



# The fiscal year at a glance

CELESIO GROUP		2010	2011	Change on a euro basis %	Change adjusted for portfolio and currency effects %
Revenue	EUR M	23,277.6	23,026.4	-1.1	-1.2
Gross profit	EUR M	2,838.1	2,749.9	-3.1	-2.5
adjusted	EUR M	2,838.1	<sup>1)</sup> 2,753.9	-3.0	-2.5
EBITDA	EUR M	699.2	514.8	-26.4	-20.8
adjusted	EUR M	699.2	<sup>1)</sup> 578.3	-17.3	-14.5
Earnings per share (basic)	EUR	1.52	0.01	-99.2	/
adjusted	EUR	<sup>3)</sup> 1.78	<sup>1) 2) 3)</sup> 1.18	-33.9	/
Employees (full-time equivalents) as of 31/12 <sup>4)</sup>		36,441	36,670	/	/
PATIENT AND CONSUMER SOLUTIONS		2010	2011	Change on a euro basis %	Change adjusted for portfolio and currency effects %
Revenue	EUR M	3,618.1	3,569.8	-1.3	0.6
Gross profit	EUR M	1,217.5	1,175.1	-3.5	-1.7
adjusted	EUR M	1,217.5	<sup>1)</sup> 1,179.1	-3.2	-1.5
EBITDA	EUR M	316.7	181.4	-42.7	-28.2
adjusted	EUR M	316.7	<sup>1)</sup> 218.6	-30.9	-22.9
Share in group EBITDA <sup>5)</sup>	%	40.3	29.9	/	/
Employees (full-time equivalents) as of 31/12 <sup>4)</sup>		15,615	16,141	/	/
PHARMACY SOLUTIONS		2010	2011	Change on a euro basis %	Change adjusted for portfolio and currency effects %
Revenue	EUR M	19,019.7	18,819.3	-1.1	-1.6
Gross profit	EUR M	1,208.8	1,191.5	-1.4	-2.3
EBITDA	EUR M	456.1	424.4	-7.0	-10.9
adjusted	EUR M	456.1	<sup>1)</sup> 436.1	-4.4	-8.3
Share in group EBITDA <sup>5)</sup>	%	58.1	70.0	/	/
Employees (full-time equivalents) as of 31/12 <sup>4)</sup>		14,050	14,038	/	/
MANUFACTURER SOLUTIONS		2010	2011	Change on a euro basis %	Change adjusted for portfolio and currency effects %
Gross profit	EUR M	411.8	383.3	-6.9	-5.7
EBITDA	EUR M	12.2	0.4	-96.9	-35.9
adjusted	EUR M	12.2	<sup>1)</sup> 4.4	-63.7	-4.4
Share in group EBITDA <sup>5)</sup>	%	1.6	0.1	/	/
Employees (full-time equivalents) as of 31/12 <sup>4)</sup>		6,488	6,208	/	/

1) Adjusted for non-recurring effects (including tax effect) primarily in connection with the Operational Excellence Program.

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

3) Adjusted for special effects in the financial result (including tax effect).

4) Closing figures as of 31 December.

5) Without Others segment.

# Celesio

# Annual Report

# 2011

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Serving patients best

Pharmaceuticals  
are not a luxury.

They must  
be available  
for everyone,  
at any time,  
in any place.

Franz Ludwig Gehe, our founding father, introduced this vision more than 175 years ago – and it's been our guiding principle ever since. Today, patients value the innovative services and health advice provided by our partner pharmacies and our own pharmacies. That's our contribution to improving healthcare and making a difference in society.

We take a proactive and preventative approach to patient care



We care about  
our patients



Serving  
patients best





We focus on  
our core business





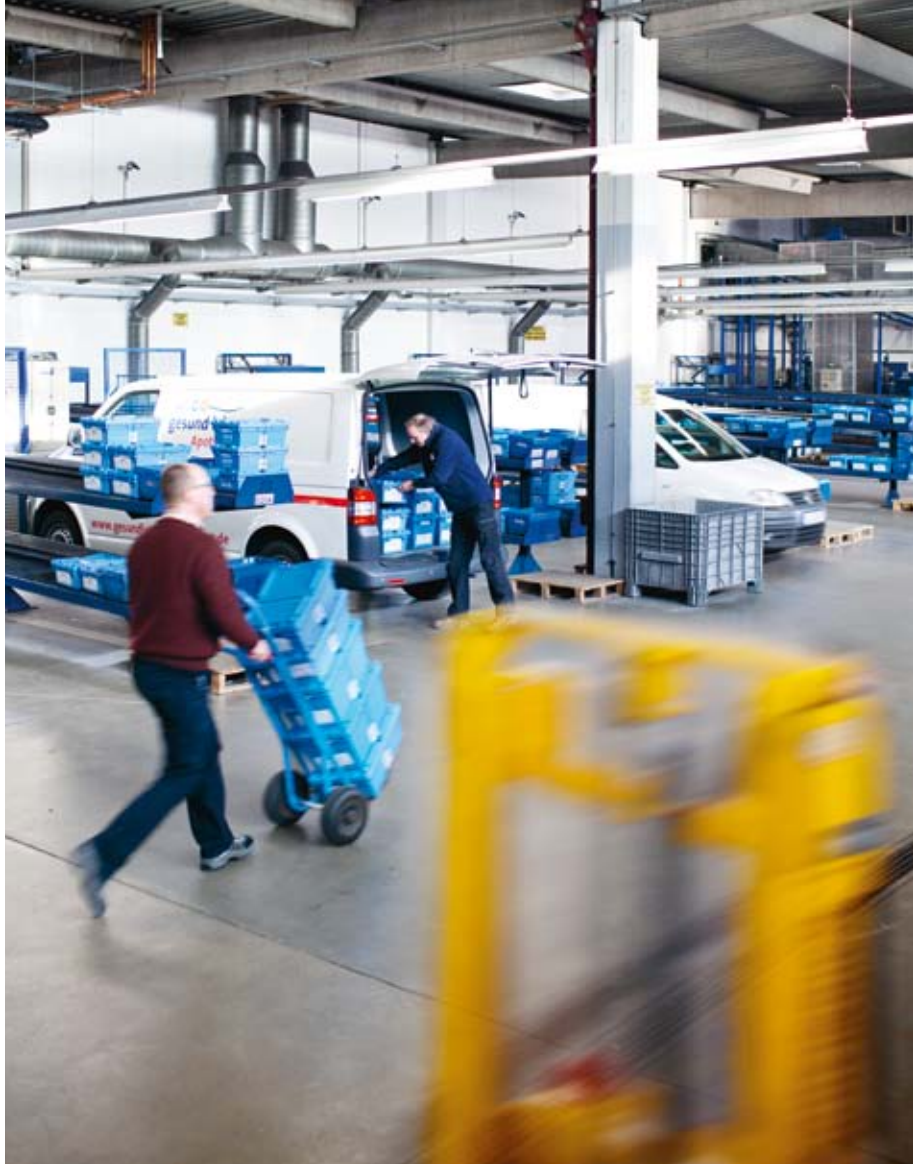
An optimised supply chain  
means opportunities  
for growth



Medicines are in  
good hands at Celesio

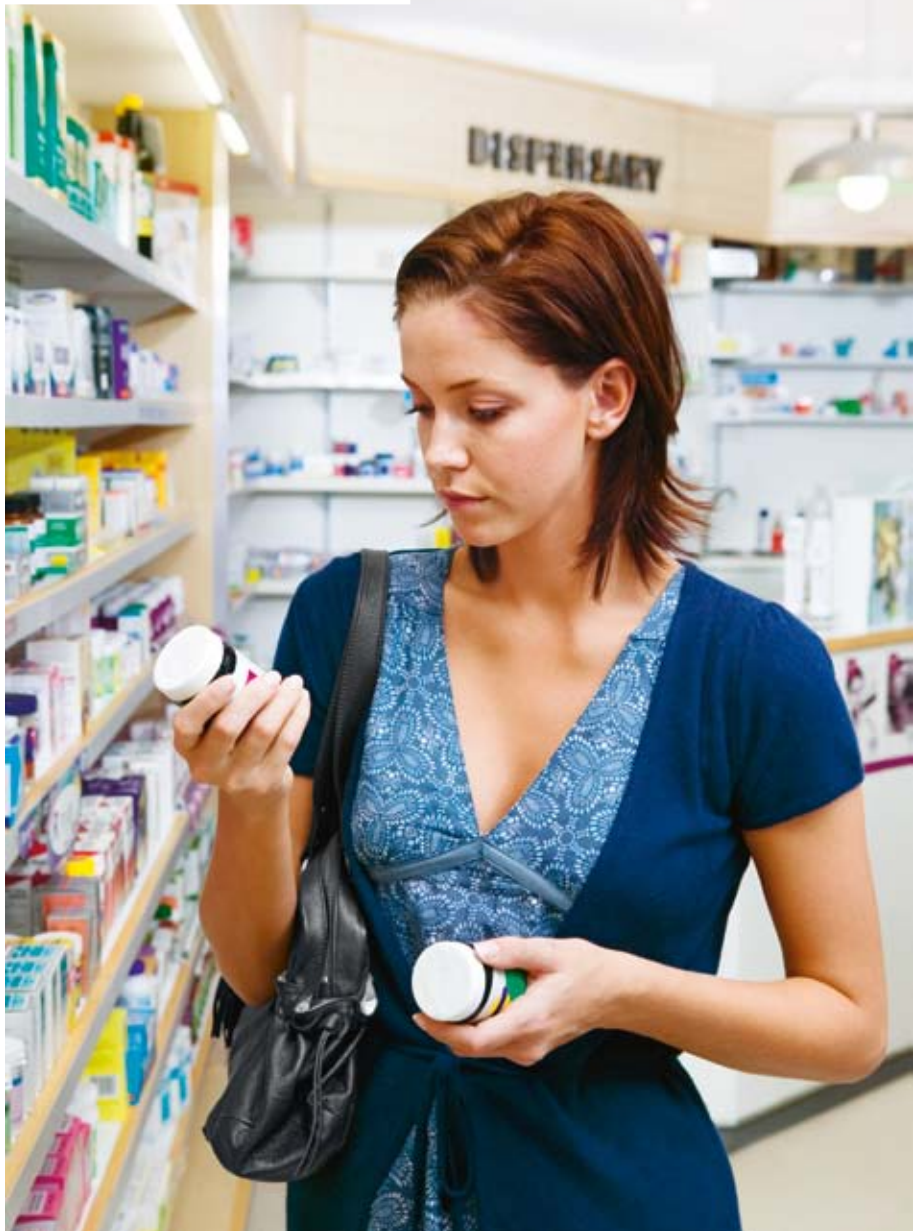


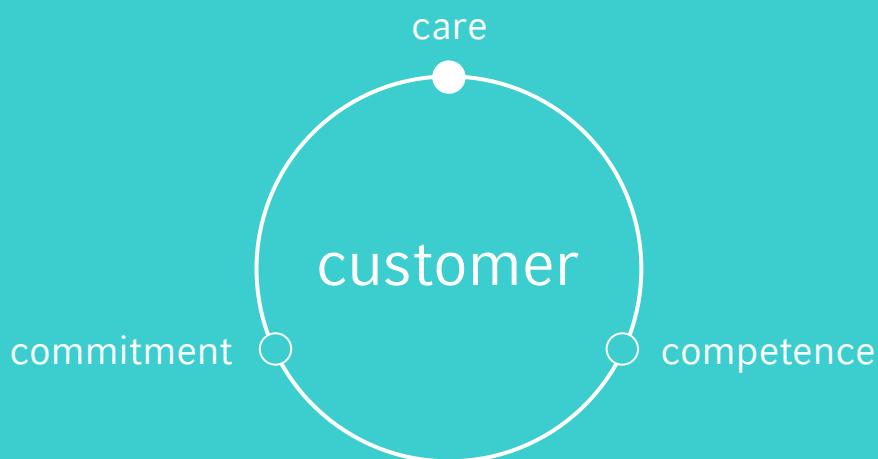
Service starts with  
high-performance  
pharmaceutical logistics





We are driven  
by people's health





SERVING PATIENTS BEST

WE FOCUS ON GIVING  
PATIENTS THE BEST  
POSSIBLE CARE.



People's health matters to us. We support patient care by providing high-performance pharmaceutical logistics as well as various innovative and preventative services. With our comprehensive pharmaceutical wholesale, retail and logistics business and a range of services for patients and consumers, our group makes an important contribution to healthcare.

# To our shareholders

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# Chairman's letter to the shareholders



MARKUS PINGER  
IN CONVERSATION WITH EMPLOYEES

DEAR SHAREHOLDERS,  
LADIES AND GENTLEMEN

2011 was a difficult year for Celesio. The global financial crisis and the resulting state interventions in healthcare systems, along with our own independent challenges, have undeniably had an impact on our business. I would like to extend our sincere thanks to our shareholders, who have shown their loyalty in these difficult times.

Having taken on my new role as the Chairman of the Management Board in August, we – the Management Board and the entire Celesio team – soon agreed on the need to realign our strategic position in order to succeed in a changed, albeit still very promising, marketplace. Having accomplished this, I would like to use this annual report to share the key aspects of our new strategy.

We have a clear vision:

*Serving Patients Best.* We are driven by people's health – *care, competence* and *commitment* are our guiding principles. We actively and preventively care for patients. Not only do we offer extensive knowledge and innovative, customer-oriented services in our own pharmacies. We also offer all of this to our partners. Every day we work to the highest standards as we strive to fulfil this promise to both patients and pharmacists.

We have developed a growth programme for the coming years: We will grow organically by focusing on our core business, supported by our European pharmacy network. Furthermore, we will expand in growth markets.

In addition, we will improve our competitive position with the *Operational Excellence Program* and concentrate on fewer business segments.

I would like to express my particular thanks to our loyal customers and to our employees for their enormous commitment and determination to actively take part in shaping this path.

STUTTGART, MARCH 2012

Yours



MARKUS PINGER  
CHAIRMAN OF THE MANAGEMENT BOARD

## 5 Strategic key aspects

01

Focus on core business

Driven by long-term social **trends**, the pharmaceutical and healthcare market will continue to grow in the coming years, creating new possibilities. Further opportunities for growth exist in the optimisation of the entire value chain, not to mention the rapidly expanding specialty pharmaceuticals business.

MORE INFORMATION

→ *page 71*

In Europe, we **already work with** more than 4,500 partner and brand partner pharmacies. In addition, we operate more than 2,200 pharmacies of our own in 7 countries. We will consolidate these activities increasingly in order to form a strong European pharmacy network. This will primarily benefit our comprehensive patient services, which in turn will benefit the pharmacies as well as Celesio.

MORE INFORMATION

→ page 72

In the medium term, opportunities for **strong growth** – with attractive margins – will largely be found in areas where patient care is currently lacking in quality and consistency, and also where substantial economic growth is expected. This mainly pertains to Latin America and, in the longer term, the Middle East. We will intensify our activities and prepare our market entry respectively in these areas.

MORE INFORMATION

→ page 72

Our new strategy will prove particularly successful when we concentrate all of our **resources**. All segments outside our core business will be reassessed.

MORE INFORMATION

→ *page 73*

The **Operational Excellence Program** generates both the time and the finances required within the Celesio Group for a successful strategic realignment of the company. This allows us to concentrate on the rapid and sustainable improvement of efficiency and competitiveness in all of our business segments.

