying and optimising its financing structure, Celesio placed promissory notes in previous years and, for the first time, a convertible bond in 2009. Explanatory notes on the convertible bond are presented in note (19). Moreover, on 16 April 2010 the company placed its first corporate bond. As at 31 December 2010 the promissory note and bonds displayed the following features:

	Promissory notes		Convertible bond		Corporate bond	
	31/12/2009 EUR m	31/12/2010 EUR m	31/12/2009 EUR m	31/12/2010 EUR m	31/12/2009 EUR m	31/12/2010 EUR m
Nominal values	790.9	659.4	350.0	350.0	0.0	500.0
<i>Of which at fixed interest</i>	130.5	131.3	350.0	350.0	0.0	500.0
<i>Of which at floating rates</i>	660.4	528.1	0.0	0.0	0.0	0.0
Market values	813.5	687.5	367.2	372.3	0.0	563.4
<i>Of which at fixed interest</i>	143.4	144.4	367.2	372.3	0.0	563.4
<i>Of which at floating rates</i>	670.1	543.1	0.0	0.0	0.0	0.0
Carrying amounts	788.3	658.9	303.5	311.8	0.0	493.4
Currencies	EUR, GBP	EUR, GBP	EUR	EUR	–	EUR
Original maturities	3 – 7 years	4 – 7 years	5 years	5 years	–	7 years
Effective interest rates	2.12 – 5.42 %	1.22 – 5.42 %	7.10 %	7.10 %	–	4.74 %

The new borrowed funds were used for general financing purposes.

c) Lease liabilities. Pursuant to IAS 17, liabilities from finance leases are recognised at the present value of future minimum lease payments. Most of these relate to liabilities from leasing real estate in the Celesio Wholesale business area. Fair values generally correspond with their carrying amounts.

	31/12/2009 EUR m	31/12/2010 EUR m
Minimum lease payments	25.0	22.2
<i>Due within 1 year</i>	5.5	5.8
<i>Due within 2 – 5 years</i>	12.9	11.9
<i>Due in more than 5 years</i>	6.6	4.5
Interest portion	– 3.9	– 3.0
Net present value	21.1	19.2

(24) Trade payables and other liabilities

Trade payables contain payments on account of orders of EUR 63.3m (previous year EUR 44.4m).

Other liabilities comprise:

	31/12/2009 EUR m	31/12/2010 EUR m
Personnel liabilities	138.5	134.4
Other tax liabilities	54.2	84.9
Outstanding invoices	120.0	121.7
Derivative financial instruments	69.2	67.0
Interest liabilities	8.6	24.1
Other liabilities ¹⁾	233.4	300.7
Total	623.9	732.8

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

In addition to the completion of the purchase price allocation for Panpharma in the 2010 fiscal year, the net present value of the expected purchase price triggered by exercising the put and call options less the expected reimbursement claims for legal and tax risks was also revised. In each case, the latest business planning approved by management for the next five years was taken as a basis. The purchase price which is shown in the position other liabilities increased by EUR 29.4m as a result. The adjustment was posted directly to equity in accordance with IFRS 3 (2004) and increased goodwill accordingly.

In addition, the dividends Panpharma paid out to non-controlling interests are treated as a repayment of purchase price liabilities, this better reflects the substance of the transaction.

Derivative financial instruments are used to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in more detail in note (25, g).

(25) Financial risk management and derivative financial instruments

a) Principles of risk management. 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 the functional segregation of trading, handling and posting and the authorisation of just a few qualified employees to enter into derivative financial instruments. All derivatives are entered into exclusively for hedging purposes. In other words, derivatives are not used for trading or other speculative purposes. They are only entered into with selected banks.

Other disclosures on risk concentrations and diversification of risks can be found in the risk and opportunities report of the management report.

b) Interest rate risks. 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 changes in interest rates).

Interest caps, interest swaps and interest collars were used in the past fiscal year to hedge interest-related cash flow risks. An interest cap puts an upper limit on a floating interest rate. An interest swap involves swapping the fixed or floating interest rate in the underlying transaction for the entire term of the underlying instrument. In an interest collar, both an upper and a lower limit are agreed on. As at the reporting date, only interest swaps were carried by the Celesio Group as the interest caps and interest collars had either expired or been closed. The decision on whether to use derivative financial instruments is based on the projected interest-related cash flow risk and debt. The interest-related cash flow risk is reviewed at monthly intervals. This involves securing interest rates for at least 50% of the projected debt level.

The interest sensitivity analysis presented below shows the hypothetical effects which a change in the market interest rate at the end of the reporting period would have had on the pre-tax profit and on equity. It is assumed here that the exposure at the end of the reporting period is representative of the year as a whole and that the assumed change in the market interest rate at the end of the reporting period was possible.

- A hypothetical increase of one percentage point in the EUR-market interest rate as at 31 December 2010 would have resulted in a lower pre-tax profit of EUR 2.1m (previous year EUR 1.9m). A hypothetical decrease of one percentage point in the EUR-market interest rate would have resulted in a higher pre-tax profit of EUR 2.1m (previous year EUR 2.1m). An increase of one percentage point in the EUR-market interest rate as at 31 December 2010 would have led to a rise in equity of EUR 5.5m (previous year EUR 6.8m). A decrease of one percentage point in the EUR-market interest rate would have led to a decrease in equity of EUR 5.8m (previous year EUR 6.8m).
- A hypothetical increase of one percentage point in the GBP-market interest rate as at 31 December 2010 would have resulted in a lower pre-tax profit of EUR 0.1m (previous year EUR 3.3m). A hypothetical decrease of one percentage point in the GBP-market interest rate would have resulted in a higher pre-tax profit of EUR 0.2m (previous year EUR 3.3m). An increase of one percentage point in the GBP-market interest rate as at 31 December 2010 would have led to a rise in equity of EUR 13.4m (previous year EUR 11.1m). A decrease of one percentage point in the GBP-market interest rate would have led to a decrease in equity of EUR 14.5m (previous year EUR 12.2m).

Due to the convertible bond issued in 2009 and the corporate bond placed in 2010, the Group's debt exposure to floating interest rates has fallen, resulting in a corresponding reduction in the floating interest rate risk and less sensitivity to changes in interest rates in comparison to previous years.

c) Currency risks. Currency risks refer to the possible write-down of items in the statement of financial position and any forward transactions due to fluctuations in exchange rates. The majority of the foreign exchange risks are a result of the development of the euro against the pound sterling.

The currency risks at Celesio pertain, among other things, to capital expenditures, financing measures and operating activities. As the group companies largely settle their operating business in their respective functional currency, the foreign exchange exposure on transaction costs can be classified as low.

Forward exchange contracts and currency swaps were used in the 2010 fiscal year to hedge against foreign exchange exposures. 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.

The basis for the sensitivity analysis of currency risks includes the primary financial instruments at the end of the reporting period which group entities hold in currencies other than the functional currency.

The Celesio Group has concentrated its mid-term and long-term borrowings at Celesio Finance B.V. based in the Netherlands. This entity takes out loans in currencies other than euro and extends them to other entities in the group in accordance with their financing requirements. As they are not denominated in the functional currency of the group, these loans must be included in the assessment of the currency risk in accordance with IFRS 7.40 even though there is no currency risk involved from the perspective of Celesio Finance B.V. or even from the group as a whole.

Without adjusting for loans denominated in currencies other than the functional currency, a 10% depreciation or appreciation of the pound sterling against the euro would have increased pre-tax profit by EUR 54.8m or decreased it accordingly (previous year increased by EUR 59.4m or decreased it by EUR 59.3m respectively).

Adjusted for these loans, a 10% depreciation or appreciation of the pound sterling against the euro would have decreased or increased the pre-tax profit by EUR 9.6m (previous year a decrease of EUR 14.0m or increase of EUR 14.1m).

A significant portion of this adjusted currency risk sensitivity analysis results from the possible market price fluctuations of currency swaps. Celesio uses currency swaps to eliminate the economic currency risk associated with intercompany loans denominated in a different currency.