MORE INFORMATION

→ *page 73*



# The Management Board

## WOLFGANG MÄHR

Member of the Management Board since 1 October 2006, appointed until 30 September 2014

## MARKUS FINGER

Chairman of the Management Board since 15 August 2011, appointed until 14 August 2014

## DR MARION HELMES

Chief Financial Officer, Member of the Management Board since 1 January 2012, appointed until 31 December 2014

## STEPHAN BORCHERT

Member of the Management Board since 1 August 2011, appointed until 31 July 2014

*We would like to thank the members of the Management Board that have left the company:  
Dr Fritz Oesterle, Dr Christian Holzherr, Dr Michael Lonsert*



# The Supervisory Board

## MEMBERS OF THE SUPERVISORY BOARD

<b>Prof Dr Jürgen Kluge</b>	Chairman
<b>Ihno Goldenstein</b> <sup>1)</sup>	Deputy Chairman
Klaus Borowicz <sup>1)</sup>	
Prof Dr med. Julius Michael Curtius	
Dr Hubertus Erlen	
Dirk-Uwe Kerrmann <sup>1)</sup>	
Jörg Lauenroth-Mago <sup>1)</sup>	
Susan Naumann <sup>1)</sup>	
Ulrich Neumeister <sup>1)</sup>	
W.M. Henning Rehder	
Hanspeter Spek	
Prof Dr Klaus Trützschler	

## COMMITTEES OF THE SUPERVISORY BOARD

<b>General Committee</b>	Prof Dr Jürgen Kluge, Chairman
	Dr Hubertus Erlen
	Ihno Goldenstein
<b>Audit Committee</b>	Prof Dr Klaus Trützschler, Chairman
	Klaus Borowicz
	Ulrich Neumeister
	W.M. Henning Rehder
<b>Nomination Committee</b>	Prof Dr Jürgen Kluge, Chairman
	Dr Hubertus Erlen
<b>Arbitration Committee</b>	Prof Dr Jürgen Kluge, Chairman
	Ihno Goldenstein
	Susan Naumann
	Hanspeter Spek

In the following section, the Supervisory Board reports on its activities in the 2011 fiscal year. Board meetings and deliberations focused on Celesio AG's economic and financial situation, personnel decisions and – towards the end of the year – the company's new strategy.

<sup>1)</sup> Employee representative.

# Report of the Supervisory Board

PROF DR JÜRGEN KLUGE, CHAIRMAN

**DEAR SHAREHOLDERS,  
LADIES AND GENTLEMEN,**

We, the Supervisory Board of Celesio AG, once again regularly advised the Management Board on executive matters and constantly monitored its management of the company during the 2011 fiscal year. We performed the tasks required of us by law, the articles of association and the rules of procedure with great care. As an oversight body, we closely examined the economic and financial development of the company and its strategic alignment. We were involved in all fundamental corporate decisions at an early stage.

## **Cooperation with the Management Board**

Following extensive preparatory work by the General Committee and by the Supervisory Board as a whole, we took a number of personnel decisions in 2011. The Management Board is now back to full strength following the departure of several members. Our cooperation with the Management Board in 2011 was once again characterised by in-depth and frank exchange based on mutual trust. The Management Board reported regularly and extensively to the Supervisory Board and its Chairman on the situation of the company, both in writing and by means of oral communication. Our work together focused on the earnings, 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, portfolio considerations and the topics of risk management, diversity management and compliance. Any deviations from the planned business performance were explained individually by the Management Board and discussed by the Supervisory Board. For instance, the Management Board discussed the strategic realignment of the group with us at length. Where required by law, the articles of association or the rules of procedure, the Management Board submitted all of its reports and resolution proposals to the Supervisory Board, which approved them following careful consideration.

## **Meetings**

The Supervisory Board held four ordinary and two extraordinary meetings in 2011. Four further resolutions were passed outside of these meetings. In preparation for the meetings, the Management Board sent written reports and resolution proposals to the Supervisory Board. Every member



**PROF DR JÜRGEN KLUGE**  
CHAIRMAN OF THE SUPERVISORY BOARD

of the Supervisory Board attended at least half of the meetings. The average attendance rate stood at over 90%. We also maintained close contact with the Management Board between meetings. The Chairman of the Supervisory Board regularly discussed the current business performance, significant transactions and strategy with the Chairman of the Management Board.

At our first extraordinary meeting on 7 February 2011, the Supervisory Board discussed the company's strategy and appointed Stephan Borchert to the Management Board of Celesio AG. In the same session, we approved Stephan Borchert's Management Board contract.

At our first ordinary meeting on 16 March 2011, the Supervisory Board discussed the 2010 separate and consolidated financial statements. We approved them following detailed examination and discussion, based on the recommendation of the Audit Committee and taking into account the audit reports issued by the independent auditor. The Supervisory Board also passed resolutions on the report of the Supervisory Board, the joint Corporate Governance Report of the Management Board and Supervisory Board and the exercise of ownership rights at GEHE Pharma Handel GmbH pursuant to Sec. 32 Mitbestimmungsgesetz (MitbestG, Codetermination Act). At this meeting, we also defined the resolution proposals for the annual general meeting on 17 May 2011, including the proposed dividend. The premature termination of Dr Fritz Oesterle's appointment and contract as Chairman of the Management Board and the resultant succession planning were also core topics. The Supervisory Board appointed Wolfgang Mähr as acting Chairman of the Management Board as of 1 July 2011. This meeting also focused on strategic and portfolio considerations and plans to issue a convertible bond. Furthermore, the Supervisory Board passed resolutions regarding Management Board remuneration in line with the scheduled review process.

At the meeting on 17 May 2011, the Management Board updated us on the progress of the group-wide IT project. We also discussed the development of business in the first quarter and prepared for the annual general meeting. The Supervisory Board discussed and subsequently awarded the audit engagement for the separate and consolidated financial statements and the review of the interim reports. Wolfgang Mähr's appointment to the Management Board was extended until 30 September 2014 and his contract adjusted to reflect this. We also examined and updated the pension arrangements for the Management Board members Dr Michael Lonsert and Stephan Borchert.

On 23 June 2011, the Supervisory Board appointed Markus Pinger as Chairman of the Management Board of Celesio AG for three years as of 15 August 2011. We discussed and agreed his contract at the same meeting.

We approved the new plan for the allocation of duties on 28 June 2011 with effect as of 1 July 2011. We passed a resolution on 19 July 2011 to make the investments necessary to introduce SAP at Lloydspharmacy.

The Supervisory Board held another meeting on 13 September 2011. The new Chairman of the Management Board Markus Pinger took stock of the company's situation and presented the cornerstones for strategic realignment. We then discussed the development of business in the first half year. The potential termination of the joint venture with Medco was also a core topic of discussion. The Board discussed and reached a resolution on the takeover of the Oncoprod Group in Brazil. Other points on the agenda were the update of the plan for the allocation of duties, diversity management and Management Board matters.

Resolutions were passed on 25 October 2011 to prematurely terminate the Management Board membership of Dr Christian Holzherr and Dr Michael Lonsert and their respective contracts. As a component of the planned strategic realignment the Operational Excellence Program was another important topic. The Management Board put forward a detailed catalogue of this program's measures and the Supervisory Board approved the programme after thorough discussion.

We discussed the further strategic alignment and plans for related measures at the extraordinary meeting on 14 November 2011. The Supervisory Board also addressed developments in Brazil, the status of the project "Evolve IT" and a resolution to update the plan for the allocation of duties as of 1 December 2011.

At its final meeting on 20 December 2011, the Supervisory Board examined the business performance up to 30 November 2011 as well as initial financial scenarios with regard to the strategic realignment and the 2012 budget. Dr Marion Helmes was appointed Chief Financial Officer (cfo) for three years starting on 1 January 2012. Her contract was agreed and the plan for the allocation of duties updated accordingly. The annual efficiency review of the Supervisory Board's work also took place. Furthermore, the Supervisory Board approved the targets for its composition and issued a declaration of compliance pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporations Act).

## Committees

The Supervisory Board of Celesio AG has set up four committees to ensure it exercises its duties efficiently. 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 composition of the four committees is set out on → page 14 of this annual report. The Chairman of the Supervisory Board is also the chairman of the committees with the exception of the Audit Committee, which is chaired by Prof Dr Klaus Trützscher. The Supervisory Board is regularly updated with full details of the committees' activities.

### General Committee

The General Committee met eleven times in the reporting period, including six conference calls.

On 19 January 2011, the committee prepared Stephan Borchert's appointment to the Management Board and discussed his Management Board contract at its meeting on 7 February 2011. On 16 March 2011, we addressed the premature termination of Dr Fritz Oesterle's appointment to the Management Board and prepared for Wolfgang Mähr to take over temporarily. The meeting also dealt with the Supervisory Board's regular resolutions on remuneration of the Management Board. A resolution to issue the convertible bond was passed in a conference call on 29 March 2011. The committee extended Wolfgang Mähr's appointment to the Management Board and updated his contract in another conference call on 28 April 2011. The committee also discussed a change to the pension arrangements for Dr Michael Lonsert and Stephan Borchert.

Points on the agenda for the meeting on 18 May 2011 included the new Management Board contract with Wolfgang Mähr and addenda to contracts with Dr Michael Lonsert and Stephan Borchert. The meeting was also an opportunity to prepare for the appointment – and respectable contract – of Markus Pinger as new Chairman of the Management Board of Celesio AG. The meeting on 13 September 2011 focused on the related plan for the allocation of duties (effective as of 13 September 2011) and the approval of sideline activities.

The committee dealt with the premature termination of Management Board appointments, including the contracts of Dr Christian Holzherr and Dr Michael Lonsert, at the meeting on 20 September 2011.



At a meeting on 7 December 2011, the committee addressed the topic of Management Board remuneration and the appointment of a new CFO. On 15 December 2011, the committee passed a resolution recommending that the Supervisory Board appoints Dr Marion Helmes as CFO.

The meeting on 20 December 2011 focused on preparatory work for the efficiency review and the next steps for updating the Management Board compensation structure.

### **Audit Committee**

The Audit Committee held four meetings in 2011, all of which were attended by the independent auditor.

At the first meeting on 15 March 2011, the committee reviewed the separate and consolidated financial statements for the 2010 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. The committee also confirmed the independence of the auditor and prepared a recommendation for the annual general meeting to approve the proposal for the election of the independent auditor. Internal audit was another topic of discussion. The committee examined the significant audit findings for 2010 and the internal audit plan for 2011.

On 10 May 2011, the committee agreed the audit focus for the 2011 fiscal year and informed the independent auditor of the scope of the audit engagement.

The committee meeting of 10 May 2011 dealt with the interim report for the first quarter of 2011. Compliance and the status of the group-wide IT integration were also discussed. In the course of its meeting on 10 August 2011, the committee examined Ceesio AG's report for the first half year and explored the impact of the debt crisis on receivables management. The committee also turned its attention to risk management and the status of the IT integration project as well as associated costs.

At the final meeting of the year on 9 November 2011, the committee discussed the interim report for the first to third quarter 2011 including the results of the review. The status of the IT integration was also once again on the agenda, as was the group-wide introduction of SAP software. Further topics of discussion were the internal control system and the status of the internal audit plan for 2011.

## **Nomination Committee**

The Nomination Committee was not convened in 2011.

## **Arbitration Committee**

There was no occasion for the Arbitration Committee (founded to satisfy Sec. 27 (3) MitbestG) to convene in the reporting period.

## **Corporate governance**

Corporate governance was a regular topic at our Supervisory Board meetings in the reporting period. We primarily discussed the application and development of the standards issued by the Government Commission German Corporate Governance Code. Celesio once again complied with the recommendations of the Code with just two exceptions in the reporting period (no individual breakdown of remuneration of the Management Board and Supervisory Board). In future, Celesio will meet the recommendations in full. A resolution to approve the updated compliance declaration – also approved by the Management Board in accordance with Sec. 161 AktG – was passed at the Supervisory Board meeting on 20 December 2011 and then published on Celesio's website. This annual report also contains the declaration on → *page 33*. At the final meeting of the year we also performed our scheduled efficiency review of Supervisory Board activities. No major efficiency enhancement measures were required. The Supervisory Board and Management Board take a joint approach to corporate governance – please refer to our joint Corporate Governance Report on → *page 32* for further details.

## **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 ending 31 December 2011. The auditors rendered an unqualified audit opinion on both sets of financial statements. The Supervisory Board had awarded the audit engagement on the recommendation of the Audit Committee and pursuant to the resolution of the annual general meeting on 17 May 2011. The documentation pertaining to the financial statements together with the audit reports were made available to all members of the Supervisory Board and were discussed thoroughly, 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 2011, the Management Board presented the Supervisory Board with the dependent company report for the 2011 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 report thereon. We, the Supervisory Board of the company, do not raise any objections to the Management Board's concluding statement contained therein.

## Changes to the Management Board

Dr Fritz Oesterle, Dr Christian Holzherr and Dr Michael Lonsert left the Management Board prematurely in 2011. We would like to thank all three of them for their important contribution to the success of Celesio AG and for the good working relationship we shared. Following Dr Fritz Oesterle's departure, we appointed Wolfgang Mähr as temporary Chairman of the Management Board as of 1 July 2011 before Markus Pinger took over as the new Chairman of the Management Board of Celesio AG as of 15 August 2011. We appointed Stephan Borchert and Dr Marion Helmes as new members of the Management Board of Celesio AG with effect as of 1 August 2011 and 1 January 2012, respectively.

We would like to express our thanks to the Management Board of Celesio AG and all of the employees. We particularly appreciate the extraordinary dedication, outstanding performance and high level of loyalty shown by everyone in the 2011 fiscal year. With our strategic realignment and the Operational Excellence Program underway, we are confident that Celesio is on the right path to overcoming the challenges that lie ahead and seizing any opportunities as they arise in 2012.

STUTTGART, MARCH 2012

On behalf of the Supervisory Board



PROF DR JÜRGEN KLUGE  
CHAIRMAN OF THE SUPERVISORY BOARD

# The stock markets and the Celesio share

## The stock markets

The past year was an eventful one for the stock markets. The DAX got off to a good start, but the stable development of the first six months was followed by a second half punctuated by periods of intense pressure. This turbulence on the trading floors in Germany and around the world was triggered by growing fears of recession, the euro debt crisis and the continuing weakness of the US economy.

Everything seemed to be going well in the first half of 2011. The DAX continued its upward trend of the past year in a global market characterised by crises. It even peaked at a three-year high of 7,441 points in mid-January. The MDAX, which includes the Celesio share in its basket, also performed well, growing by 1.1% in the same period and closing trading at 10,310 points on 31 March 2011.

This German market indicator continued its stable – albeit slower – climb in the second quarter. The MDAX fared even better in the same period, rising to 10,932 points on 30 June 2011.

Against the backdrop of a weak dollar, debt mountains in some EU countries and market scepticism surrounding the European rescue plans, prices fluctuated considerably in the third quarter. Two additional topics caused – and continue to cause – further concern, namely, the fear of an economic slump and the banking crisis that goes hand in hand with the debt crisis. This quarter saw the German stock market index suffer the largest losses in nine years. It was a similar picture for the MDAX, which slipped below 7,700 points on occasions with an average drop of more than 20%.

It was only towards the end of the year that things began to calm down again on the international stock exchanges and there is widespread if cautious optimism for 2012. Greece and Italy – under new leadership – are tackling the crisis with strict austerity measures and the European Union is working on new rescue scenarios

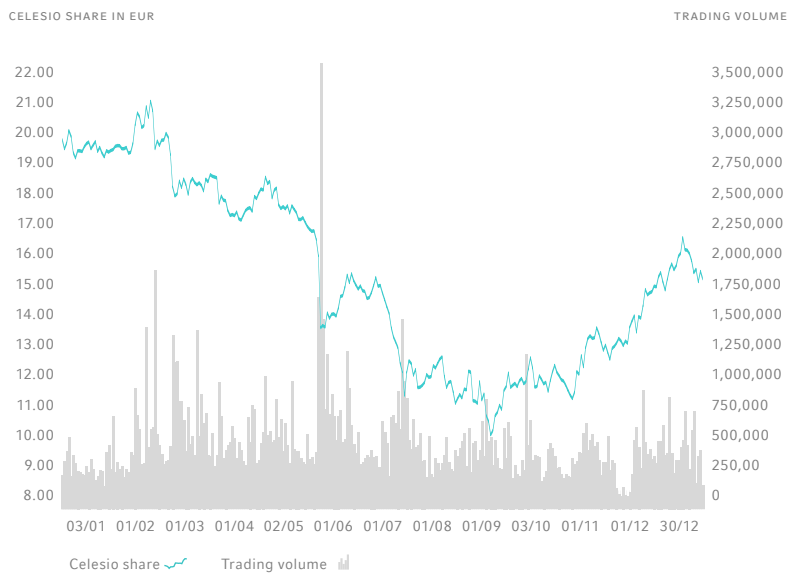
## The Celesio share in 2011

We adjusted our earnings forecast three times in this difficult year, which naturally impacted on the performance of the Celesio share. It was already clear in mid-June that we would not reach our operating income. Our share price suffered as a direct result of the announcement of our reduced earnings forecast. The price collapsed by up to 16% at times, reaching an initial low for the year of EUR 12.74. We had started the year with a listing of between EUR 18 and EUR 20, but failed to match this price level in the months that followed. The share recovered quickly from its initial fall, rallying to EUR 14.36 on 22 July, but it was unable to maintain this level. The impairment losses that we announced in an ad hoc report on 27 July triggered further price drops. Impairment losses affecting our wholesale business in Denmark and Portugal as well as Pharmexx reflect the overall economic uncertainty in Europe and the associated weak market environment. In subsequent months, we incurred considerable losses, as these factors were compounded by turbulence on the international stock exchanges. The share price dropped below the EUR 10.00 mark on 30 September – to a new annual low of EUR 9.28. We thus failed to match the performance of the comparative indices DAX and MDAX; the share value had fallen by approximately 34% since the beginning of the year. Things finally took a turn for the better following our latest revision of the earnings forecast on 26 October 2011 and our presentation of the cornerstones of our new strategy. Our share price gradually recovered and we closed trading for the year at EUR 12.24. That is an improvement of 31.9% on the lowest price recorded on 30 September 2011.

Market capitalisation came to EUR 2.08bn as of 30 December 2011 (previous year EUR 3.17bn). The trading volume of our share on the Xetra market in the reporting period averaged 559,444 shares per day, down by around 5% on the volume of the previous year.

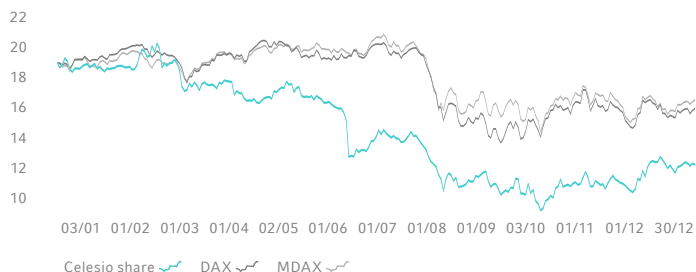
## SHARE PRICE 2011

DEVELOPMENT OF THE CELESIO SHARE AND TRADING VOLUME  
CLOSING PRICES ON XETRA 02/01/2011–30/12/2011 (TRADING DAYS ONLY)





**DEVELOPMENT OF THE CELESIO SHARE, MDAX AND DAX**  
**CLOSING PRICES ON XETRA 02/01/2011–30/12/2011 (TRADING DAYS ONLY),**  
**SCALED TO THE CELESIO SHARE PRICE**

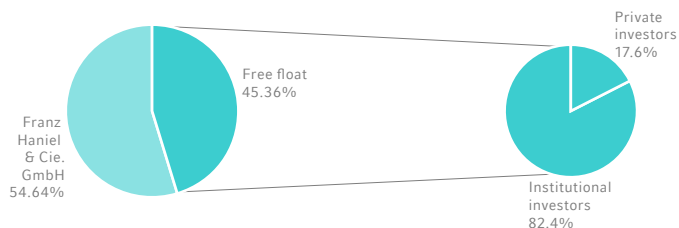


**SHAREHOLDER STRUCTURE**

As in the previous year, the largest shareholder on 31 December 2011 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, most (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 investment companies, Baillie Gifford & Co, Edinburgh, and BlackRock, Inc., New York, reduced their shareholdings to below 3% of the shares outstanding.

**SHAREHOLDER STRUCTURE**  
**31/12/2011**

**FREE FLOAT**  
**31/12/2011**

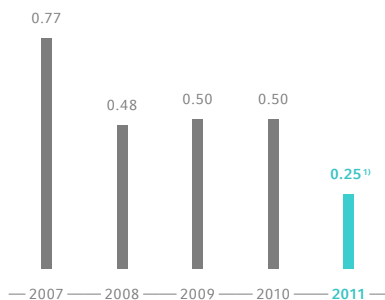


## ANNUAL GENERAL MEETING

Celesio AG's 2011 annual general meeting was held in the Porsche Arena in Stuttgart on 17 May. 72.10% of the voting rights were represented (previous year 81.27%). The resolutions of the annual general meeting followed the proposals put forward by management. The next annual general meeting will be held on 16 May 2012, once again in the Porsche Arena in Stuttgart.

As always, all documents and information on the annual general meeting are published in advance at [www.celesio.com/annual-general-meeting](http://www.celesio.com/annual-general-meeting).

## DIVIDENDE PER SHARE EUR



1) Proposal by the Management Board and Supervisory Board to the 2012 annual general meeting.

## DIVIDEND

The Management Board and Supervisory Board will propose to the annual general meeting on 16 May 2012 a dividend payment of EUR 0.25 per share for the 2011 fiscal year in light of restructuring and the strategic realignment. In this way, our shareholders will participate in the success of the company. At the same time we will retain enough headroom to make investments for the future. A dividend of EUR 0.50 per share was distributed for the 2010 fiscal year.

KEY SHARE FIGURES		<sup>1)</sup> 2006	2007	2008	2009	2010	2011
Number of shares outstanding <sup>2)</sup>	MILLION	170.1	170.1	170.1	170.1	170.1	170.1
Market capitalisation <sup>2)</sup>	EUR M	6,912.9	7,229.3	3,299.9	3,010.8	3,163.9	2,082.0
Closing price <sup>2) 3)</sup>	EUR	40.64	42.50	19.40	17.70	18.60	12.24
High <sup>3)</sup>	EUR	42.77	55.02	42.39	21.69	25.50	20.05
Low <sup>3)</sup>	EUR	34.11	36.21	17.01	13.70	15.96	9.28
Average trading volume per day <sup>3)</sup>	SHARES	310,360	485,665	733,755	434,703	588,134	559,444
EBITDA per share	EUR	4.72	4.95	3.86	3.69	4.11	3.03
Earnings per share	EUR	2.49	2.53	-0.12	0.02	1.52	0.01
adjusted	EUR	2.49	2.53	<sup>4)</sup> 1.56	<sup>4) 5)</sup> 1.64	<sup>5)</sup> 1.78	1.18
Dividend per share	EUR	0.75	0.77	0.48	0.50	0.50	<sup>6)</sup> 0.25
Dividend yield <sup>7)</sup>	%	1.8	1.8	2.5	2.8	2.7	2.0

1) Adjusted for the 1:2 share split carried out on 24 July 2006.

2) Closing figures as of 31 December.

3) Xetra, source: Bloomberg.

4) Adjusted for impairment losses on goodwill.

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

6) Proposed by the Management Board and Supervisory Board to the 2012 annual general meeting.

7) Related to the closing share price (Xetra).

## COVERAGE

At the end of 2011, 24 financial analysts assessed our company and our share (visit [www.celesio.com](http://www.celesio.com) for more information).

## INVESTORS WITH A FOCUS ON SUSTAINABILITY

There is a growing trend for investors to invest in companies that adhere to the principle of sustainability. Transparency, together with ecological and social criteria in particular, is becoming increasingly important; indeed, Corporate Social Responsibility (CRS) is now part and parcel of the financial market and those operating in it (see our CSR report starting on → page 52).

- ① The European Union defines CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

We have been recognised for our measures and activities promoting sustainable management of the company. For instance, we once again qualified for inclusion in the ECPI Ethical Index EMU. Moreover, the Celesio share was once again included in the FTSE4Good index. This sustainability index of the London Stock Exchange and the Financial Times only accepts companies that meet their criteria for social, ecological and ethical business. This means, for example, activities that promote environmental sustainability, positive relationships with stakeholders or the respect and support of human rights.

## INVESTOR RELATIONS

Transparency and sustainability are also at the heart of our investor relations activities. We provide all target groups in the capital market with information, putting together facts for them and giving them further background information and other explanations. We are committed to frank, rapid and comprehensive communication. We maintain constant dialogue with analysts and existing and potential investors in pursuit of this aim and endeavour to expand and build on existing contacts over the long term. In addition to our annual analyst and investor conference, we also held numerous one-on-one meetings at various roadshows in the US and Europe and at our headquarters in Stuttgart over the past year. Furthermore, we took part in numerous conference calls with analysts, investors and potential investors.

We also have a dedicated section about our share on our website [www.celesio.com](http://www.celesio.com) – Investor Relations. The website provides the latest news and dates, presentations and speeches as well as our annual and interim reports. Our free alert service is a convenient way for subscribers to receive press releases and information by e-mail.

## INFORMATION ON THE CELESIO SHARE

Share type	No-par value registered shares
Share capital in EUR on 31/12/11	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, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Indices (selection)	MDAX, MSCI Germany Index, FTSE4Good, ECPI Ethical Index EMU

# Corporate Governance Report<sup>1)</sup>

## Taking responsibility seriously Corporate Governance Report


We know that good corporate governance strengthens confidence among our shareholders, business partners and employees, promotes transparency in our company and contributes to the sustainable growth in the value of our company.

Corporate governance stands for responsible management and control of a company with the aim of generating sustainable value-added.

A balanced corporate governance strategy aims to secure the company's competitive position, strengthen confidence in our company – both on the capital markets and among the general public – and create value over the long term. In essence, it deals with the management structure of listed stock corporations. The key principles of good corporate governance are efficient cooperation and segregation of functions between management and supervisory boards, respect for shareholder interests as well as open and transparent corporate communication.

### **CORPORATE GOVERNANCE CODE**

The Celesio Management Board and Celesio Supervisory Board act in accordance with the German Corporate Governance Code. The Code 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. It aims to improve transparency and applicability of the German corporate governance system.

-  Stock corporations are required by law to make an annual declaration of compliance presenting the extent to which they have adhered to the Corporate Governance Code.

<sup>1)</sup> The corporate governance declaration required by Sec. 289a HGB and the remuneration report form part of the management report.

## Declaration of compliance

The following declaration of compliance pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporations Act) was issued by the Supervisory Board and Management Board on 21 December 2011:

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 2010, Celesio AG has complied with the recommendations of the Government Commission German of the Corporate Governance Code in the version dated 26 May 2010 with the following exceptions:

- The company opted not to disclose the remuneration of individual members of the Management Board pursuant to No. 4.2.4 and 4.2.5 of the Code, 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.
- The company opted not to disclose the remuneration of individual members of the Supervisory Board pursuant to No. 5.4.6 (3) of the Code because the requirements for transparency contained in this Code recommendation are largely met by 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.

In future, the recommendations of the Government Commission German of the Corporate Governance Code will be met without exception. The remuneration of individual members of the Management Board and Supervisory Board will be disclosed in the remuneration report as part of the 2011 annual report in accordance with No. 4.2.4, 4.2.5 and 5.4.6 (3) of the Code.

STUTTGART, DECEMBER 2011

On behalf of the Supervisory Board



PROF DR JÜRGEN KLUGE

On behalf of the Management Board



MARKUS PINGER

## **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 seeks to safeguard diversity and increase the percentage of female members of the Management Board. The Management Board applies the same approach to filling managerial positions in the company.

### **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. The following changes on the board took place in 2011: Dr Fritz Oesterle was Chairman of the Management Board until 30 June 2011. Wolfgang Mähr was Chairman of the Management Board from 1 July to 14 August 2011. Markus Pinger is the new Chairman of the Management Board with effect as of 15 August 2011. Dr Christian Holzherr was Chief Financial Officer until 30 November 2011. At a Supervisory Board Meeting held on 20 December 2011, Dr Marion Helmes was chosen as new Chief Financial Officer with effect as of 1 January 2012. Dr Michael Lonsert was the member responsible for Manufacturer Solutions until 31 December 2011. Wolfgang Mähr is the member of the Management Board responsible for Pharmacy Solutions, while Stephan Borchert is in charge of Patient and Consumer Solutions with effect as of 1 August 2011. 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 (cf. → page 290 of the notes to the consolidated financial statements).



## **SUPERVISORY BOARD**

The Supervisory Board's duty is to advise and effectively control 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 2011. 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. The composition of the Supervisory Board and its committees is set out on → [page 14](#). 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 2011 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 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. We aim to have at least two female members on the Supervisory Board in the medium term and four in the long term. The report of the Supervisory Board starting on → [page 15](#) details the function, structure and work of the Supervisory Board and its committees.

## **Notes on corporate governance practice**

### **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. In future we will also offer our shareholders the option of a postal vote. Shareholders can also 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.

Celesio AG's 2011 annual general meeting was held in the Porsche Arena in Stuttgart on 17 May. 72.10% of the voting rights were represented (previous year 81.27%). All of the management proposals were approved. The next annual general meeting will be held on 16 May 2012, once again in the Porsche Arena in Stuttgart. As is customary, all documents and information on the annual general meeting will also be published in advance at [www.celesio.com/annual-general-meeting](http://www.celesio.com/annual-general-meeting).

## COMPLIANCE

Companies these days go well beyond what used to be the norm in implementing compliance rules. For Celesio, compliance refers to the obligation to observe the law and internal corporate guidelines with the aim of averting and avoiding negative consequences for the company. It is not enough to simply comply with formal legal requirements. For Celesio, compliance is not just about following rules. More than that, it is a rolling process in which we reconsider our actions and adapt to new challenges and situations. In addition to the relevant legal provisions, the organisation of management and control at Celesio is based mainly on the articles of association, the German Corporate Governance Code as well as the rules of procedure of the Supervisory Board and Management Board. At Celesio, internal corporate guidelines are drawn up and introduced by the 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 goes beyond the formal legal requirements. In this document, we have defined principles for acting in a transparent, trustworthy and sustainable way. The code of conduct is available on our website under Investor Relations/Corporate Governance. Celesio's compliance management is regularly reviewed and refined.