A 10% depreciation or appreciation of the pound sterling against the euro as at 31 December 2010 would have increased or decreased the translation reserves recognised in other comprehensive income by EUR 0.9m respectively (previous year EUR 1.0m).

The indirect impact of foreign exchange fluctuations on operating activities is not considered in the sensitivity analysis.

This analysis assumes that the exchange rates change by the percentage stated at the end of the reporting period. Movements over time and the changes in other market parameters observed in reality are not considered in this analysis.

d) Credit risk. Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Due to its current customer structure, the bad debt risk in the Celesio group can be classified as relatively low as the largest customers are the state-run healthcare systems and therefore enjoyed a very high credit standing in the past. Due to the large number of business relationships there is no significant concentration of risk either. The theoretical maximum credit risk corresponds to the carrying amounts of the receivables and financial assets presented in note (17) and in the table allocating the assets to the IAS 39 categories from page 178 onwards. Celesio mitigates the credit risk from financial instruments by only entering into such contracts with selected partners. The maximum theoretical risk of default on current derivative financial instruments equals the positive fair values of the instruments. At the end of the reporting period these came to EUR 6.2m (previous year EUR 3.2m).

e) Liquidity risk. Liquidity risk is understood as the risk of the Celesio Group not being in the position to meet its ongoing payment obligations at any time. The liquidity risk is managed by means of centralised financial planning which provides the required finance for operations and capital expenditures. Liquidity management takes the form of rolling liquidity planning taking existing lines of credit into account. The Celesio Group has a significant number of unused long-term confirmed lines of credit and bank guarantees and can make use of these at any time. In addition, the group has a syndicated credit line of EUR 600m on which it can draw. This line of credit, which expires on 11 February 2013, had not been drawn on at the end of the reporting period. The Celesio Group keeps appropriate free credit lines in reserve in relation to the group's indebtedness.

f) Other price risks. The risk of share price fluctuations in previous years primarily arose from the investment in Andreae-Noris Zahn AG (ANZAG). A hypothetical increase (decrease) of 10% in the share price of ANZAG would have led to an increase (decrease) of EUR 3.3m in the pre-tax profit of the previous year and an increase (decrease) of EUR 0.4m in other comprehensive income. Due to the sale of the investment in ANZAG on 18 October 2010 there is no share price risk as at the reporting date. Other than the above, the Celesio Group is not exposed to any material risks from other price fluctuations.

g) Hedges. Hedges are used by the Celesio Group to secure future cash flows. This includes exchange rate hedges for planned purchases of merchandise as well as capital expenditures and disposals, although there were no cases requiring a hedge as at the reporting date.

Cash flow hedges. The Celesio Group obtains its finance primarily from long-term bilateral lines of credit, promissory notes, a convertible bond and a corporate bond. The bilateral lines of credit are generally drawn on a revolving basis with the interest rate fixed for the short term. Celesio secures the resulting interest-related cash flow risks using cash flow hedges.

The table below shows the periods – broken down by currency – in which the cash flows associated with cash flow hedges that were in place as at 31 December 2010 are expected (interest payments).

	Cash flows 2011	Cash flows 2012	Cash flows 2013 – 2015	Cash flows 2016 – 2020	Cash flows 2021 onwards	Total cash flows
m						
EUR	– 2.4	– 1.7	– 2.4	0.0	0.0	– 6.5
GBP	– 2.8	– 2.5	– 5.0	– 3.4	0.0	– 13.7
CZK	– 3.2	0.0	0.0	0.0	0.0	– 3.2
DKK	– 1.5	– 1.5	– 0.4	0.0	0.0	– 3.4

The hedged interest payments result from liabilities subject to floating-interest rates with a nominal value of EUR 230.0m, GBP 310.0m, CZK 1,055.0m and DKK 120.0m.

The table below shows the periods – broken down by currency – in which the cash flows associated with cash flow hedges that were in place as at 31 December 2009 were expected (interest payments).

	Cash flows 2010	Cash flows 2011	Cash flows 2012 – 2014	Cash flows 2015 – 2019	Cash flows 2020 onwards	Total cash flows
m						
EUR	– 2.3	– 2.2	– 3.0	0.0	0.0	– 7.5
GBP	– 2.8	– 2.3	– 4.7	– 4.0	0.0	– 13.8
CZK	– 16.9	– 4.0	0.0	0.0	0.0	– 20.9
DKK	– 2.0	– 1.7	– 2.1	0.0	0.0	– 5.8

The hedged interest payments result from liabilities subject to floating-interest rates with a nominal value of EUR 580.0m, GBP 390.0m, CZK 1,055.0m and DKK 190.0m.

Losses including deferred taxes of EUR 27.6m were made in the reporting period in connection with cash flow hedges (previous year losses of EUR 14.2m) which have been recorded under other comprehensive income. During the fiscal year losses of EUR 26.0m (previous year EUR 24.1m) from previous years were transferred from equity to interest expenses and tax expenses in the income statement. Of this amount EUR 5.0m (previous year EUR 4.2m) was recorded in interest expenses and tax expenses due to the dedesignation of hedge instruments and the sale of hedging instruments following the extinguishment of the underlying. There were no reclassifications from other comprehensive income in the reporting year related to offsetting against the cost of an investment in an affiliate (previous year EUR 1.2m).

Fair value hedge. No fair value hedges were in place in the 2010 fiscal year.

Summary of derivative financial instruments

Derivative financial instruments break down as follows:

	31/12/2009			31/12/2010		
	Nominal value EUR m	Fair value EUR m	Of which cash flow hedges EUR m	Nominal value EUR m	Fair value EUR m	Of which cash flow hedges EUR m
Assets						
Interest instruments	570.0	1.2	1.2	0.0	0.0	0.0
Currency instruments	207.0	2.0	0.0	387.5	6.2	0.3
Total assets	777.0	3.2	1.2	387.5	6.2	0.3
Equity and liabilities						
Interest instruments	995.3	69.0	63.8	759.1	65.9	63.1
Currency instruments	50.4	0.2	0.1	188.1	1.1	0.0
Total liabilities	1,045.7	69.2	63.9	947.2	67.0	63.1

The tables below present the contractually agreed undiscounted debt service payments due on the primary financial liabilities and derivative financial assets and liabilities over time. As at 31 December 2010 the values were as follows:

	Cash flows 2011 EUR m	Cash flows 2012 EUR m	Cash flows 2013 – 2015 EUR m	Cash flows 2016 – 2020 EUR m	Cash flows from 2021 onwards EUR m	Total cash flows EUR m	Total carrying amounts EUR m
Primary financial liabilities and financial guarantees							
Liabilities to banks	– 229.1	– 12.9	– 110.2	– 195.4	– 12.7	– 560.3	418.2
Promissory notes and bonds	– 52.9	– 233.6	– 913.3	– 570.2	0.0	– 1,770.0	1,464.1
Trade payables	– 2,514.6	0.0	0.0	0.0	0.0	– 2,514.6	2,514.6
Liabilities to affiliates	– 4.0	0.0	0.0	0.0	0.0	– 4.0	4.0
Liabilities to associates and other investments	– 2.4	0.0	0.0	0.0	0.0	– 2.4	2.4
Lease liabilities	– 5.8	– 4.9	– 7.0	– 4.5	0.0	– 22.2	19.2
Other financial liabilities	– 12.2	– 5.7	– 4.3	– 1.8	– 1.4	– 25.4	21.8
Liabilities from business combinations	– 30.4	– 50.2	– 145.3	– 2.8	0.0	– 228.7	184.5
Financial guarantees	– 93.3	– 35.0	– 49.2	– 28.5	– 11.4	– 217.4	4.9
	– 2,944.7	– 342.3	– 1,229.3	– 803.2	– 25.5	– 5,345.0	4,633.7
Derivative financial assets							
Derivatives designated for hedge accounting	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Derivatives not designated for hedge accounting	6.4	0.0	0.0	0.0	0.0	6.4	5.9
	6.4	0.0	0.0	0.0	0.0	6.4	6.2
Derivative financial liabilities							
Derivatives designated for hedge accounting	– 22.2	– 18.5	– 37.3	– 22.0	0.0	– 100.0	63.1
Derivatives not designated for hedge accounting	– 3.7	– 0.3	– 0.2	0.0	0.0	– 4.2	3.9
	– 25.9	– 18.8	– 37.5	– 22.0	0.0	– 104.2	67.0