## **DIRECTORS' DEALINGS**

Pursuant to Sec. 15a of the Wertpapierhandelsgesetz (WpHG, German Securities Trading Act), members of the management or supervisory board of a listed German company and their close relatives must report their transactions with securities to that company and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority) within five working days. Such notification must then also be published by the company "without delay". These reportable transactions are known as directors' dealings.

There were no such transactions at Celesio in 2011.

## **RISK AND OPPORTUNITIES MANAGEMENT**

Like all companies, Celesio regularly examines the numerous business risks and opportunities that arise. These are the internal and external events that are associated with our business operations and have the potential to affect our company's success and the financial stability of the group. Intangible assets such as brand, image or the environment can also be sources of risk or opportunity. Further details can be found in our risk and opportunities report starting on → page 132.

## **FINANCIAL REPORTING AND AUDIT**

The consolidated financial statements of Celesio were prepared pursuant to International Financial Reporting Standards (IFRS) 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 2011 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 2011 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 with comprehensive and transparent information on current developments at Celesio. Our company website ([www.celesio.com](http://www.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 press briefings on annual results, our annual general meeting and our financial calendar. The annual report and three interim financial reports contain detailed analyses and explanations regarding our results of operations, financial position and assets position. We attach great importance to personal contact with our investors, employees and other stakeholders. Our Investor Relations team is available to answer questions from investors and analysts by telephone, e-mail or at any of our numerous information events while Corporate Communications ensures a steady dialogue with representatives from the German and international press. Interested parties can also subscribe to our free e-mail service as a quick and easy way to stay up to date on company news.

## Remuneration report of Celesio AG

The remuneration report is part of the management report and follows the recommendations of the German Corporate Governance Code and the requirements of German Accounting Standard 17, the Handelsgesetzbuch (HGB, German Commercial Code) and International Financial Reporting Standards (IFRS). The notes to the consolidated financial statements contain disclosures pursuant to IAS 24.

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

### MAIN FEATURES OF THE COMPENSATION STRUCTURE OF THE MANAGEMENT BOARD

Management Board remuneration is determined in accordance with the provisions of the Aktiengesetz (AktG, German Stock Corporations Act) and the German Corporate Governance Code. Total remuneration of the members of the Management Board breaks down into performance-related and non-performance-related components. The compensation structure is conducive to the sustainable development of the company on account of the remuneration components with a long-term incentive that it contains. In determining the remuneration of members of the Management Board, we take into account the size and complexity of the Celesio Group, 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 Celesio. We also consider the responsibilities and performance of each member of the Management Board. At the instigation of the General Committee, the Supervisory Board regularly reviews the structure and appropriateness of the remuneration system.

Remuneration of each member of the Management Board depends on the compensation structure defined in the respective contracts of each individual. Remuneration for Dr Oesterle (until 30 June 2011), Dr Holzherr (until 30 November 2011) and Mr Mähr (until 30 September 2011) was governed by contracts concluded prior to 2010. The remuneration for Mr Borchert and Dr Lonsert (until 31 December 2011) is based on contracts concluded after they joined the company in 2011 and 2010, respectively. Mr Borchert received

a firm commitment for minimum remuneration (on a pro rata basis) comprising fixed salary plus bonus for 2011. Further adjustments were made to the existing compensation structure when Mr Pinger joined the company as Chairman of the Management Board (as of 15 August 2011) and in the course of renewing Mr Mähr's contract (from 1 October 2011). These adjustments reflect changes in the legal and regulatory environment resulting from the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstaG, German Act on the Appropriateness of Executive Board Compensation) which promotes remuneration of executive boards that is conducive to sustainable and long-term corporate governance

#### **NON-PERFORMANCE-RELATED REMUNERATION COMPONENTS**

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

#### **PERFORMANCE-RELATED REMUNERATION COMPONENTS**

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

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

#### **BONUS**

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

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

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

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

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

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

### PERFORMANCE CASH SCHEME

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

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

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

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

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



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

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

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

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

## TOTAL REMUNERATION

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

Total remuneration breaks down by member as follows:

Name	Basic component EUR K	Single-year variable remuneration EUR K
Markus Pinger (Chairman of the Management Board since 15/08/2011)	341	58
Dr Fritz Oesterle (Chairman of the Management Board until 30/06/2011)	371	/
Stephan Borchert (since 01/08/2011)	417	/
Dr Christian Holzherr (until 30/11/2011)	487	779
Dr Michael Lonsert (until 31/12/2011)	600	400
Wolfgang Mähr	474	490
<b>Total 2011</b>	<b>2,690</b>	<b>1,727</b>
Total 2010*	1,826	5,394

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

Multiple-year variable remuneration (EUR K)							
Share-based payment				Total multiple-year variable remuneration	Additional benefits EUR K	Total EUR K	
Performance cash scheme value-added	Performance cash scheme increase in share price	Share deferral	Total share-based payment				
/	12	85	97	97	9	505	
/	102	/	102	102	12	485	
/	17	/	17	17	5	439	
/	51	/	51	51	17	1,334	
/	125	/	125	125	11	1,136	
/	51	42	93	93	12	1,069	
/	<b>358</b>	<b>127</b>	<b>485</b>	<b>485</b>	<b>66</b>	<b>4,968</b>	
/	235	/	235	235	58	7,513	

## POST-EMPLOYMENT EXPENSES

Name	Service cost 2011 EUR K	Fair value (DBO) 31/12/2011 EUR K	Expense from pen- sion obliga- tions 2011 (HGB)	Fair value (HGB) 31/12/2011
Markus Pinger (Chairman of the Management Board since 15/08/2011)	140	140	141	141
Dr Fritz Oesterle (Chairman of the Management Board until 30/06/2011)	135	/	/	/
Stephan Borchert (since 01/08/2011)	93	93	94	94
Dr Christian Holzherr (until 30/11/2011)	255	/	/	/
Dr Michael Lonsert (until 31/12/2011)	207	/	/	/
Wolfgang Mähr	217	2,698	209	2,707
<b>Total 2011</b>	<b>1,046</b>	<b>2,931</b>	<b>444</b>	<b>2,942</b>
Total 2010*	785	6,787	781	6,499

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

## POST-EMPLOYMENT BENEFITS

Management Board members benefit from a defined contribution plan. A contribution of 16% of the total basic component and standard bonus is added for Dr Oesterle (until 30 June 2011), Dr Holzherr (until 30 November 2011) and Mr Mähr (until 30 September 2011) each year, while the contribution for Mr Borchert and Dr Lonsert (until 31 December 2011) equals 14% of the total basic component, standard bonus and standard amount from multiple-year remuneration. When Mr Mähr's contract was extended as of 1 October 2011, the defined contribution was changed from a percentage to a fixed contribution (in EUR). The contracts for Mr Borchert and Dr Lonsert (until 31 December 2011) were also updated. Since then, an annual contribution of EUR 220,000 has been added to the pension account. A fixed contribution of EUR 300,000 was agreed for Mr Pinger as a condition of his contract as Chairman of the Management Board. The contribution is determined by the Supervisory Board regardless of salary and adjusted as part of the regular remuneration review process. A contractual trust arrangement (CTA) is in place to insure any claims not already insured against insolvency by Pensions-Sicherungs-Verein a.G., Cologne.

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

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

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

#### **BENEFITS TO MEMBERS OF THE MANAGEMENT BOARD THAT LEFT THE COMPANY IN THE REPORTING PERIOD**

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

They received the following benefits in connection with their leaving the Management Board and in accordance with the contractual arrangements for premature termination of office:

	Dr Oesterle EUR K	Dr Holzherr EUR K	Dr Lonsert EUR K
Remuneration settlement	8,000	2,807	3,103
Other benefits	968	45	87
Contribution commitment to the pension account	1,062	340	455
<b>Total</b>	<b>10.030</b>	<b>3.192</b>	<b>3.645</b>

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

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

#### **OTHER INFORMATION**

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

#### **OUTLOOK ON THE COMPENSATION STRUCTURE FOR 2012**

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

## **TOTAL REMUNERATION AND COMPENSATION STRUCTURE OF THE SUPERVISORY BOARD**

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

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



The table below shows the remuneration of each Supervisory Board member:

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

\* Supervisory Board remuneration was not disclosed individually for 2010.

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

## “Health and education for everyone”

“Health for everyone” – that was Franz Ludwig Gehe’s vision when he founded his chemist’s and dye business in Dresden on 1 May 1835, now Celesio with around 47,000 employees. With the aim of making medicines affordable and available for everyone – the company’s contribution to “improving the health of the nation” – Gehe was already practicing Corporate Social Responsibility (CSR). So Gehe could be considered Celesio’s first ever CSR officer, making a difference in the community by also “improving the education of the nation” with the GEHE Foundation set up in 1885. Further training for employees was also high on the agenda for Gehe. Today’s GEHE Academy, with over 25,000 participants each year, is the logical extension of his commitment to education.

Now, 176 years on, Corporate Social Responsibility is a firm feature of our corporate identity. We believe that a company, as part of society, must share in the responsibility for it. And we do – in areas that naturally emerge from our line of business and the story of our foundation. Building on the idea of our founding father, our efforts today focus on health and education.

## CSR at Celesio


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. These include:

- Our code of conduct, which embeds high ethical principles in the company.
- The Diversity Charter, in which we undertake to ensure a non-discriminatory working environment and an open corporate culture.
- Our environmental management, which includes clearly defined environmental guidelines established to protect and preserve our environment.
- Our Advisory Committee for Social Responsibility and Sustainability. The committee is responsible primarily for advising and supporting the company with regard to its social activities and social responsibility. It is made up of individuals from the world of politics, society and public life.
- Regular workshops with the aim of integrating and refining our CSR activities.

## Celesio partner: “Doctors For Developing Countries”

### HEALTH

We support the aid organisation “Doctors For Developing Countries” financially but also by providing professional expertise and the personal input of our employees. From 2004 to 2011, 28 Celesio pharmacists from five different countries went on a total of 36 missions to assist with projects organised by “Doctors For Developing Countries”. We prepare volunteers for their mission at regular training sessions and workshops. Great emphasis is placed here on the issue of pharmaceutical safety – a major concern in developing countries. We are now building a pharmacy in Calcutta, in cooperation with our partner organisation, to ensure correct procurement, storage and dispensing of pharmaceuticals.

 **Pharmaceutical safety** is a core issue in developing countries. Some 24% of medicines in such countries turn out to be ineffective, or even dangerous.

What do Celesio pharmacists do in developing countries?

- Build and operate mini-laboratories
- Train local staff and patients on how to correctly handle pharmaceuticals and mini-laboratories
- Advise physicians locally on how to select pharmaceutical suppliers and manufacturers

What have they helped achieve through their involvement in projects run by “Doctors For Developing Countries”?

- In Nairobi, Kenya, the level of fakes fell from over 9% to almost 0%.
- In Calcutta, India, the fake rate decreased to around 4% – a huge success considering it was over 30% in 2005.

Of course, we also get involved in worthwhile projects in Germany. Since 1 December 2011, DocMorris – with its brand partner pharmacies – has been supporting the aid organisation World Childhood Foundation ([www.childhood.org](http://www.childhood.org)), which was founded in 1999. The Foundation takes care of children living on the street or in institutions, young families and children and young people who have been victims of neglect or abuse.

## Health and education are inextricably linked

### EDUCATION

Celesio pursues its founder’s philosophy when it comes to education, too. The Franz-Ludwig-Gehe prize was launched in 2010 to promote natural sciences among secondary school pupils in Dresden. With the motto “Ready, steady, research”, pupils were encouraged to submit their scientific projects or studies. According to the invitation to take part, natural sciences “can be pretty fascinating. Especially when you pose new questions and look for the answers in new ways.” The young researchers’ studies and projects were evaluated in two rounds. Only the very best got through to the presentation stage and were in with a chance of winning gold, silver or bronze. The prize was awarded to the winning pupils in May 2011.

In addition to training and further education for our employees, we are 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. We have already cooperated with researchers from universities in Berlin, Hohenheim, Nürtingen-Geislingen and Bonn. At present, we are involved in ten current research and publication projects with and about Celesio and the company’s history. At the 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. This workshop is held every two years.

## ENVIRONMENT

In addition to health and education, we are, in our role as a service provider, naturally also active in the field of environmental protection. 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 select energy-efficient models to effectively reduce emissions from the use of private transport. In our wholesale operations, we optimise route planning, thereby reducing the CO<sub>2</sub> emissions of our vehicle fleet. For 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 will reduce our electricity consumption considerably by cutting the number of servers.

## Celesio contributes to current debate on CSR

### DISCUSSION:

To enable us to refine our CSR work, we are regularly involved in dialogue with the representatives of our partner organisations, political and social stakeholders and our employees and investors. Furthermore, we already entered into a cooperation with the Wittenberg Centre for Global Ethics in 2010. In 2011, we continued our series of lectures and workshops entitled "The work of the German Sustainability Council" with Günther Bachmann, General Secretary of the German Council for Sustainable Development. Günther Bachmann was a guest speaker in Celesio's Advisory Committee on Social Responsibility and Sustainability. Celesio is included in the sustainability index FTSE4Good.

The CSR section of [celesio.com](http://celesio.com) contains detailed reports about our CSR activities and projects as well as further facts and figures.



Training local staff



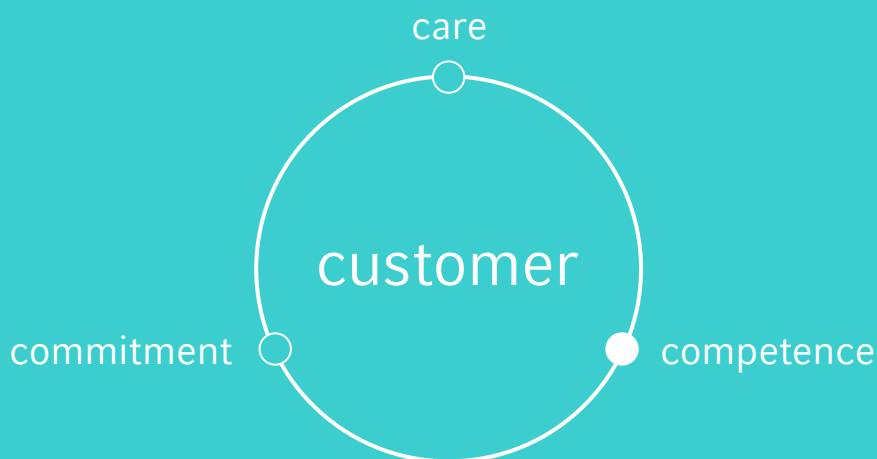
The mini-laboratory in action

## Project page – Calcutta:

Tuberculosis, a disease that has more or less been eradicated in our part of the world, is a death sentence in Calcutta. It is often diagnosed far too late due to a lack of physicians and hospitals. Or it is simply not treated because there is no access to basic medical facilities and pharmaceuticals. This is compounded by the problem of fake pharmaceuticals, which are ineffective or even dangerous.

In 2007, we founded the Celesio Pushpa Children's Tuberculosis Clinic. This clinic, which bears our name and receives considerable support from us, ensures a better level of care for children with the disease today. We are building on this commitment by constructing a pharmacy – scheduled for completion in the next year.

You can find more information on CSR in the following sections of this annual report: Corporate Governance Report (→ [page 32](#)), the section on employees (→ [page 124](#)), and the risk and opportunities report (→ [page 132](#)).