As at 31 December 2009 the values were as follows:

	Cash flows 2010	Cash flows 2011	Cash flows 2012 – 2014	Cash flows 2015 – 2019	Cash flows from 2020 onwards	Total cash flows	Total carrying amounts
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
Primary financial liabilities							
Liabilities to banks	– 235.0	– 115.5	– 653.5	– 200.8	0.0	– 1,204.8	1,022.7
Promissory notes and bonds	– 116.3	– 51.2	– 1,073.8	– 29.6	0.0	– 1,270.9	1,091.8
Trade payables	– 2,312.4	0.0	0.0	0.0	0.0	– 2,312.4	2,312.4
Liabilities to affiliates	– 0.4	0.0	0.0	0.0	0.0	– 0.4	0.4
Liabilities to associates and other investments	– 2.6	0.0	0.0	0.0	0.0	– 2.6	2.6
Lease liabilities	– 5.5	– 4.6	– 8.3	– 6.6	0.0	– 25.0	21.1
Other financial liabilities	– 10.6	– 10.4	– 7.6	– 4.3	– 1.4	– 34.3	32.5
Financial guarantees	– 103.0	– 46.1	– 64.5	– 37.4	– 15.0	– 266.0	4.5
	– 2,785.8	– 227.8	– 1,807.7	– 278.7	– 16.4	– 5,116.4	4,488.0
Derivative financial assets							
Derivatives designated for hedge accounting	0.0	0.0	0.0	0.0	0.0	0.0	1.2
Derivatives not designated for hedge accounting	2.6	0.0	0.0	0.0	0.0	2.6	2.0
	2.6	0.0	0.0	0.0	0.0	2.6	3.2
Derivative financial liabilities							
Derivatives designated for hedge accounting	– 29.9	– 25.9	– 48.5	– 32.3	0.0	– 136.6	63.9
Derivatives not designated for hedge accounting	– 4.2	– 2.8	– 0.5	0.0	0.0	– 7.5	5.3
	– 34.1	– 28.7	– 49.0	– 32.3	0.0	– 144.1	69.2

Cash flows denominated in foreign currency on the reporting date are translated using the spot rate. Variable cash flows from interest are disclosed on the basis of the latest fixing. On-call liabilities have been allocated to the earliest possible period in the table. Consequently, credit lines are presented in the earliest period in which repayment can be demanded by the creditor.

The gross cash flows have been presented for derivatives that are to be settled on a gross basis in cash. However, from an economic perspective, the derivatives will be settled on a net basis.

**Reconciliation of financial instruments
to IAS-39 categories**

	2009								
	Financial assets measured at fair value through profit or loss EUR m	Financial assets held for trading EUR m	Loans and receivables EUR m	Available-for-sale financial assets EUR m	No IAS-39 category EUR m	Outside the scope of IFRS 7 EUR m	Carrying amount EUR m	Fair value EUR m	
Assets									
Available-for-sale financial assets – equity instruments	0.0	0.0	0.0	60.4	0.0	0.0	60.4	60.4	
Available-for-sale financial assets – debt instruments	0.0	0.0	0.0	7.3	0.0	0.0	7.3	7.3	
Financial assets measured at fair value through profit or loss	33.3	0.0	0.0	0.0	0.0	0.0	33.3	33.3	
Loans to investments	0.0	0.0	12.6	0.0	0.0	0.0	12.6	12.6	
Other loans	0.0	0.0	41.7	0.0	0.1	0.0	41.8	41.8	
Other financial assets	33.3	0.0	54.3	67.7	0.1	0.0	155.4	155.4	
Trade receivables	0.0	0.0	2,558.2	0.0	0.0	0.0	2,558.2	2,558.2	
Receivables from affiliates	0.0	0.0	7.6	0.0	0.0	0.0	7.6	7.6	
Receivables from associates and other investments	0.0	0.0	2.4	0.0	0.0	0.0	2.4	2.4	
Derivative financial instruments – designated as hedging instruments	0.0	0.0	0.0	0.0	1.2	0.0	1.2	1.2	
Derivative financial instruments – not designated as hedging instruments	0.0	2.0	0.0	0.0	0.0	0.0	2.0	2.0	
Other assets	0.0	0.0	203.8	0.0	2.6	77.1	283.5	283.5	
Other receivables and other assets	0.0	2.0	213.8	0.0	3.8	77.1	296.7	296.7	
Cash and cash equivalents	0.0	0.0	127.7	0.0	0.0	0.0	127.7	127.7	

The fair value of financial assets measured at fair value through profit or loss corresponds to the number of shares multiplied by the share price on closing date.

Trade receivables, receivables from affiliates, associates and other investments, as well as other assets and cash and cash equivalents generally all have short maturities. For this reason, their carrying amounts approximate their fair values on closing date.

Notes

	2010							
	Financial assets measured at fair value through profit or loss	Financial assets held for trading	Loans and receivables	Available-for-sale financial assets	No IAS-39 category	Outside the scope of IFRS 7	Carrying amount	Fair value
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
	0.0	0.0	0.0	53.0	0.0	0.0	53.0	53.0
	0.0	0.0	0.0	4.3	0.0	0.0	4.3	4.3
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	11.9	0.0	0.0	0.0	11.9	11.9
	0.0	0.0	36.4	0.0	2.0	0.0	38.4	38.4
	0.0	0.0	48.3	57.3	2.0	0.0	107.6	107.6
	0.0	0.0	2,522.0	0.0	0.0	0.0	2,522.0	2,522.0
	0.0	0.0	8.8	0.0	0.0	0.0	8.8	8.8
	0.0	0.0	1.5	0.0	0.0	0.0	1.5	1.5
	0.0	0.0	0.0	0.0	0.3	0.0	0.3	0.3
	0.0	5.9	0.0	0.0	0.0	0.0	5.9	5.9
	0.0	0.0	214.5	0.0	0.6	133.9	349.0	349.0
	0.0	5.9	224.8	0.0	0.9	133.9	365.5	365.5
	0.0	0.0	200.8	0.0	0.0	0.0	200.8	200.8

The development of impairments on loans and receivables is presented in note (17). Impairment losses of EUR 3.7m were incurred on available-for-sale financial assets (previous year EUR 0.0m).

	2009						
	Financial liabilities held for trading	Other financial liabilities	No IAS-39 category	Outside the scope of IFRS 7	Carrying amount	Fair value	
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	
Liabilities							
Liabilities to banks	0.0	902.0	0.0	0.0	902.0	896.9	
Promissory notes and bonds	0.0	1,005.3	0.0	0.0	1,005.3	1,093.6	
Lease liabilities	0.0	0.0	16.4	0.0	16.4	16.4	
Other financial liabilities	0.0	22.1	0.0	0.0	22.1	22.1	
Non-current financial liabilities	0.0	1,929.4	16.4	0.0	1,945.8	2,029.0	
Other non-current liabilities^{1) 2)}	0.0	0.0	0.0	104.7	104.7	104.7	
Liabilities to banks	0.0	120.7	0.0	0.0	120.7	120.7	
Promissory notes and bonds	0.0	86.5	0.0	0.0	86.5	87.1	
Lease liabilities	0.0	0.0	4.7	0.0	4.7	4.7	
Other financial liabilities	0.0	10.4	0.0	0.0	10.4	10.4	
Current financial liabilities	0.0	217.6	4.7	0.0	222.3	222.9	
Trade payables	0.0	2,312.4	0.0	0.0	2,312.4	2,312.4	
Liabilities to affiliates	0.0	0.4	0.0	0.0	0.4	0.4	
Liabilities to associates and other investments	0.0	2.6	0.0	0.0	2.6	2.6	
Personnel liabilities	0.0	0.0	0.0	138.5	138.5	138.5	
Other tax liabilities	0.0	0.0	0.0	54.2	54.2	54.2	
Outstanding invoices	0.0	120.0	0.0	0.0	120.0	120.0	
Derivative financial instruments – designated as hedging instruments	0.0	0.0	63.9	0.0	63.9	63.9	
Derivative financial instruments – not designated as hedging instruments	5.3	0.0	0.0	0.0	5.3	5.3	
Interest liabilities	0.0	8.6	0.0	0.0	8.6	8.6	
Other liabilities ²⁾	0.0	33.5	0.0	95.2	128.7	128.7	
Other current liabilities	5.3	165.1	63.9	287.9	522.2	522.2	

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

²⁾ Due to a revision of the applicable standard, liabilities from business combinations occurring after 1 January 2010 fall under the scope of IFRS 7 and are therefore reported in the column »No IAS 39 category«. The figures for the previous year were not restated.

Notes

	2010					
	Financial liabilities held for trading	Other financial liabilities	No IAS-39 category	Outside the scope of IFRS 7	Carrying amount	Fair value
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
	0.0	301.2	0.0	0.0	301.2	311.1
	0.0	1,464.1	0.0	0.0	1,464.1	1,623.3
	0.0	0.0	14.1	0.0	14.1	14.1
	0.0	10.2	0.0	0.0	10.2	10.2
	0.0	1,775.5	14.1	0.0	1,789.6	1,958.7
	0.0	0.0	2.3	152.0	154.3	154.3
	0.0	117.0	0.0	0.0	117.0	117.0
	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	5.1	0.0	5.1	5.1
	0.0	11.6	0.0	0.0	11.6	11.6
	0.0	128.6	5.1	0.0	133.7	133.7
	0.0	2,514.6	0.0	0.0	2,514.6	2,514.6
	0.0	4.0	0.0	0.0	4.0	4.0
	0.0	2.4	0.0	0.0	2.4	2.4
	0.0	0.0	0.0	134.4	134.4	134.4
	0.0	0.0	0.0	84.9	84.9	84.9
	0.0	121.7	0.0	0.0	121.7	121.7
	0.0	0.0	63.1	0.0	63.1	63.1
	3.9	0.0	0.0	0.0	3.9	3.9
	0.0	24.1	0.0	0.0	24.1	24.1
	0.0	33.0	3.4	110.0	146.4	146.4
	3.9	185.2	66.5	329.3	584.9	584.9

The fair values of the non-current financial liabilities are determined by discounting future contractually agreed cash flows at the current market rate.

Due to their short maturities the fair value of current financial liabilities, trade payables and other current liabilities corresponds to their carrying amounts with the exception of promissory notes.

The net result of IAS-39 categories breaks down as follows:

	2009 EUR m	2010 EUR m
Financial assets measured at fair value through profit or loss	7.7	2.6
Financial assets held for trading	– 20.8	– 0.1
Available-for-sale financial assets	6.2	4.5
Loans and receivables	– 14.2	– 0.6
Other financial liabilities ¹⁾	– 70.4	– 131.0
Financial liabilities held for trading	0.0	0.0
Total	– 91.5	– 124.6

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

The net gains/losses from financial assets measured at fair value through profit or loss are primarily composed of dividends and the results of marking these financial instruments to market.

The net gains or losses from financial assets held for trading include the net gains or losses from changes in fair value as well as interest income and expenses from these financial instruments.

Among other things, net gains and losses from available-for-sale financial assets contain the investment result and any gains on the sale of these shares.

The net gains or losses from loans and receivables chiefly include the net result of impairment losses and write-ups as well as interest income.

The net gain or loss on other financial liabilities that are not measured at fair value through profit or loss generally consists of interest expenses and exchange rate gains and losses from measuring loans denominated in foreign currency.

Measurement losses of EUR 3.2m (previous year EUR 0.7m) were recorded in other comprehensive income upon the sale of available-for-sale financial assets in the reporting period. Losses of EUR 3.2m (previous year EUR 1.5m) were reclassified from other comprehensive income to the other investment result.

Fair value hierarchy of financial instruments

Celesio applies the following fair value hierarchy to define and present its financial instruments measured at fair value:

- Level 1: Quoted prices in active markets for identical financial instruments
- Level 2: Quoted prices in active markets for similar financial instruments or other valuation techniques, the inputs of which are based on the observable market data
- Level 3: Valuation techniques in which all the relevant inputs are not based on observable market data

As at 31 December 2010 the following financial instruments were carried at fair value:

Assets measured at fair value

	2009				2010			
	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	Total EUR m	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	Total EUR m
Available-for-sale financial assets	17.0	0.0	0.0	17.0	6.2	0.0	0.0	6.2
Financial assets measured at fair value through profit or loss	33.3	0.0	0.0	33.3	0.0	0.0	0.0	0.0
Derivative financial instruments – designated as hedging instruments	0.0	1.2	0.0	1.2	0.0	0.3	0.0	0.3
Derivative financial instruments – not designated as hedging instruments	0.0	2.0	0.0	2.0	0.0	5.9	0.0	5.9

Available-for-sale financial assets for which there is no active market and whose fair value cannot be reliably determined are measured at cost. For this reason, these amounts are not included in the fair value hierarchy.

Liabilities measured at fair value

	2009				2010			
	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	Total EUR m	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	Total EUR m
Derivative financial instruments – designated as hedging instruments	0.0	63.9	0.0	63.9	0.0	63.1	0.0	63.1
Derivative financial instruments – not designated as hedging instruments	0.0	5.3	0.0	5.3	0.0	3.9	0.0	3.9

There were no reclassifications between level 1 and level 2 in the reporting period and no reclassifications to or from level 3.

Measurement of the financial instruments held as at 31 December 2010 at fair value gave rise to the following total gains and losses.

	2009				2010			
	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	Total EUR m	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	Total EUR m
Recognised through profit or loss								
Available-for-sale financial assets	6.2	0.0	0.0	6.2	–0.9	0.0	0.0	–0.9
Financial assets measured at fair value through profit or loss	7.7	0.0	0.0	7.7	0.0	0.0	0.0	0.0
Derivative financial instruments – designated as hedging instruments (assets and liabilities)	0.0	–30.5	0.0	–30.5	0.0	–25.3	0.0	–25.3
Derivative financial instruments – not designated as hedging instruments (assets and liabilities)	0.0	–20.8	0.0	–20.8	0.0	0.4	0.0	0.4
Recognised in other comprehensive income								
Available-for-sale financial assets	2.2	0.0	0.0	2.2	0.0	0.0	0.0	0.0
Derivative financial instruments – designated as hedging instruments (assets and liabilities)	0.0	11.8	0.0	11.8	0.0	–4.1	0.0	–4.1

The gains and losses from the fair value measurement of financial assets at fair value through profit or loss are presented under the other investment result. This also applies to gains and losses from measuring available-for-sale financial assets at fair value, which are also recognised in the income statement. Gains and losses from derivative financial instruments, which are likewise recognised through profit or loss, are reported under the financial result.

(26) Contingent liabilities and other financial obligations

At the end of the reporting period the group had issued guarantees of EUR 293.1m (previous year EUR 346.1m).

The guarantees were mainly issued in the Celesio Wholesale business area, particularly in the UK, where they amount to EUR 252.7m (previous year EUR 298.8m) and Austria where they amount to EUR 27.4m (previous year EUR 29.1m).

Provisions of EUR 4.9m (previous year EUR 4.5m) have been recognised for some of the warranties and guarantees in the wholesale business. These have been included under other provisions.

As at 31 December 2009 Celesio AG issued the following guarantees for the benefit of its Irish subsidiaries (Wholesale and Pharmacies): »Pursuant to Article 17 (1) (b) of the Companies (Amendment) Act 1986 of the Republic of Ireland, Celesio AG has irrevocably guaranteed the liabilities of its group companies, AAH Ireland (including its subsidiaries) and Unicare Pharmacy Ltd. (including its subsidiaries) originating in the fiscal year.« In the opinion of the Management Board of Celesio AG it is unlikely that a substantial risk will result from this guarantee. Consequently, these subsidiaries were exempted from certain disclosure requirements.