SERVING PATIENTS BEST

WE FOCUS ON GIVING  
PATIENTS THE BEST  
POSSIBLE CARE.

# ©ompetence

Medicines are special products and at Celesio, they are in safe hands. Our proven competence, high-performing logistics, patient-oriented pharmacy services and sound pharmaceutical know-how are the keys to success on the international healthcare market. We supply around 65,000 pharmacies and hospitals with more than 130,000 products – on time, safely, reliably and sometimes several times a day and advise around 2 million customers daily. We know and understand our customers, markets and products – that's something patients and pharmacists can rely on.



# Group management report

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# Business activity and organisation

## Our business model

We are a leading trading company and service provider on the global pharmaceutical and healthcare markets, with around 47,000 employees and strong national and international brands in 27 countries. With services for manufacturers such as warehousing, logistics, marketing or sales, our pharmaceutical wholesale business and retail and mail-order pharmacies, our core business spans the entire supply chain of the pharmaceutical industry right through to the patient. We also operate in other business areas to complement our core business, offering our customers tailored services and products.

We supply around 65,000 pharmacies every day; with a range of 130,000 products in Germany alone, we deliver three times a day on average – on time and with the level of service and quality that our customers expect.

We aim to ensure the best possible care for patients. We want to set standards in this area and apply our competence – built up over many years – in pursuit of this goal.

We announced the cornerstones of our new strategy in October 2011. You can read more about the new strategy and initial results on → [page 71](#).

### OPTIMISING THE PHARMACEUTICAL SUPPLY CHAIN

The supply chain in the pharmaceutical industry is complex. In a first step, a medicine is developed by the manufacturer. After being tested and approved, it is produced and stored, before usually being transferred to a wholesaler, for instance, by a specialist logistics provider like our subsidiary Movianto. A wholesaler then stocks the medicines locally, meaning that pharmacies can order any required pharmaceutical quickly and efficiently from one contact. Celesio supplies some pharmacies up to six times a day. In turn, these pharmacies ensure that the patient or consumer obtain the medicine, either in person from a retail pharmacy or by post from a mail-order pharmacy.

As part of our new strategy, we remain committed to optimising these warehouse and supply processes further.

### ENVIRONMENT IN WHICH WE OPERATE

The healthcare system – and consequently the pharmaceutical and healthcare markets – will continue to evolve over the coming years. Experts anticipate more change in the next ten years than in the last fifty.<sup>1)</sup> On the one hand, demographic change in the US and Europe results in an aging population whose healthcare

1) Bain & Company, The end of Healthcare... as we know it, November 2011

costs will continue to rise. On the other hand, however, public funding of these costs will be increasingly difficult in light of critical levels of national debt. And pressure on funding continues to rise. In Europe, healthcare budgets have traditionally been made up of between nine and eleven percent of GDP, and this is set to climb another three percentage points by 2030. The cost driver of the future is demographic change, while in the past, medical advancement was the main factor influencing healthcare spending. We cannot escape the fact that growing cost pressure will force healthcare reform in many countries.

## Group structure and management

The organisation and reporting structure of the Celesio group is centred on our three divisions which are aligned to the needs and demands of our three major customer groups. As trading partner and service provider, we cater to various customer groups in our Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions divisions. We report on the revenue and earnings of each of the divisions and the individual business areas of significance for the consolidated financial statements. Business areas not allocated to a specific division are combined under »other business areas«.

Effective as of 1 January 2011, we report the »Pharmacies« business area and »Other business areas« under the Patient and Consumer Solutions division. We report all revenue stemming from the DocMorris and Lloydspharmacy brands within the Pharmacies business area in accordance with the corporate structure in effect since the beginning of 2011. We disclose our investment in Brocacef Holding n.v. in the Netherlands as an associate under other business areas, together with the discontinued pilot scheme for an online portal for healthcare services. The structure of the Pharmacy Solutions division remains unchanged. The Manufacturer Solutions division comprises the business areas Logistics Solutions, which includes Movianto, Marketing Solutions, which includes Pharmexx and Efficient Care Pharma (ECP), which used to include Evolution Homecare – our specialty pharmacy business in the UK – and our joint venture with Medco. The joint venture with Medco was terminated as of 30 September 2011. Evolution Homecare was allocated to Lloydspharmacy with effect as of 1 January 2012. The business areas are also our reporting segments.

## MANAGEMENT AND CONTROL

The Management Board manages the Celesio Group based on legal requirements and the rules of procedure laid down by the Supervisory Board. The Management Board is advised and controlled 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 32 is part of the group management report and contains further details on the management and control structure.

## Remuneration report

Please refer to the remuneration report contained in the Corporate Governance Report, which forms part of the management report.

## Internal control system

We apply EBITDA (earnings before interest, taxes, depreciation and amortisation) as our central measure of performance. EBITDA serves as an important indicator for managing the operating business and allows us to gauge the success of our divisions.

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

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

- ① Economic **value added** (EVA) is a financial management indicator to measure the economic profit of an investment. It represents residual wealth, i.e. absolute profit after deducting the cost of capital.

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 (before tax) is the weighted average market

cost of debt capital and equity and came to 10.9% as of 31 December 2011 compared to 11.1% in the previous year. Value added came to EUR –253.7m in the reporting period compared to EUR 48.3m in the previous year. The year-on-year decrease is primarily attributable to the impairment of goodwill and expenses in connection with the Operational Excellence Program. We also plan and measure a number of other financial and non-financial key performance indicators on a monthly basis.

From 2012 onwards, we will report on EBIT (earnings before interest and tax) in addition to EBITDA. As EBIT includes depreciation and amortisation, it provides us with a more comprehensive measure of performance and improves comparability with other international companies.

 **EBITDA** stands for earnings before interest, taxes, depreciation and amortisation.

## Notes on capital and shareholder structure

Secs. 289 (4) and Sec. 315 (4) HGB 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 court 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 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 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 Corporations 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 17 May 2011, the Management Board is authorised to increase the share capital of the company on or before 16 May 2016 with the consent of the Supervisory Board by issuing new no-par registered shares in return for cash contributions or contributions in kind on one or more occasions by a maximum of EUR 65,318,400 (authorised capital 2011).

The shareholders are to be granted subscription rights if the share capital is increased by cash contribution. Pursuant to Sec. 186 (5) AktG, 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 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 bonds with option or conversion rights or bonds with subscription or conversion obligations previously issued by the company or its dependent group companies 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 includes the number of treasury shares 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 agreement of the Supervisory Board, to exclude subscription rights in the case of a capital increase in return for contributions in kind. The Management Board is also authorised, with the agreement of the Supervisory Board, to define further details 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 was 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 No. 4 of the articles of association of Celesio AG, the share capital of Celesio AG is conditionally increased by up to EUR 21,772,800.00 (conditional capital 2009) and the Management Board is authorised, with the authorisation of the Supervisory Board, to define the further conditions of the conditional capital increase and its execution pursuant to the conditions of consent. The Management Board made some use of this authorisation in issuing the convertible bond on 29 October 2009. To the extent that the authorisation had not been fully exercised, 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 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. The Management Board made some use of this authorisation in issuing the convertible bond on 7 April 2011.

- 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 was authorised until 4 November 2011 to acquire shares in the company, 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 of 10% of the share capital represented at the time the resolution was passed. The company did not make use of this authorisation.
  - 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 bonds issued on 29 October 2009 and 7 April 2011, the bond creditors are entitled in the event of a change of control to terminate prematurely or convert at an adjusted price all or some of the convertible bonds. The terms of the bond issued by Celesio Finance B.V. and guaranteed by Celesio AG also provide for premature termination by the bond creditors of all or some of the convertible bonds in certain circumstances. A change of control is deemed to occur when a third party's

interest reaches more than 50% of the shares in Celesio AG as a result of a takeover bid. In connection with convertible bonds, a change of control can also occur independently of a takeover bid in scenarios including but not limited to when a third party acquires direct or indirect control over at least 30% of the shares in Celesio AG.

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 listed in the dependent company report, and according to the circumstances that were known to us when those legal transactions were performed, Celesio AG, Stuttgart, and its subsidiaries, received appropriate consideration in each legal transaction.«

## 2011 – the year of change

The year 2011 got off to an optimistic start: The outlook for the global economy was positive and the emerging markets flourished under growing demand. Although growth was not expected to match the strong performance of 2010, a dramatic collapse of the global economy did not seem to be on the cards either. But collapse it did. Catalyzed by the natural disaster in Japan, which pushed up the cost of oil, and debt crises in the us and Europe, the global economic climate took a turn that would have been difficult to predict. In addition to events in Japan, the project group “Gemeinschaftsdiagnose”<sup>1)</sup> notes two further factors that were instrumental in the global crisis of confidence – namely, the debate on raising the debt ceiling in the us and the European battle to agree a new rescue package for Greece, which ignited discussions on a new round of bailout funds. The outcomes presented met with criticism in the us and Europe – confidence in a long-term solution was lacking and the stock markets reacted accordingly. Only the emerging economies developed fairly close to plan. Even though they also saw demand dip slightly, the economy in general took the course predicted. The us and European markets did not settle down until towards the end of the 2011, closing the year with cautious optimism. Provided that the debt and confidence crises gradually subside and the economy picks up again, economists anticipate global growth for 2012 of between 3.8% (oecd, Organisation of Economic Cooperation and Development) and 4.0% (imf, International Monetary Fund).

Starting on → *page 145* (Outlook), you can find more information on the market environment and development of the Celesio Group in the coming years.

1) KOF Swiss Economic Institute of the Swiss Federal Institute of Technology, Zurich, Kiel Institute for the World Economy, Centre for European Economic Research, Mannheim, Halle Institute for Economic Research, Kiel Economics, Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RIW Essen), Institute for Advanced Studies, Vienna

## Our market: Pharmaceutical and healthcare markets in flux

We operate as a trading company and service provider on the global healthcare and pharmaceutical markets – segments characterised by sustainable growth. With a global population of 6.7 billion in 2008, healthcare spending came to USD 854 per head. The global healthcare market was worth USD 5.7bn – that is 1.5 times the gross domestic product of Germany. Population growth has slowed in recent years, but continues to increase at a rate of 1.3% per year. Per capita healthcare spending is rising, too, by around 5% each year in real terms.<sup>1)</sup> Parallel to these developments, the average age is expected to increase by more than five years by 2030 alone.

Together, these factors translate into higher spending on healthcare. In the US alone, spending will account for some 18% to 20% of GDP by 2015<sup>1)</sup>, compared to just 16% as recently as 2008. This trend is even clearer in what are known as “pharmerging markets”. Experts anticipate healthcare spending to grow by 17% each year in China alone. The need for medical products, procedures and techniques is therefore set to rise steadily, matched by demand for suitable, efficient and appropriate service and logistics solutions.

- i** A “**pharmerging market**” is an emerging region which – unlike mature markets such as the US or Germany – offers good growth potential in the areas of pharmaceutical and healthcare services and products. Pharmerging markets include China, India, Brazil and Russia.

## Competitive environment

In most of Celesio’s markets, we are either market leader or one of the leading players. The competitive environment is straightforward and relatively transparent. Many of our competitors are similar to us in terms of position and structure. They, too, often hold significant market shares, are vertically integrated and operate internationally. We also face competition from regional providers. In our business, we operate primarily in mature markets which are characterised by fierce competition but also offer additional attractive services. In 2011, the German and French markets were particularly hostile in terms of competition.

1) Dr Joachim Kartte, Dr Karsten Neumann, Roland Berger: „Weltweite Gesundheitswirtschaft – Chancen für Deutschland“ (Global healthcare – opportunities for Germany), August 2011

## A strategic turnaround

Celesio grew steadily between 1987 and 2007. However, earnings have fallen over the last four years as a result of both internal and external factors.

One reason for the negative development was the large amount of capital we invested in building up new business areas alongside our core business. It had been hoped that we would be able to tap into new sources of income – but expectations were not met. The highly competitive market environment was another factor, a situation compounded by the global financial and debt crisis. The ripple effects on national budgets led to painful cuts in healthcare.

That is why we decided to change our strategy. We introduced the cornerstones of our new strategy on 26 October 2011. The international pharmaceutical markets are among the most stable – and among the most promising for long-term growth. With our comprehensive know-how and leading market position in many countries, Celesio enjoys an excellent position with many prospects. We aim to secure sustainable growth by expanding our core business – from pharmaceutical wholesale through to the patient.

Our new strategy is built on five cornerstones:

### 1. FOCUS ON CORE BUSINESS

We operate in a growth market that is of key economic – and social – importance. The pharmaceutical and healthcare market. We can look back on 175 successful years in the business and have secured ourselves a strong market position. And long-term social trends point to sustainable growth on our markets. The aging population in Europe and other developed regions will push up healthcare costs. People are also becoming more willing to invest private funds in their own health. Rising affluence in emerging economies and some developing countries means that more and more people can afford basic medication. We see these trends as opportunities to grow our business. Further growth potential can be tapped by optimising the entire value-added chain, and strong growth is expected in the area of specialty pharmaceuticals.

## **2. EUROPEAN PHARMACY NETWORK**

In Europe, we already work with over 4,500 pharmacies in our business and brand partnership models. We also operate 2,200 pharmacies of our own in seven countries. We will bundle these activities to create a strong European network of pharmacies and release synergies that not only promote comprehensive patient service, but also benefit both the pharmacies and Celesio. By operating as a network, we can optimise knowledge transfer between the various partners, while also leveraging marketing, service, education and innovation synergies. We also intend to exploit market opportunities by developing innovative services such as order and inventory optimisation systems for pharmacies. This approach will not only boost earnings but also free up pharmacists' time, allowing them to focus on advising customers, expand the range of preventative care services and enter into attractive new business areas to benefit their pharmacies and Celesio.

## **3. REGIONAL EXPANSION**

In the medium term, opportunities for strong and high-margin growth will focus on countries where there are currently gaps in patient care as well as excellent prospects for economic growth. Latin America is one such example, and the Middle East will follow in the longer term. We will step up our efforts in these areas as we prepare to enter these markets. The takeover of Oncoprod 2011 was an important step in expanding our position on the growth market of Brazil and secured us the position of leading pharmaceutical wholesaler and distributor of specialty pharmaceuticals. In the medium term, we hope to use Brazil as a platform from which to expand our core business into other South American markets.

#### **4. DIVISION REVIEW MANUFACTURER SOLUTIONS**

For our new strategy to be truly successful, we need to concentrate all our resources on our core business and have decided to review the options in all areas that no longer qualify as core business. We are exploring all options to promote the future development of Manufacturer Solutions – either as part of the group, or externally.

#### **5. OPERATIONAL EXCELLENCE PROGRAM**

The Operational Excellence Program has been implemented to give the Celesio Group the time and financial means needed to secure a successful strategic realignment of the company. We are concentrating on fast-acting but long-lasting measures to boost efficiency and improve our competitive position across the board. The key measures include the group-wide bundling of procurement activities, optimising our international logistics network and reducing fixed costs. We aim to stabilise earnings in a first step and will then concentrate on improving our competitive position.

# Revenue and earnings development

## OPERATIONAL EXCELLENCE PROGRAM

A multi-year Operational Excellence Program has been launched to improve the company's competitive position and operating performance in the long term. This comprehensive catalogue of measures is a key component of the group's realignment and is expected to have a positive impact on earnings development as early as 2012.