	31/12/2009 EUR m	31/12/2010 EUR m
Rental agreements and operating leases	1,137.8	1,271.2
Due within 1 year	211.7	158.3
Due within 2 – 5 years	418.1	466.8
Due in more than 5 years	508.0	646.1
Purchase commitments for capital expenditures	13.4	21.0
Property, plant and equipment	2.6	6.9
Intangible assets	5.6	11.5
Other assets	5.2	2.6
Total	1,151.2	1,292.2

Of the total obligations from rental agreements and operating leases, an amount of EUR 676.3m relates to the Wholesale and the Retail Pharmacies business areas in the UK (previous year EUR 557.6m) and an amount of EUR 121.6m to Retail Pharmacies in Ireland (previous year EUR 129.2m). In addition, future rental income from sub leases of property is expected to amount to EUR 62.4m (previous year EUR 62.3m).

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 279.1m (previous year EUR 338.0m) over the next seven years. The amount of the obligation can change depending on the services availed of under the agreement. In addition, there are other financial obligations from communication services agreements amounting to EUR 24.1m (previous year EUR 28.2m) and data services agreements amounting to EUR 32.9m (previous year EUR 38.4m). Here too, the agreements have been concluded for seven years.

Contingent liabilities of EUR 105.9m (previous year EUR 115.6m) were recognised for legal and tax risks associated with the business combination with Panpharma. Based on their maturity, these have been divided into current and non-current provisions. The contingent liabilities include income tax liabilities of EUR 6.1m (previous year EUR 7.2m). During the reporting period, these contingent liabilities decreased by EUR 9.7m primarily due to legal and tax risks becoming statute-barred. Due to the fact that the recognised contingent liabilities originating from the acquisition of Panpharma are offset by reimbursement claims against the sellers, the reduction in contingent liabilities automatically reduces the reimbursement claims.

Notes to the group statement of cash flows

Pursuant to IAS 7, the group statement of cash flows presents the changes in the liquid funds of the Celesio Group due to cash flows over the course of the reporting period. Liquid funds correspond to the cash and cash equivalents reported in the statement of financial position.

The consolidated statement of cash flows begins with a reconciliation of the pre-tax profits to EBITDA, which is the primary controlling indicator of the Celesio Group. Changes in cash flows from operating activities are calculated indirectly. This involves eliminating all non-cash income and expenses from consolidated EBITDA and considering the cash effects of changes in net working capital. Operating assets include inventories, trade receivables and other assets. Operating liabilities include trade payables, provisions and other interest-free liabilities. The non-cash changes in net working capital primarily contain valuation allowances on inventories and receivables and the non-cash changes in pension provisions.

Cash flows from investing activities comprise payments for capital expenditures, receipts from the sale of non-current assets, and the cash effects of acquiring and disposing of companies. Cash paid for business combinations corresponds to the purchase prices paid of EUR 37.3m (previous year EUR 223.7m) less the cash and cash equivalents acquired of EUR 5.0m (previous year EUR 104.7m). This includes purchase payments for business combinations made in previous years. These amounted to EUR 28.7m (previous year 20.8m). The corresponding disclosures are contained in the notes on business combinations. The cash inflows from disposals of EUR – 3.7m (previous year EUR 24.5m) correspond to the proceeds of the sales less the cash and cash equivalents of EUR 5.9m (previous year EUR 0.3m) disposed of in the transactions. The cash outflows from business disposals relate to the deconsolidation of two Brazilian entities and Lloyds Nederlande B.V. Celesio did not receive any cash in the contribution of Lloyds Nederlande B.V., receiving instead a 45% holding in Brocacef Holding N.V. As a result the cash and cash equivalents disposed of exceed the cash received from the disposal. Non-cash investments of EUR 0.7m were made in non-current assets in the reporting period (previous year EUR 0.7m) by means of finance leases.

Cash flows from financing activities contain dividends paid to the shareholders of Celesio AG and the non-controlling interests in subsidiaries, plus receipts from new loans taken out and repayments of existing loans, as well as equity contributions from the shareholders, if any, and interest paid and received. Moreover, a new line item »Changes in ownership interests in subsidiaries that do not result in a loss of control« was inserted to reflect the changes resulting from the revision of »IAS 7 – Statement of Cash Flows« (see page 133). Cash paid to increase the ownership interest or cash received on reducing the ownership interest of subsidiaries that does not result in a loss of control is recognised here. The proceeds from borrowing correspond to the proceeds from the placement of a bond of EUR 500m less the transaction costs of EUR 3.5m.

Notes to the group segment reporting

Since 1 January 2009, the segment reporting complies with »IFRS 8 – Operating Segments«. The same accounting standards as for the Celesio Group have been used in segment reporting.

Segmentation mirrors the internal reporting and controlling structure and has not changed in comparison to the previous year.

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

- The Patient and Consumer Solutions division is aimed at patients and consumers. The segment disclosures cover the entire logistics chain, from purchasing from manufacturers through to selling to end consumers. The range of services provided by Celesio pharmacies is divided into retail pharmacies and mail-order activities. Both represent separate reporting segments. In addition, this division also includes the franchise models such as Apotheke DocMorris. The shares in Brocacef Holding N.V. and the Franchise Systems are presented in the segment »Other business areas Patient and Consumer Solutions«.
- The Pharmacy Solutions division offers solutions for pharmacies. Its focus is on the wholesale business with external customers, which is a separate segment. Another component of the Pharmacy Solutions division is Rudolf Spiegel Versand for pharmacy equipment. This is contained in the segment »Other business areas Pharmacy Solutions«. Since 1 January 2010, Inten GmbH, which was previously included in the »Others« segment, was reclassified to the »Other business areas Pharmacy Solutions«. Inten develops and markets pharmacy locations. The previous-year figures were restated accordingly.

- The Manufacturer Solutions division targets manufacturers of pharmaceuticals. On the one hand, this division consists of the Movianto business area. Movianto is a specialist for pharmaceutical logistics and related services such as storage, transport and packaging and represents a separate reporting segment. Moreover, it contains the Pharmexx business area. Since the third quarter of 2009, this leading marketing and sales services provider in the pharmaceuticals industry has been a separate reporting segment alongside Movianto in the Manufacturer Solutions division. In the Homecare business area, Evolution Homecare coordinates the medical treatment of patients at home. The joint venture Medco Celesio B.V. will offer cross-sector solutions to improve the healthcare provided to patients over the long-term and reduce the financial burden on health carriers in Europe. The Homecare business area and the Medco Celesio B.V. joint venture are contained in the »Other business areas Manufacturer Solutions« segment.

In the Retail Pharmacies and Wholesale business areas the operating segments were combined at country level.

The Others segment is used to report the activities of the parent, Celesio AG, and other non-operating companies. Celesio AG holds investments in the major operating national companies and national holdings. In addition, the operating entities of the Celesio Group are primarily financed via Celesio AG and Celesio Finance B.V., Baarn (Netherlands). Moreover, Celesio AG bundles essential group functions, primarily in the fields of accounting, controlling, treasury and IT. Consolidation of inter-division activities is shown separately.

Intercompany transactions are measured at market prices.

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

Since 1 January 2010 segment assets pursuant to IFRS 8 correspond with the tied capital, which is calculated as the sum of the carrying amount of all non-interest-bearing assets (except for income tax assets) less non-interest-bearing liabilities (except for income tax liabilities). The previous-year figures have been restated to match the new definition.

The DocMorris brand is an asset allocable to a number of segments. For segment reporting purposes, it is split between the Mail-order Pharmacies segment and the Others segments.

Capital expenditures have been derived from the internal reporting system and include non-cash additions to non-current assets.

There are no customers individually accounting for more than 10% of revenue.

With regard to the information on countries, segment revenues are allocated to the country in which the revenues are generated and the segment assets to the country in which the asset is located.

Reconciliation of segment revenue	2009 EUR m	2010 EUR m
Revenue of the reportable segments	21,594.8	23,353.5
Consolidation	- 97.6	- 75.9
Group revenue	21,497.2	23,277.6

Reconciliation of segment earnings	2009 EUR m	2010 EUR m
EBITDA of the reportable segments	627.6	699.2
EBITDA of the group	627.6	699.2
Amortisation of intangible assets and depreciation of property, plant and equipment	- 115.7	- 133.0
Impairment losses recorded on intangible assets	- 274.3	- 0.6
EBIT	237.6	565.6
Interest expense ¹⁾	- 125.7	- 150.5
Interest income	12.8	12.2
Other financial result	- 5.2	- 18.0
Profit before tax¹⁾	119.5	409.3

Reconciliation of segment assets as at 31 December 2010	31/12/2009 EUR m	31/12/2010 EUR m
Segment assets of the reportable segments	4,744.1	4,606.6
Consolidation	- 25.6	- 4.5
Segment assets of the group	4,718.5	4,602.1
+ Interest-bearing other financial assets	54.4	50.3
+ Non-current and current income tax receivables	28.9	32.0
+ Deferred tax assets ¹⁾	116.9	121.3
+ Other assets	0.5	3.8
+ Cash and cash equivalents	127.7	200.8
- Other current provisions ¹⁾	155.9	162.0
- Trade payables	2,312.4	2,514.6
- Sundry liabilities ¹⁾	560.4	715.8
Total assets¹⁾	8,075.6	8,402.7

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

Other notes

Related parties

Related parties as defined by IAS 24 (Related Party Disclosures) are legal entities and natural persons who can exercise significant influence or control over Celesio AG and its subsidiaries or, alternatively, are subject to the control or significant influence of Celesio AG or its subsidiaries. In particular, related parties include members of the Management Board, Franz Haniel & Cie., Duisburg, and its subsidiaries and joint venture, associates and members of the boards of Celesio AG.

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

There are contracts for management and other services in place with Franz Haniel & Cie. GmbH and its subsidiaries. In addition, the German companies of the Celesio Group are included in the consolidated tax group for VAT of which Franz Haniel & Cie. GmbH is the parent.

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

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

	Franz Haniel & Cie. GmbH, Duisburg		Subsidiaries of Franz Haniel & Cie. GmbH		Joint ventures and associates	
	2009 EUR m	2010 EUR m	2009 EUR m	2010 EUR m	2009 EUR m	2010 EUR m
Loans and receivables	4.6	4.5	3.0	4.3	2.9	0.1
Liabilities	0.1	1.5	0.3	2.5	0.0	0.0
Income	0.0	0.0	0.0	0.2	11.0	12.1
Expenses	0.5	0.6	0.4	0.3	0.0	0.0

Total remuneration and the structure of compensation paid to members of the Management Board and Supervisory Board are presented in the following sections.

Audit fees

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, Germany. In the fiscal year, expenses for services rendered by Ernst & Young Germany totalled EUR 1.2m (previous year EUR 1.1m). Of this amount, EUR 0.7m (previous year EUR 0.6m) is for the audit of the financial statements, EUR 0.2m for other attest services (previous year EUR 0.1m), EUR 0.1m for tax advisory services (previous year EUR 0.2m) and EUR 0.2m (previous year EUR 0.2m) for other services.

Notices from shareholders

According to a notice dated 1 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 2 April 2002. Franz Haniel & Cie. GmbH prepares consolidated financial statements containing Celesio AG and its subsidiaries. These consolidated financial statements are published in the electronic version of the German Federal Gazette. According to Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 54.6% (previous year 54.6%) at the end of the reporting year.

Exemption pursuant to Sec. 264 (3) and Sec. 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
- Admenta Deutschland Beteiligungs-GmbH, Stuttgart
- Alliance Apotheken Management GmbH, Stuttgart
- Apo Interim Personalservice GmbH, Stuttgart
- Apotheke DocMorris Holding GmbH, Stuttgart
- Celesio Manufacturer Solutions Deutschland Vertriebsgesellschaft mbH, Stuttgart
- Celesio Manufacturer Solutions Europe Distributors GmbH, Stuttgart
- DocMorris Apotheken Management GmbH, Stuttgart
- DocMorris Kooperationen GmbH, Stuttgart
- DocMorris Pharma GmbH, Aachen
- GEHE Pharma Handel GmbH, Stuttgart
- CEGE Beteiligungsgesellschaft mbH, 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
- 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. 264b, 264a HGB.

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 Aktiengesetz (AktG, German Stock Corporation Act) on 22 December 2010 and published this permanently on their website at celesio.com.

Remuneration report

This remuneration report is in line with the recommendations of the German Corporate Governance Code and contains disclosures pursuant to the requirements of the Handelsgesetzbuch (HGB, German Commercial Code) as well as the International Financial Reporting Standards (IFRSs).

Total remuneration and compensation structure of the Management Board

In determining Management Board remuneration the provisions of Aktiengesetz (AktG, German Stock Corporation Act) and the German Corporate Governance Code were observed. By resolution of the annual general meeting on 27 April 2006, no disclosures are to be made on the individual remuneration of Management Board members for five years. Celesio therefore discloses the remuneration of the Management Board in total, broken down into individual components.

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 otherwise in place at the company. We also consider the responsibilities and performance of each member of the Management Board. The Supervisory Board regularly reviews the structure of the remuneration system at the instigation of the General Committee, including the appropriateness of remuneration amounts for the Management Board.

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 comprise the use of company cars, accident insurance, health insurance abroad, legal protection and D&O insurance. Management Board members are individually liable to pay tax on the use of a company car.

Management Board members benefit from a defined contributions plan. An annual contribution of 16% of the fixed basic component plus standard bonus, or 14% of the fixed basic component, standard bonus and performance cash scheme components is made. The contribution is made for the period of office as Management Board member. The contributions bear minimum interest. 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.

Performance-related remuneration components. The performance-related components consist of bonuses which are paid out annually as well as a rolling remuneration component as a long-term incentive, currently in the form of the performance cash scheme. The performance cash scheme was set up for the first time with effect as at 1 January 2008 for the period from 2008 to 2010 (2008 tranche). The second performance cash scheme was set up with effect as at 1 January 2009 for the period 2009 to 2011 (2009 tranche) and the third was set up with effect as at 1 January 2010 for the period 2010 to 2012 (2010 tranche).

The basis for assessment of the bonus in the Celesio Group is the EBITDA or EBIT. The bonus amount is determined as a percentage share of the EBITDA or EBIT generated in the fiscal year and an additional payment due if the year-on-year EBITDA or EBIT growth exceeds a pre-defined threshold. The maximum bonus is capped at twice the standard bonus. 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.

The performance cash schemes are each payable in cash after three years upon achievement of targets. The amount of cash payment for each of the three schemes started so far depends on the standard set for each member of the Management Board as well as fulfilment of several performance targets. These include an increase in the share price compared to a defined reference share price, the accumulated Celesio value added and, starting from the 2009 tranche, the implementation of operating measures to improve profitability over the term of the scheme. The share-based component is classified as a cash-settled share-based payment transaction in the meaning of IFRS 2 and is measured using a binominal option pricing model. The expenses for the benefits received or the debt to settle these benefits are recognised over the vesting period. The debt is remeasured at

each reporting date and on the settlement date. Changes in fair value are recognised in the income statement. The Celesio value added is a key performance indicator which serves our value-based corporate management. To obtain this indicator, the ratio of earnings before interest and taxes (EBIT) to capital employed is compared with the weighted average costs of capital. The remuneration is thus conducive to a sustainable increase in the company value. The implementation of operating measures to improve profitability relates to the effect on earnings of cost-cutting measures and growth initiatives. The performance cash schemes are also capped at a maximum payout.

The claim for payout from the performance cash scheme is valid only if the claimant held office in the performance period. A payment is made pro rata temporis upon reaching retirement age or stepping down from the Management Board. A transitional arrangement is in place until the date that the rolling system is fully in force, i.e. all three tranches have been granted. If a member of the Management Board leaves before then, the full standard value will be granted for all tranches set up by then.