Pivotal, long-term projects include bundling and optimising procurement activities, the supply chain and the wholesale branch network across the group. Measures include terminating projects with high start-up expenses, reducing the losses incurred in connection with setting up new pharmacies in Sweden and cutting direct costs at all major administrative centres across the Celesio Group.

The Operational Excellence Program, especially the short-term measures, led to expenses of EUR 80.6m in the reporting period. The expenses can be broken down into cost of materials EUR 4.0m, other expenses EUR 33.5m, personnel expenses EUR 24.9m, the result from associates accounted for using the equity method EUR 1.1m, amortisation, depreciation and impairment EUR 16.2m and other financial result EUR 0.9m. EUR 58.6m of the expenses are expected to be reflected in profit and loss, especially in 2012.

Significant expenses relate to termination agreements offered with obligations totalling EUR 24.9m. Expenses of EUR 25.3m were incurred to prematurely terminate agreements such as rental contracts and leases. In addition, impairment losses of EUR 8.3m were charged for intangible assets, especially IT systems and usage rights no longer needed, while impairment losses of EUR 7.9m were recorded on property, plant and equipment – primarily in connection with pharmacy closures. Further expenses were incurred for obsolete inventories at pharmacies and wholesale branches affected by closure, the premature termination of projects of EUR 4.7m and other items of EUR 5.5m relating to measures.

Expenses of EUR 46.3m are attributable to Patient and Consumer Solutions including EUR 20.4m for pharmacy closures in Sweden. The Pharmacy Solutions division accounts for expenses of EUR 17.4m, while EUR 4.4m and EUR 12.5m are allocated to Manufacturer Solutions and Others, respectively.

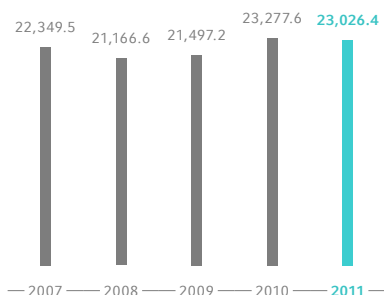
To improve comparability with the previous year, additional adjusted figures are provided net of effects from the Operational Excellence Program of EUR 80.6m and other impairment of EUR 118.4m.



## REVENUE

Group revenue came to EUR 23,026.4m in the 2011 fiscal year, down 1.1% on the previous year. Adjusted for portfolio and currency effects, group revenue decreased by 1.2%. The general economic environment, coupled with the poor performance of pharmaceutical markets in Europe, negatively impacted Celesio's business, like that of many of its competitors.

**GROUP REVENUE**  
EUR M



As an international trading company and service provider, we once more generated the majority of our group revenue abroad in 2011. France again made the largest contribution to revenue (29.1%; previous year 29.4%), followed by the UK (20.4%; previous year 20.9%) and Germany (19.0%; previous year 18.7%). Following the acquisition of Oncoprod, Brazil's contribution increased slightly from 6.5% in the previous year to 7.2%. For more detailed information, please refer to the section for each division.

	2010 EUR M	2011 EUR M	Change on a euro basis %	Change in local currency %
France	6,838.4	6,706.7	-1.9	-1.9
United Kingdom	4,856.9	4,697.3	-3.3	-2.1
Germany	4,346.4	4,383.1	0.8	0.8
Brazil <sup>1)</sup>	1,503.5	1,648.4	9.6	9.5
Austria	1,064.4	1,078.7	1.3	1.3
Norway	1,016.0	1,061.3	4.5	1.7
Other	3,652.0	3,450.9	-5.5	-5.8
<b>Group</b>	<b>23,277.6</b>	<b>23,026.4</b>	<b>-1.1</b>	<b>-1.0</b>

1) Includes Oncoprod since October 2011.

## GROSS PROFIT

Gross profit (revenue less cost of goods sold) decreased by 3.1% in the fiscal year from EUR 2,838.1m to EUR 2,749.9m or EUR 2,749.9m before non-recurring expenses in connection with the Operational Excellence Program. Adjusted for portfolio and currency effects as well as non-recurring effects in connection with the Operational Excellence Program, gross profit was down by 2.5%. The gross profit margin fell from 12.2% to 11.9% accordingly.

## OTHER INCOME

Other income increased compared to the previous year by 7.0% from EUR 240.7m to EUR 257.5m. Adjusted for portfolio and currency effects, it grew to 11.8%. The positive special effect from the deconsolidation of our Dutch subsidiary Lloyds Nederland B.V. in the previous year was more than compensated by gains on the sale of a warehouse in the Wholesale business area. At the same time, other income increased in Brazil in particular as a result of reversing an earlier write-down of a VAT receivable.

## OTHER EXPENSES

At EUR 1,004.1m, other expenses were up 8.5% on the previous year. The increase is mainly attributable to non-recurring expenses of EUR 33.5m in connection with the Operational Excellence Program. Adjusted for portfolio and currency effects as well as non-recurring effects in connection with the Operational Excellence Program, the increase in other expenses came to just 3.9%. Transport costs went up by EUR 10.3m year-on-year to EUR 255.7m.

Building expenses increased from EUR 201.2m to EUR 214.6m, mainly as a result of higher rent and lease expenses. Expenses for IT and communication were up by EUR 11.3m on the previous year to EUR 158.6m in connection with various ongoing IT projects.

#### **PERSONNEL EXPENSES**

Personnel expenses rose from EUR 1,460.7m to EUR 1,492.8m in the reporting period, as a result of termination benefits to employees and expenses in connection with the settlement of contractual claims of former members of the Management Board. These expenses reflect the measures of the Operational Excellence Program and represent an increase of 2.2% (1.4% adjusted for portfolio and currency effects and the impact of the Operational Excellence Program).

#### **INVESTMENT RESULT**

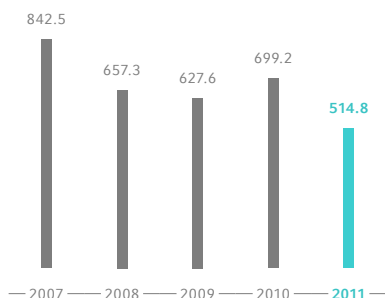
Our investment result, comprising the result from associates accounted for using the equity method as well as the result from other investments, came to EUR 4.3m, compared to EUR 6.9m in the previous year. It amounts to EUR 5.4m before adjusting for non-recurring expenses in connection with the Operational Excellence Program. As of 1 December 2010, the investment result included the Dutch investment Brocacef Holding, which is recognised as an associate. The result of the joint venture Medco Celesio was also recognised in this item. Brocacef Holding made a positive contribution to earnings of EUR 6.3m. Medco Celesio ultimately incurred start-up losses of EUR 6.7m; Celesio and Medco terminated the joint venture as of 30 September 2011.

#### **EBITDA**

We recorded a year-on-year decrease in earnings before interest, taxes, depreciation and amortisation (EBITDA), falling by 26.4% to EUR 514.8m (down 20.8% after adjusting for portfolio and currency effects). EBITDA came to EUR 578.3m after adjusting for non-recurring expenses in connection with the Operational Excellence Program (a 14.5% decrease after adjusting for portfolio and currency effects). Celesio was heavily burdened during this reporting period by large cuts in the healthcare sector and ongoing fierce competition in certain markets. Government measures squeezed Celesio's earnings by EUR 128.7m. The realignment and modernisation measures at Lloydspharmacy also entailed additional costs (see section on the Patient and Consumer Solutions division).

The group EBITDA margin came to 2.2% in the reporting period, compared to 3.0% in the previous year.

#### GROUP EBITDA EUR M



Non-euro EBITDA increased by 6.3 percentage points, in particular due to the fact that Panpharma in Brazil accounted for a higher share of revenue. Overall, currencies other than the euro contributed 23.1% to group EBITDA. Contributors include the Brazilian subsidiaries Panpharma and, since the fourth quarter of 2011, Oncoprod. Income in pounds sterling accounted for 46.1% of EBITDA compared to income in euro of 30.8%. The acquisition of Oncoprod marks a further step in our efforts to diversify our currency portfolio.

#### GROUP EBITDA BY CURRENCY

	2010 %	2011 %	Change % POINTS
Pound sterling	42.9	46.1	3.2
Euro	40.3	30.8	-9.5
Other	16.8	23.1	6.3

At 70.0% (previous year 58.1%), Pharmacy Solutions accounted for the largest share of group EBITDA.<sup>1)</sup> Patient and Consumer Solutions contributed 29.9% to group EBITDA (previous year 40.3%), while Manufacturer Solutions accounted for 0.1% (previous year 1.6%).

1) Without »Others« segment

## DEPRECIATION, AMORTISATION AND IMPAIRMENT

Amortisation of intangible assets and depreciation of property, plant and equipment came to EUR 143.4m, an increase of 7.8% on the previous year, in particular due to investing in the standardisation and modernisation of our group-wide IT applications. The impairment losses already recognised on intangible assets in the first half of the year were based on an impairment test of intangible assets, which revealed the need to adjust the carrying amount in three business units by a total of EUR 116.3m.

This amounted to EUR 72.0m for Pharmexx and to EUR 21.0m and EUR 23.3m respectively for the wholesale business in Denmark and Portugal. The reason for this extraordinary impairment test was the fact that the market value of Celesio AG had fallen below the carrying amount of group equity as of 30 June 2011. These formal impairment losses reflect the general economic uncertainty in Europe, which led to a weak economic environment for the pharmaceutical industry.

Impairment losses were also recorded on intangible assets as a result of implementing the Operational Excellence Program in the second half of the year. These related to IT systems and usage rights totalling EUR 8.3m that were no longer needed. Impairment losses of EUR 7.9m were recorded on property, plant and equipment – primarily in connection with the pharmacy closures. Additional impairment losses of EUR 2.1m were recognised.

## EBIT

Earnings before interest and tax (EBIT) came to EUR 236.8m after and EUR 434.9m before impairment of goodwill and not including non-recurring expenses in connection with the Operational Excellence Program. In the previous year, this indicator amounted to EUR 565.6m.

## FINANCIAL RESULT

The financial result – the balance of the items interest expense, interest income and other financial result – came to EUR –132.8m, compared to EUR –156.3m in the previous year. Non-recurring expenses in connection with the Operational Excellence Program amounted to EUR 0.9m. In a year-on-year comparison, this is primarily due to a positive non-cash currency effect of EUR 15.5m (previous year EUR –19.7m), which is included in “Other financial result” and stems from revaluing the purchase price liability for outstanding Panpharma shares with the exchange rate at the end of each reporting period. Adjusted for the effects of the purchase price liability, the application of the effective interest rate method for the convertible bonds and non-recurring effects from derivatives, the financial result came to EUR –112.4m (previous year EUR –111.6m).

The interest coverage ratio was 2.7 (previous year 3.6). This performance indicator reflects the mathematical number of times that the financial result – if negative – can be covered by EBIT (before impairment of goodwill).

## PROFIT BEFORE TAX

Following the negative performance of Celesio, profit before tax fell to EUR 104.0m after and EUR 323.3m before impairment of goodwill, not including non-recurring expenses in connection with the Operational Excellence Program and special effects in the financial result described above (previous year EUR 409.3m).

## INCOME TAXES

The low earnings level resulted in an absolute tax expense of EUR 97.9m, down 32.2% on the previous year’s figure of EUR 144.3m. This corresponds to an effective tax rate of 94.2% (previous year 35.3%). The increase in tax rate is mainly attributable to the impairment of intangible assets, which is not tax deductible, and the non-tax-deductible portion of expenses in connection with the Operational Excellence Program.

Furthermore, the special effects described in the section on the financial result are not generally tax deductible. Adjusted for these special effects, the tax rate was 36.8% (previous year 31.9%). The adjusted tax rate rose due to an increase in the loss situation of the consolidated tax group in Germany, for which no deferred taxes had been recognised.

### NET PROFIT/LOSS

Net profit came to EUR 6.1m after and EUR 204.5m before impairment of goodwill, not including non-recurring expenses in connection with the Operational Excellence Program, the special effects in the financial result described above and the associated tax effects (previous year EUR 265.0m).

### EARNINGS PER SHARE

Our basic earnings per share decreased from EUR 1.52 to EUR 0.01. Diluted earnings per share also came to EUR 0.01 because potentially dilutive ordinary shares are not included pursuant to IAS 33.41. Adjusted for the aforementioned special effects, basic earnings per share came to EUR 1.18 (previous year EUR 1.78).

REVENUE AND EARNINGS DEVELOPMENT CELESIO GROUP	2010		2011		Change on a euro basis %	Change adjusted for portfolio and currency effects %
	EUR M	% OF REVENUE	EUR M	% OF REVENUE		
Revenue	23,277.6	100.0	23,026.4	100.0	-1.1	-1.2
Gross profit	2,838.1	12.2	2,749.9	11.9	-3.1	-2.5
EBITDA	699.2	3.0	514.8	2.2	-26.4	-20.8
EBITDA (adjusted) <sup>1)</sup>	699.2	3.0	578.3	2.5	-17.3	-14.5
Profit before tax	409.3	1.8	104.0	0.5	-74.6	/
Profit before tax (adjusted) <sup>1) 2) 3)</sup>	454.0	1.9	323.3	1.4	-28.8	/
Net profit/loss	265.0	1.1	6.1	0.0	-97.7	/
Net profit/loss (adjusted) <sup>1) 2) 3)</sup>	309.1	1.3	204.5	0.9	-33.8	/

1) Adjusted for non-recurring effects (including tax effect) primarily in connection with the Operational Excellence Program.

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

3) Adjusted for special effects in the financial result (including tax effects).

## Investment and capital expenditures<sup>1)</sup>

Investments and capital expenditures recognised in the statement of financial position increased to EUR 272.7m in the 2011 fiscal year (previous year EUR 198.8m). In line with internal reporting, we differentiate between investments in acquisitions, equity investments and opening new pharmacies and capital expenditures on our operating business.

### INVESTMENTS IN ACQUISITIONS AND OPENING NEW PHARMACIES

This year, EUR 89.3m (previous year EUR 71.7m) was spent on the acquisition of pharmacies, opening our own pharmacies and the acquisition of Oncoprod. This represents a large portion, namely 32.7% (previous year 36.1%), of the total investment volume. Pharmacy acquisitions remained at the previous year's level of six pharmacies in 2011, while the number of new pharmacies opened decreased to 43 (previous year 60) as a result of the slower schedule for setting up our own pharmacy chain in Sweden.

<sup>1)</sup> In line with internal reporting, investments and capital expenditures 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.

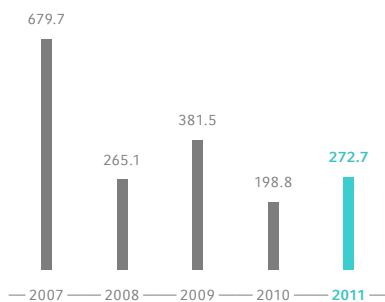


## CAPITAL EXPENDITURES ON OPERATING BUSINESS

Capital expenditures on our operating business amounted to EUR 183.4m (previous year EUR 127.1m), equivalent to 67.3% of the total investment volume. These were focused on expanding, modernising and standardising our IT applications, investing in our wholesale warehouse as well as modernising and relocating pharmacies.

INVESTMENTS AND CAPITAL EXPENDITURES BY DIVISION	2010 EUR M	2011 EUR M	Change %
Patient and Consumer Solutions	85.0	116.2	36.7
Pharmacy Solutions	79.2	116.1	46.6
Manufacturer Solutions	14.0	28.6	104.3
Other/group holding	20.6	11.8	-42.7
<b>Total</b>	<b>198.8</b>	<b>272.7</b>	<b>37.2</b>

## INVESTMENTS AND CAPITAL EXPENDITURES CELESIO GROUP EUR M



# Patient and Consumer Solutions division

Our Patient and Consumer Solutions (PCS) division is based on strong pharmacy brands. We offer patients and consumers direct advice and services at our own retail and mail-order pharmacies. In Germany, we also work with independent pharmacists within the framework of our brand partnership model. Our range covers prescription-only medicines as well as a wide selection of over-the-counter (OTC) products and services.

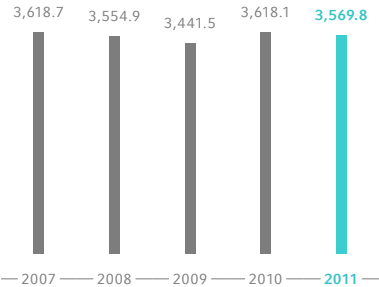
**i** OTC stands for »over the counter« and is used in the medical and pharmacy context to describe medicines which can be dispensed without a prescription.

## Revenue and earnings development

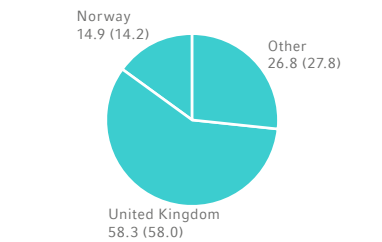
### REVENUE

Revenue fell by EUR 48.3m overall in the Patient and Consumer Solutions division in 2011, a decrease of 1.3% compared to the previous year. Thanks to the positive development in the volume of prescription-only medicines and revenue from services, Lloydspharmacy succeeded in maintaining its share of revenue at the previous-year level despite government austerity measures. DocMorris enjoyed positive development, driven by the entry to the Swedish market and strong revenue growth in the mail-order business.

REVENUE  
PATIENT AND CONSUMER SOLUTIONS  
EUR M



REVENUE IN THE RETAIL PHARMACIES  
BUSINESS AREA BY COUNTRY  
2011, %, PREVIOUS-YEAR FIGURES IN BRACKETS



Nevertheless, revenue fell to EUR 1,488.9m (previous year EUR 1,518.8m) as of the end of the year 2011 due to the deconsolidation of the Dutch pharmacies in the fourth quarter of 2010. Adjusted for portfolio and currency effects, revenue increased slightly by 0.6% in this division.

DEVELOPMENT OF PHARMACIES	Revenue 2010 EUR M	Revenue 2011 EUR M	Change on a euro basis %	Change in local currency %	Retail pharmacies 31/12/2011
United Kingdom	2,099.3	2,080.9	-0.9	0.3	1,645
Norway	514.3	531.6	3.4	0.7	180
Germany	285.1	330.6	16.0	16.0	/
Italy	208.5	209.0	0.2	0.2	162
Netherlands <sup>1)</sup>	155.7	0.0	-100.0	-100.0	1
Ireland	142.8	134.6	-5.8	-5.8	72
Belgium	136.6	138.5	1.4	1.4	99
Czech Republic	54.2	56.8	4.8	1.9	53
Sweden <sup>2)</sup>	21.6	87.8	307.4	286.0	69
<b>Total</b>	<b>3,618.1</b>	<b>3,569.8</b>	<b>-1.3</b>	<b>-1.2</b>	<b>2,281</b>

1) Until 30 November 2010. Since 1 December 2010, we have only operated one pharmacy in the Netherlands in connection with the mail-order pharmacy DocMorris.

2) Since February 2010.

## GROSS PROFIT

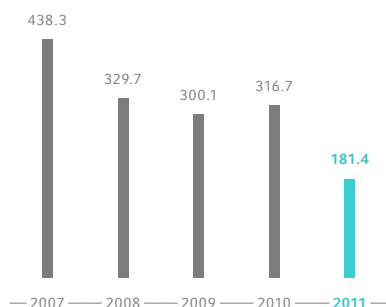
Gross profit fell by 3.5% to EUR 1,175.1m in the reporting period in the wake of the government measures described, the deconsolidation of the Dutch pharmacy chain and the realignment initiated in the UK with a burden on gross profit of EUR 16.0m. The decrease includes non-recurring expenses of EUR 4.0m in connection with the Operational Excellence Program. Adjusted for portfolio and currency effects, the decrease came to 1.7%. The gross profit margin was 32.9% (previous year 33.6%).

## EBITDA

EBITDA in Patient and Consumer Solutions fell to EUR 218.6m before and EUR 181.4m (down 42.7%) after non-recurring expenses in connection with the Operational Excellence Program. Further factors with a negative impact on EBITDA include government measures, the realignment programme for our UK pharmacy business and the pilot scheme for an online portal offering healthcare

services. Start-up expenses for our pharmacy chain in Sweden and operating and organisational costs for the new management unit for DocMorris also burdened EBITDA.

**EBITDA  
PATIENT AND CONSUMER SOLUTIONS  
EUR M**



**REVENUE AND EARNINGS  
DEVELOPMENT PATIENT  
AND CONSUMER SOLUTIONS**

REVENUE AND EARNINGS DEVELOPMENT PATIENT AND CONSUMER SOLUTIONS		2010		2011		Change on a euro basis %	Change adjusted for portfolio and currency effects %
		EUR M	% OF REVENUE	EUR M	% OF REVENUE		
Pharmacies	REVENUE	3,618.1	100.0	3,569.8	100.0	-1.3	0.6
	GROSS PROFIT	1,217.5	33.6	1,175.1	32.9	-3.5	-1.7
	EBITDA	316.0	8.7	183.4	5.1	-41.9	-28.2
Other business areas	REVENUE	0.0	/	0.0	/	/	/
	GROSS PROFIT	0.0	/	0.0	/	/	/
	EBITDA	0.7	/	-2.0	/	/	/
Total	REVENUE	3,618.1	100.0	3,569.8	100.0	-1.3	0.6
	GROSS PROFIT	1,217.5	33.6	1,175.1	32.9	-3.5	-1.7
	EBITDA	316.7	8.8	181.4	5.1	-42.7	-28.2

## Business areas

### PHARMACIES

We are one of the largest pharmacy operators in Europe, with 2,281 of our own retail pharmacies in seven countries including the UK and Norway, around 160 pharmacies in our brand partnership programme in Germany as well as mail-order pharmacies in the UK, Norway and the Netherlands (with their customer base primarily in Germany). Our most important market is the UK, where we operate over 1,600 retail pharmacies and, in addition to Lloyd's Pharmacy, the online medical advice service DrThom and the mail-order supplier Betterlife. For patients and consumers, our highly qualified pharmacists are often the first port of call for health-related matters. Our offering is characterised by our close relationship with customers, the quality of our advice and our comprehensive product range. We also offer customer-oriented services, including preventive care such as blood pressure, cholesterol or diabetes testing and advice on medicines and the potential side-effects of their interaction. Our services are tailored to the varying customer needs and general environment of each country. In selecting the location of our retail pharmacies, our central concern is ensuring close proximity to our customers as well as doctors' surgeries and health centres. For some time, we have been expanding our business in the UK to include institutional clients such as retirement and nursing homes or correctional facilities. We have made excellent progress with our rebranding process in Italy and Ireland.

Our Apotheke DocMorris brand partnership scheme is also part of the Pharmacies business area. The scheme included 160 pharmacies throughout Germany at the end of the reporting period.

The mail-order pharmacy forms an independent pillar in our distribution and is an important part of any effective healthcare concept. In the fourth quarter, we began our evaluation of the current concept for mail-order pharmacies with the aim of resolving the current conflict between mail-order and retail pharmacies as sales channels.

## Point of view – The Management Board

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“The pharmacy business is a fundamental pillar of Celesio’s future business success. When it comes to implementing our strategy, we are at a distinct advantage because we can access customers and patients directly with our products and innovative services.”

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## OTHER BUSINESS AREAS

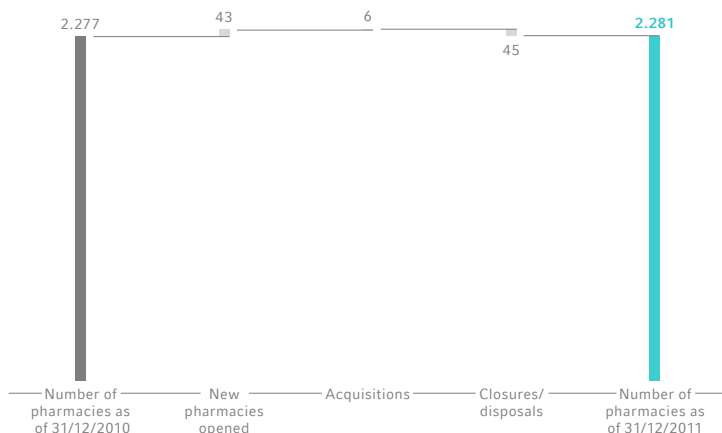
In the Netherlands, we combined our Dutch pharmacy activities with those of Phoenix in Brocacef Holding at the end of November 2010. This step has enabled us to strengthen the position of both companies on the Dutch pharmacy market by leveraging volume and synergy effects. At present, we hold a 45% interest in Brocacef Holding. With 116 of its own pharmacies at present and around 76 run by franchise partners, the company is ranked second on the Dutch pharmacy market. Starting from 1 December 2010, the investment in Brocacef is included in Celesio's consolidated financial statements as an associate under other business areas. Other business areas also comprise the pilot online portal for healthcare services, which had been planned for 2011 but has since been discontinued.

## BUSINESS DEVELOPMENT

Overall, the development of business with prescription pharmaceuticals and services was weak in almost all markets in the 2011 fiscal year, due to government austerity measures. The otc business fell short of our expectations. We continued to struggle with the tense general economic situation, which directly impacted private demand in the uk and Ireland in particular.

As in the previous year, growth was focused outside of the uk. We are now represented in seven countries with 2,281 retail pharmacies of our own. Of these, 49 pharmacies are new as of 31 December 2011, including 31 in Sweden. We closed or sold 45 pharmacies, mainly in the uk, as part of our endeavours to optimise our portfolio.

**CHANGE IN THE NUMBER OF PHARMACIES  
IN THE 2011 FISCAL YEAR**



**LLOYDSPHARMACY**

The UK remains by far our most important pharmacy market. Besides government measures, we were burdened in particular by our realignment in this market (especially measures to optimise our product portfolio) as well as the poor economic environment overall. Positive factors affecting business in the UK were the small but steady increase in the volume of prescriptions and the growing number of supply agreements with institutions such as hospitals, health centres or correctional facilities.

We benefit here from the special conditions of the British healthcare system. Unlike many other countries, the UK actively promotes outsourcing and privatisation in the healthcare system with the aim of securing major savings in public healthcare. This means that private companies can be more heavily involved in the national healthcare system. The UK government's plans for reform, laid down in the Health and Social Care Bill, even provide for equality in the status of private and public providers in the healthcare market. In future, public institutions, charitable organisations and private companies will all be equally entitled to provide their healthcare services to the NHS.



The current optimisation programme for Lloydspharmacy was implemented as planned. The programme is consumer-oriented with the aim of providing even better service and advice. Measures included streamlining the product range, launching further price campaigns, a more customer-friendly website and longer opening hours. The realignment burdened earnings by around EUR 16.0m in 2011.

#### **DOCMORRIS**

Norway – where we are represented under the name Vitusapotek – remains our most important pharmacy market for DocMorris. Here, business with prescription pharmaceuticals saw a modest development with a slight increase in volume. 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 improved in the last quarter. We were pleased with sales of skincare products, which we also offer under our own brands in Norway.

Despite further government austerity measures, our Italian pharmacy business developed relatively well, outperforming the market. Our focus on non-price-regulated products proved positive here. Moreover, we officially launched our DocMorris brand in Milan and Bologna in the autumn – as of the end of the year 2011, we are represented under this name in 22 locations.

As expected, our Irish pharmacy business also developed negatively in 2011, although not as much as the market as a whole. The major contributory factors were dramatic cuts in reimbursement prices for medicines and reductions in the pharmacy compensation. Ireland's economic situation also impacted our business with otc products. The 27 newly converted DocMorris pharmacies comfortably outperformed the market. Over a third of our Irish pharmacies have now successfully switched to the DocMorris concept.

The Belgian pharmacy market suffered as a result of the financial and economic crisis, coupled with the relatively high surcharge for visiting the doctor. However, we managed to expand business with retirement homes and similar institutions and were able to look back on a slightly positive development in sales of non-prescription products. Business development was less than satisfactory overall. We closed ten pharmacies and sold two in 2011 as part of our endeavours to optimise our portfolio.

The Swedish market failed to live up to forecasts, performing less strongly than expected across the board. DocMorris was affected by this development and fell well short of our expectations in terms of revenue and earnings. Against a backdrop of negative market conditions, this was also attributable to the fact that some locations developed more slowly than planned. We consequently closed twelve pharmacies that had opened in 2010 and 2011. We have also put together an extensive catalogue of optimisation measures with local management. We now have a total of 69 pharmacies in Sweden.

Our Czech pharmacy business struggled in a weak market environment that was compounded by government price cuts for prescription medicines.

Internal restructuring and efforts to strengthen sales were reflected in the satisfactory development of franchise activities in Germany. We saw a slight increase in participants in our brand partnership scheme.

Our mail-order business, which is registered in the Netherlands but focuses on Germany, also fared better than the market in general. DocMorris saw revenue climb by around 16% overall – a clear improvement on the market volume, which only saw a slight increase in the same period. The mail-order business was buoyed by a combination of new customers and a higher volume of individual orders, with the focus remaining on business with prescription-only pharmaceuticals. Extensive marketing measures and an overhaul of the website had a positive impact on revenue with otc products. In 2011, the DocMorris website was chosen by public vote as the winner of the renowned OnlineStar in the healthcare website category.

#### **OTHER BUSINESS AREAS**

As expected, our investment in Brocacef exhibited a positive development despite the tough market environment.

# Pharmacy Solutions division

Our Pharmacy Solutions division focuses on the needs of pharmacists, providing all the products and services that they require for success. Our full-line pharmaceutical wholesale business is at the heart of this division. Wholesale will remain one of the fundamental pillars of our new strategy. Pharmacy Solutions also comprises smaller, rapid-growth business areas offering complementary products and services for pharmacists.

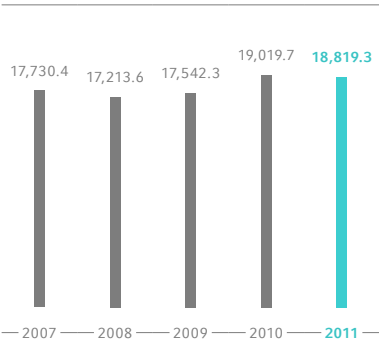
## Revenue and earnings development

### REVENUE

The Pharmacy Solutions division generated revenue of EUR 18,819.3m in the reported period (previous year EUR 19,019.7m), a year-on-year decrease of 1.1%. Adjusted for currency and portfolio effects, revenue fell by 1.6%. This development can primarily be attributed to weaker markets in general, government measures and ongoing pressure from competition in France and Germany.