Total remuneration. The total remuneration of the Management Board pursuant to German Accounting Standard 17 stood at EUR 7,513k in 2010 (previous year EUR 5,493k). This breaks down into EUR 1,884k for the annual basic component including additional benefits (previous year EUR 2,251k), EUR 5,394k for bonuses (previous year EUR 2,969k) and EUR 235k for the value of the performance cash plan for the years 2010 to 2012 (2010 tranche) as at the date of issue (previous year 2009 tranche EUR 273k). Of the bonuses, an amount of EUR 968k (previous year EUR 781k) was guaranteed.

Disclosures pursuant to IAS 24 (»Related Parties«).

The cost of short-term benefits as defined by IAS 24.16 a) amounted to EUR 7,278k in 2010 (previous year EUR 5,220k). For the company pension scheme as defined by IAS 24.16 b) a service expense of EUR 785k was incurred in 2010 (previous year EUR 774k). Expenses for other long-term employee benefits pursuant to IAS 24.16 c) came to EUR 163k (previous year EUR 80k). There were no expenses for termination benefits pursuant to IAS 24.16 d) in the reporting period (previous year EUR 1,190k). Share-based payments as defined by IAS 24.16 e) gave rise to an expense of EUR 82k (previous year EUR 56k) based on the valuation of the performance cash scheme at the end of the reporting period. The provision for these components of the performance cash schemes amounts to EUR 150k in total (previous year EUR 68k).

Other disclosures. Former members of the Management Board and their surviving dependents received remuneration of EUR 294k in the reporting period (previous year EUR 1,749k). Celesio has set up pension provisions of EUR 6,251k (previous year EUR 4,796k) for this group of persons. In the 2010 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.

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. 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, with the chairman of a committee receiving EUR 4,000.

The total remuneration of the Supervisory Board came to EUR 848k in 2010 (previous year EUR 761k). Of this, EUR 68k (previous year EUR 68k) 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 756k (previous year EUR 669k). The variable components pegged to dividend payouts for serving on committees came to EUR 24k (previous year EUR 24k).

In the 2010 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 of the Management Board for the appropriation of profits

The profit available for distribution of Celesio AG amounts to EUR 85,050,000 (previous year EUR 85,050,000). The Management Board proposes distributing the entire profit available for distribution as a dividend for the 2010 fiscal year. On the basis of this proposal for the appropriation of profits, the dividend for a no-par share will be EUR 0.50 (previous year an ordinary dividend of EUR 0.50).

Stuttgart, 21 February 2011

The Management Board

Other appointments held by members of the Management Board in the 2010 fiscal year

	Special appointments	Membership in other Supervisory Boards and comparable bodies
Dr Fritz Oesterle Chairman	■ none	<ul style="list-style-type: none"> ■ Herba Chemosan Apotheker-AG, Deputy Chairman of the Supervisory Board ■ Landesbank Baden-Württemberg, Member of the Supervisory Board ■ Untertürkheimer Volksbank eG, Member of the Supervisory Board
Dr Christian Holzherr	■ none	<ul style="list-style-type: none"> ■ Gruppe Boerse Stuttgart, Member of the Supervisory Board <ul style="list-style-type: none"> - Boerse Stuttgart Holding GmbH - Boerse Stuttgart AG - EUWAX AG ■ Medco Celesio B.V., Member of the Supervisory Board
Dr Michael Lonsert (since 1 October 2010)	■ none	<ul style="list-style-type: none"> ■ Medco Celesio B.V., Chairman of the Supervisory Board
Wolfgang Mähr	■ none	<ul style="list-style-type: none"> ■ GEHE Pharma Handel GmbH, Chairman of the Supervisory Board ■ Herba Chemosan Apotheker-AG, Member of the Supervisory Board ■ OCP S.A., Chairman of the Supervisory Board

Other appointments held by members of the Supervisory Board in the 2010 fiscal year

	Occupation	Membership in other Supervisory Boards and comparable bodies
Prof Dr Jürgen Kluge Chairman (since 3 January 2010)	Franz Haniel & Cie. GmbH, Chairman of the Management Board	<ul style="list-style-type: none"> ■ METRO AG, Chairman of the Supervisory Board ■ 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	<ul style="list-style-type: none"> ■ none
Klaus Borowicz ¹⁾	GEHE Pharma Handel GmbH, Head of Hamburg Branch	<ul style="list-style-type: none"> ■ none
Prof Dr med. Julius Michael Curtius	Cardiologist in private practice	<ul style="list-style-type: none"> ■ none
Dr Hubertus Erlen	Bayer Schering Pharma AG, Deputy Chairman of the Supervisory Board	<ul style="list-style-type: none"> ■ 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, commercial employee	<ul style="list-style-type: none"> ■ none
Jörg Lauenroth-Mago ¹⁾	ver.di – Vereinte Dienstleistungsgewerkschaft e.V., Trade Union Secretary responsible for the trade division in Saxony, Saxony-Anhalt and Thuringia	<ul style="list-style-type: none"> ■ GEHE Pharma Handel GmbH, Member of the Supervisory Board
Susan Naumann ¹⁾	ver.di – Vereinte Dienstleistungsgewerkschaft e.V., Trade Union Secretary	<ul style="list-style-type: none"> ■ GEHE Pharma Handel GmbH, Member of the Supervisory Board
Ulrich Neumeister ¹⁾	GEHE Pharma Handel GmbH, logistics employee	<ul style="list-style-type: none"> ■ none
W.M. Henning Rehder	SEN Group, CFO	<ul style="list-style-type: none"> ■ none
Hanspeter Spek	Sanofi-aventis S.A., Member of the Management Board	<ul style="list-style-type: none"> ■ Merial Ltd., Member of the Supervisory Board ■ Sanofi-Aventis Deutschland GmbH, Chairman of the Supervisory Board ■ Sanofi-aventis S.A. (Switzerland), Member of the Board of Directors ■ Sanofi-aventis S.A. (Spain), Chairman of the Supervisory Board
Prof Dr Klaus Trützschler	Franz Haniel & Cie. GmbH, Member of the Management Board	<ul style="list-style-type: none"> ■ 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, Member of the Supervisory Board ■ Zwiesel Kristallglas AG, Chairman of the Supervisory Board

¹⁾ Employee representative.

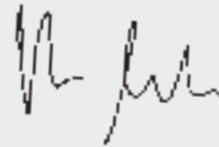
Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the management report of the group includes

a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the fiscal year.

Stuttgart, 21 February 2011

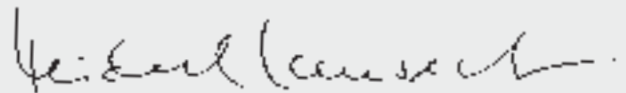
The Management Board



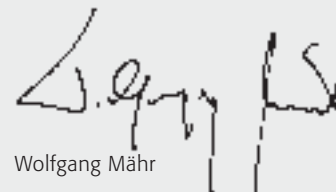
Dr Fritz Oesterle



Dr Christian Holzherr



Dr Michael Lonsert



Wolfgang Mähr

Audit opinion

»We have audited the consolidated financial statements, comprising the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of cash flows, the group statement of changes in equity as well as the notes to the financial statements – as well as the combined group management report and the management report of the company prepared by Celesio AG, Stuttgart, for the fiscal year from 1 January to 31 December 2010. The preparation of the consolidated financial statements in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB (Handelsgesetzbuch, German Commercial Code) is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

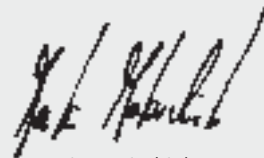
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the European Union, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks relating to future development.«

Stuttgart, 22 February 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft



Prof Dr Norbert Pfitzer
Wirtschaftsprüfer
(German Public Auditor)



Martin Matischiok
Wirtschaftsprüfer
(German Public Auditor)

Glossary

Cash pooling	Financial management tool to balance intercompany liquidity. Surplus liquidity is invested internally and liquidity requirements are met by loans within the group.
Derivative financial instruments/ derivatives	Certificates or contracts that are not assets in their own right but relate to another – generally tradable – asset. These financial instruments are also generally themselves tradable. Examples are interest swaps, forward exchange contracts or currency options.
DTP	Direct to pharmacy. This refers to the direct delivery of pharmaceuticals to pharmacies via some wholesalers or providers of logistics services.
Earnings per share	Pursuant to IAS 33, earnings per share are calculated by dividing the net profit attributable to the shareholders of Celesio AG by the weighted average number of shares outstanding during the fiscal year. The diluted earnings per share are calculated by adjusting the earnings allocable to the shareholders of the parent company and the weighted average number of shares outstanding for any dilution effects of potential shares.
Efficient Care Pharma	Provides cross-sectoral solutions to improve quality and efficiency in the healthcare systems.
Equity method	A method of accounting for associates and joint ventures in the consolidated financial statements. The investment in the associate or joint venture is initially measured at cost and this carrying amount is adjusted subsequently to reflect any developments in the equity of the entity.
Financial statements	These are prepared by the management board of a stock corporation and then audited by a German Public Auditor to verify compliance before being reviewed and approved by the supervisory board. The financial statements comprise the statement of financial position, the income statement, the statement of cash flows, the statement of comprehensive income, the statement of changes in equity, the notes to the financial statements and the management report of a company.
Generics	Imitations of original pharmaceuticals that have lost their patent protection.
Gross profit	Difference between revenue and cost of goods sold.
Hedging	Hedging interest, currency and exchange rate risks by using, for example, derivative financial instruments which limit the risk of the underlying transaction.
IFRS	International Financial Reporting Standards. Issued by the International Accounting Standards Board (IASB) with the aim of harmonising international financial reporting and improving the comparability of financial statements.
Interest rate swap	An agreement between two parties to exchange interest payments on the basis of different interest rates. In this way floating interest rates can be swapped with fixed interest rates.
Market capitalisation	Reflects the current market value of a company. It is calculated by multiplying the share price by the number of shares. The trading volume and market liquidity of a share frequently rise when market capitalisation is high and particularly when the free float is high.

MDAX	The mid-cap index, in which Celesio AG is listed, issued by the Frankfurt Stock Exchange. The index comprises the 50 most important shares on the market after the 30 DAX shares.
Net financial debt	Difference between non-current and current financial liabilities and cash and cash equivalents.
Net working capital	Financial indicator to measure the capital employed and the liquidity structure of a company. Calculated as the difference between current operating assets (inventories, trade receivables and other assets) and current operating liabilities (trade payables, provisions and other liabilities).
OTC	Over the counter. A term used for non-prescription products in the healthcare sector.
Reduced wholesale model	Manufacturers supply to a limited number of wholesalers. Generally used for the distribution of certain products or product categories.
Transaction risk	Exchange rate risk associated with the exchange of currency, existing for items of the statement of financial position in foreign currencies from creation until payment due to uncertainty regarding the future exchange rate development.
Translation risk	Exchange rate risk associated with the valuation of items of the statement of financial position, resulting from the valuation and accounting principles applied to the translation of items stated in foreign currencies.
WACC	Weighted Average Cost of Capital, consisting of costs of both equity and debt capital.

Financial calendar

(excerpt)	
Analyst and investor conference 2011	23 March 2011
Interim report, 1st quarter of 2011	12 May 2011
Annual general meeting 2011	17 May 2011
Interim report, 1st half year of 2011	11 August 2011
Interim report, 1st to 3rd quarter of 2011	10 November 2011
Annual report 2011	27 March 2012

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

Imprint

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This annual report was published on 23 March 2011. It is available in German and English and can be downloaded from celesio.com/ir. Alternatively, a printed version can be ordered from the same website. The German version of the annual report is legally binding.

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Forward-looking statements

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

Our divisions¹⁾

Our customers are patients and consumers, pharmacies and pharmaceutical manufacturers. With our three divisions Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions, we offer them solutions tailored to their demands and requirements.

Patient and Consumer Solutions

- 2,277 retail pharmacies
- Mail-order pharmacies
- Franchise models

Countries

- Belgium
- Czech Republic
- Germany
- Ireland
- Italy
- Norway
- Sweden
- United Kingdom

Brands

Lloydspharma
Lékárny Lloyds
Apotheke DocMorris
Unicarepharmacy
DocMorris Pharmacy
Admenta Italia
DocMorris
Vitusapotek
DocMorris
Lloydspharmacy

Pharmacy Solutions

- 133 wholesale branches
- Mail-order of pharmacy and laboratory equipment
- Location services

Countries

- Austria
- Belgium
- Brazil
- Czech Republic
- Denmark
- France
- Germany
- Ireland
- Italy
- Luxembourg
- Norway
- Portugal
- Slovenia
- Switzerland
- United Kingdom

Brands

Herba Chemosan
Rudolf Spiegel Versand
Pharma Belgium
Laboratoria Flandria
Rudolf Spiegel Versand
Panpharma
GEHE Pharma Praha
Tjellesen Max Jenne
OCP
Rudolf Spiegel Versand
GEHE Pharma Handel
Inten
Rudolf Spiegel Versand
Cahill May Roberts
AFM
Rudolf Spiegel Versand
Rudolf Spiegel Versand
Norsk Medisinaldepot
OCP Portugal
Kemofarmacija
Rudolf Spiegel Versand
AAH Pharmaceuticals

Manufacturer
Solutions

- Transport, packaging and storage with space for more than 225,000 pallets
- Marketing and distribution
- Efficient Care Pharma

Countries	Brands
■ Argentina	Pharmexx
■ Austria	Movianto
	Pharmexx
■ Belgium	Movianto
	Pharmexx
■ Brazil	Pharmexx
■ Canada	Pharmexx
■ Czech Republic	Movianto
	Pharmexx
■ Denmark	Movianto
	Pharmexx
■ Estonia	Pharmexx
■ Finland	Pharmexx
■ France	Movianto
	Pharmexx
■ Germany	Medco Celesio
	Movianto
	Pharmexx
■ India	Pharmexx
■ Ireland	Movianto
	Pharmexx
■ Latvia	Pharmexx
■ Lithuania	Pharmexx
■ Netherlands	Movianto
	Pharmexx
■ Norway	Pharmexx
■ Portugal	Movianto
	Pharmexx
■ Slovak Republic	Movianto
■ Slovenia	Movianto
■ Spain	Movianto
	Pharmexx
■ Sweden	Pharmexx
■ Turkey	Pharmexx
■ United Kingdom	Evolution Homecare
	Movianto
	Pharmexx

¹⁾As at 1 January 2011.

Our growth programme Agenda 2015



We strive to achieve profitable growth and expand the share of business not subject to price regulation. We use our growth programme Agenda 2015 to implement this target, with the aim of generating group EBITDA of more than EUR 1bn in 2015. To this end, we have launched numerous projects and initiatives across the group.

Agenda 2015 is built around three growth pillars:

Increasing profitability	Optimising portfolios	Innovation
		
We review our operating processes for effectiveness and efficiency on a rolling basis, adjusting them as necessary. Wherever possible, we use our infrastructure to generate additional business.	We continuously examine our portfolio of business activities, adapting it to the market requirements and opportunities. We achieve this by way of investments and acquisitions, as well as divestitures where appropriate.	We want to lead innovation with both our traditional business and new activities. To this end, we are exploiting changes on the pharmaceutical and healthcare markets to secure potential for growth through innovative offers.

We concentrate on the optimising portfolios and innovation pillars in particular. We hope to use these to contribute to efficiency in the healthcare systems.

We will also bring about a sustainable change in Celesio’s risk profile by 2015 as a result of

- increasing the relative influence of earnings generated beyond the scope of government regulated compensation systems,
- reducing our relative dependency of group earnings on the development of the pound sterling,
- achieving a better balance of EBITDA contributions from our three divisions.

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