The Wholesale business area made the largest contribution to revenue, accounting for EUR 18,814.3m (previous year EUR 19,014.4m).

REVENUE PHARMACY SOLUTIONS  
EUR M



DEVELOPMENT WHOLESALE BY COUNTRY	Revenue 2010 EUR M	Revenue 2011 EUR M	Change on a euro basis %	Change in local currency %	Branches 31/12/2011
France	6,704.8	6,579.2	-1.9	-1.9	44
Germany	3,972.3	3,969.4	-0.1	-0.1	21
United Kingdom	2,644.5	2,492.3	-5.8	-4.6	19
Brazil <sup>1)</sup>	1,503.5	1,648.4	9.6	9.5	24
Austria	1,019.4	1,034.1	1.4	1.4	7
Portugal	535.2	456.1	-14.8	-14.8	7
Norway	501.7	529.8	5.6	2.8	2
Belgium	544.9	518.0	-4.9	-4.9	6
Denmark	460.4	448.0	-2.7	-2.6	2
Ireland	318.0	311.7	-2.0	-2.0	3
Czech Republic	355.1	388.3	9.4	6.4	3
Slovenia	301.9	284.4	-5.8	-5.8	2
Italy	152.7	154.6	1.3	1.3	1
<b>Total</b>	<b>19,014.4</b>	<b>18,814.3</b>	<b>-1.1</b>	<b>-1.0</b>	<b>141</b>

1) Includes Oncoprod since October 2011.

### GROSS PROFIT

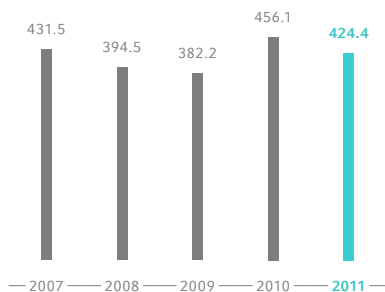
Gross profit of the division decreased, falling 1.4% to EUR 1,191.5m. This was mainly due to the general stagnation of the pharmaceutical markets in Germany and France as well as the increased competition in these countries. The gross profit margin fell to 6.3%, or 2.3% adjusted for portfolio and currency effects.

### EBITDA

The division's EBITDA dropped to EUR 436.1m before and EUR 424.4m after non-recurring expenses in connection with the Operational Excellence Program, due in particular to the burdens in Germany and France described above. Adjusted for portfolio and currency effects as well as non-recurring effects in connection with the Operational Excellence Program, the year-on-year decrease came to 8.3%.

The EBITDA margin decreased by 0.1 percentage points to 2.3%, mainly because of the development in Germany.

**EBITDA PHARMACY SOLUTIONS**  
EUR M



**REVENUE AND EARNINGS  
DEVELOPMENT PHARMACY  
SOLUTIONS**

	2010		2011		Change on a euro basis %	Change adjusted for portfolio and currency effects %
	EUR M	% OF REVENUE	EUR M	% OF REVENUE		
Wholesale						
REVENUE	19,014.4	100.0	18,814.3	100.0	-1.1	-1.6
GROSS PROFIT	1,206.5	6.3	1,189.3	6.3	-1.4	-2.3
EBITDA	459.2	2.4	425.0	2.3	-7.5	-11.4
Other business areas						
REVENUE	5.3	100.0	5.0	100.0	-6.5	/
GROSS PROFIT	2.3	43.4	2.2	44.8	-3.7	/
EBITDA	-3.1	/	-0.6	/	82.4	/
Total						
REVENUE	19,019.7	100.0	18,819.3	100.0	-1.1	-1.6
GROSS PROFIT	1,208.8	6.4	1,191.5	6.3	-1.4	-2.3
EBITDA	456.1	2.4	424.4	2.3	-7.0	-10.9

## Business areas

### WHOLESALE

With its full-line wholesalers, Celesio acts as an essential bridge between manufacturers and pharmacies. We procure medicines approved in each country and other products sold in pharmacies directly from the manufacturers – in Germany, for example, up to 130,000 different products from more than 2,500 manufacturers. We then store them at our wholesale branches, supported by our efficient warehousing management system. With a complex and sophisticated delivery system, we ensure a rapid, punctual and reliable 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. We pass on a share of this margin to our customers in the form of discounts.

With our subsidiaries, we are represented in twelve European countries and Brazil. We lead the market in France, the UK, Norway, Austria and Slovenia and are among the market leaders in all other countries, with the exception of Italy, where we only operate regionally. Our 133 wholesale branches supply over 65,000 pharmacies on a daily basis. In addition, we enjoy market leadership in the specialty pharmacy area in Brazil, where Oncoprod's eight branches supply hospitals. We are continuously expanding our wholesale range in all countries and offer supplementary services for pharmacists. This can include the organisation and management of pharmacy cooperation programmes such as "gesund leben" in Germany, with 2,368 pharmacies, "Pharmactiv" in France and Belgium, with 1,289 and 185 partners respectively, and "Herba Family" in Austria. Above all, cooperation partners benefit from our solution package which enables them to select the modules they require in the areas of marketing, warehouse management, product range design or tailored financing services. Within the framework of these cooperation programmes, which we intend to build on as part of our new strategy, we will support our business partners with offers and campaigns, as well as by providing IT platforms to exchange information. One example is GEHE's WAWITop, launched in Germany to complement existing inventory management systems by providing solutions tailored to various aspects of pharmacy stock planning. This is all complemented by our own brands, which we offer in addition to the regular product portfolio, together with training 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.

## Point of view – The Management Board

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“Pharmaceutical wholesale has been a fundamental pillar of our business from the start. We have nevertheless had to contend with growing competition and shrinking margins, a situation compounded by government austerity programmes, which have become even stricter in response to debt crises in various countries. Against this backdrop, we have to continue to supplement traditional marketing and distribution patterns with innovative approaches in order to ensure further profitable growth. These approaches include offering innovative services for our pharmacy clients such as WAWITop and e-Placement, optimising the value-added chain and entering new growth fields such as specialty pharmacy. Thus we endeavour to explore new paths, including in our core business, and in doing so will focus on the entire value-added chain between manufacturer and patient.”

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## Business development

### WHOLESALE

The tense financial situation affecting European budgets triggered fierce competition and austerity measures, which also impinged on the wholesale business, albeit to a lesser extent than in our pharmacy business.

### France

As in the previous year, our business in France – our most important wholesale market – was characterised by fierce competition. Consequently, we once again saw revenue and gross profit figures fall at our French wholesaler ocp, a development that our new service offering only partly made up for. For instance, we developed e-learning modules for our partners as well as a new marketing concept, e-detailing, that boosts cost efficiency in a tailored and interactive way. Together with our customers, we also developed our “New Commercial Partnership” programme, which optimises discount models at participating pharmacies.

“Pharmactiv” also developed well once again. With 1,289 partners now involved in this pharmacy cooperation programme, we believe that it provides a promising basis for our new strategy.

The French market is set to remain tense in the coming year – please read the outlook starting on → [page 145](#) for more information.

**i** **e-detailing** is a marketing term used in the pharmaceutical industry to describe discussion on medicines and pharmaceutical products using electronic media. e-detailing is a type of e-learning or product training used as part of the marketing mix in direct marketing and customer loyalty programs. Traditional consulting services provided to pharmacists by a pharmaceutical representative are enhanced in an interactive and tailored online approach.

### United Kingdom

Our UK wholesaler AAH developed particularly well. Despite a slight decrease in revenue over the reporting period as a whole, we were able to improve margins by introducing operating measures such as optimising purchasing terms. Alongside the DTP (direct to pharmacy) model, the trend towards reduced wholesale models also continued. As market leader, we are a preferred partner for manufacturers for both models. Our services are also in demand for exclusive special arrangements that go beyond the scope of ordinary wholesale expertise.



Starting in 2012, AAH will supply pharmacies, clinics and physicians with these specialty pharmaceuticals. Our UK wholesaler will benefit from our know-how with regard to special medicines of this kind, which need to be cooled and monitored throughout the transport chain. Exclusive agreements like this are highly coveted in the industry and therefore of particular importance for us.

- ① The **reduced wholesale model** is a concept whereby pharmaceutical manufacturers supply a selected number of wholesalers for certain products and product groups.

The market continued to respond well to our customer loyalty scheme “All About Health”, which we launched in 2010 to raise health awareness among patients and consumers and inform them of pharmacies’ services.

We further adjusted our branch network in the course of implementing our Operational Excellence Program and decided to close our warehouse in Langley in the 2012 fiscal year.

- ① **Direct to pharmacy** means the direct supply of pharmacies by manufacturers, a model in which the wholesaler acts solely as the carrying agent and is at no stage the owner of the goods.

## Germany

In 2011, the German pharmaceutical and healthcare market was characterised above all by legal initiatives such as the price moratorium and the Gesetz zur Neuordnung des Arzneimittelmärktes (AMNOG, Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance). The price moratorium came into force in early 2011, together with the increase in fixed mandatory discounts for prescription medicines without price caps. These initiatives aim to contain the steady rise in spending on pharmaceuticals and ensure comprehensive supply by wholesalers. According to the German government’s planning, the savings secured will alleviate the burden on health insurers by around EUR 1bn per year, reducing the impact of the multi-billion euro deficit originally expected for the German health insurers.<sup>1)</sup>

The AMNOG also provides for a further change affecting compensation of pharmaceutical wholesalers as of 1 January 2012. Instead of receiving a percentage-based mark-up, as was previously the case, wholesalers will receive a fixed amount of 70 cents plus a variable percentage-based mark-up of up to

1) Federal Ministry of Health: Need for action for the Gesetz zur nachhaltigen und sozial ausgewogenen Finanzierung der gesetzlichen Krankenversicherung (GKV-Finanzierungsgesetz, German Act on Sustainable and Socially Acceptable Funding of the Statutory Healthcare Insurers), [www.bmg.bund.de/krankenversicherung/gesundheitsreform/inhalte/gkv-finanzierungsgesetz.html](http://www.bmg.bund.de/krankenversicherung/gesundheitsreform/inhalte/gkv-finanzierungsgesetz.html)

3.15% on the manufacturer sales price. Competition increased in Germany as a result in 2011. All market participants wanted to secure the largest market share possible, leading to a marked drop in earnings in Germany.

Despite the tough market environment and continuing pressure from competition, GEHE managed to defend its market share – in part thanks to the development and successful distribution of innovative services such as WAWITop and e-Placement. WAWITop is a tailored solution for pharmacists looking to optimise their inventory management system. It can help bring about a significant reduction in the operating expenses of a pharmacy. e-Placement, which GEHE showcased to participants in our pharmacy cooperation scheme “gesund leben” in October 2011, is an additional innovative solution for pharmacists to implement locally. Our studies show that this innovative system can boost pharmacies’ gross profit considerably in certain segments – mainly thanks to targeted placement of products on display depending on season, for example. Unlike traditional category management instruments, e-Placement considers the actual situation in each pharmacy, ensuring an optimal range selection and presentation according to the local requirements of the pharmacy customers.

- i** In a pharmacy, **display products** are medicines that are visible but not freely accessible to customers. They are usually positioned behind the sales counter.

The process optimisation measures included in our Operational Excellence Program also affect GEHE; for instance, we have decided to optimise our branch network.

## Brazil

Panpharma developed according to plan. Revenue grew in the market in which it operates, and we were particularly pleased that Panpharma managed to secure year-on-year percentage growth in the high single-digit range for gross profit. This development can be attributed to our strong focus on qualitative growth, which was achieved by concentrating on independent pharmacies and generic pharmaceuticals and leveraging the strong market position in the referrals business. As market leader with a national sales network and strong capital backing, Panpharma also managed to position itself as the central distribution partner of the largest generics provider in Brazil. Panpharma can anticipate greater efficiency and therefore good earnings developments following the

introduction of new technology by Celesio over the course of the year. Better product availability will also boost our appeal.

On 7 October 2011, we acquired a majority interest of 60% in the Oncoprod Group, Brazil. Oncoprod is the leading wholesaler for specialty pharmaceuticals in Brazil. With the takeover, we attained leadership in the Brazilian specialty pharmacy market. Unlike in Europe, specialty pharmaceuticals such as cancer medicines are only available from hospitals and specialist clinics in Brazil, not from pharmacies. Due to the special storage and transport requirements for these medicines, distribution and supply is performed by specialist pharmaceutical wholesalers such as Oncoprod. The company was founded in 1995 and now has over 300 employees at seven locations in Brazil. Revenue of around EUR 400m was generated in 2011.

## Austria

Market conditions in Austria remained stable, supporting the positive development of our Austrian wholesaler Herba Chemosan. Herba saw revenue from non-prescription medicines increase by 3.5%, while revenue from prescription products was up 1.1%.

## Portugal

The Portuguese pharmaceutical and healthcare market is suffering painfully as a result of the country's overall economic situation. Like all countries confronted by the debt crisis and budget deficits, drastic cost-cutting programmes are affecting the healthcare system – measures that also influence the wholesale business. In particular, the market felt the negative effect of price cuts in 2011. In addition, a new margin system was approved in November 2011. This will replace the current fixed lump-sum compensation with a system that combines decreasing margins and lump-sum components.

OCF Portugal stepped up cooperation with industry partners to defend market shares and at least go some way towards countering these negative effects.

As a result of the economic developments in Portugal and the increase in country risk premiums and discount rates, our extraordinary impairment test of assets revealed the need to recognise an impairment loss of EUR 23.3m on the goodwill of OPC Portugal. Bad debt allowances were also increased.

## Norway

Business was satisfactory overall at our wholesaler Norsk Medisinaldepot (NMD). NMD moved into a large new warehouse in Oslo in 2011.

## Belgium

Tougher competition caused us to lose market shares in Belgium. Our pharmacy cooperation programme Pharmactiv developed well, however, with 185 pharmacies having joined the programme since its launch at the end of 2010.

There was a change in government in December 2011. We assume that the announced restructuring programme will also affect the healthcare sector.

## Denmark

The Danish pharmaceutical and healthcare market saw the market contract by 8% in 2011. This breaks down as a decline of 11% in the market for hospital pharmacies and 6% for private pharmacies. Growing competition for generic products was accompanied by plummeting prices.

Our wholesale subsidiary Tjellesen Max Jenne managed to capture a considerable share of the market in the second half of the year thanks to the optimisation of automated ordering systems and increased marketing and sales activities. Celesio had to recognise impairment losses of EUR 21.0m on the wholesale business in Denmark following an extraordinary impairment test of assets. The impairment loss primarily reflects the market decline and fierce competition. Accompanied by lower margins and profit, this trend will continue to impact negatively on operating results in the Danish wholesale business.

## Ireland

Ireland is also suffering from a weak economic environment and government austerity measures. Price cuts were introduced three times in the past year alone, directly impacting on the wholesale margin. Our Irish wholesaler Cahill May Roberts fell considerably short of operating targets as a result.

## Czech Republic

The Czech market remained challenging in 2011. GEHE Praha nevertheless managed to increase revenue, although margins fell.

## **Slovenia**

Kemofarmacija, our wholesaler in Slovenia, once again generated good earnings. However, for the first time the market environment in Slovenia presented more of a challenge than in previous years. In particular, one of our former customers disrupted the market by setting up a wholesale business, fuelling intense competition.

## **Italy**

Government measures, coupled with falling demand for prescription pharmaceuticals, set the scene for a troubled market environment in Italy. Our regional wholesaler AFM managed to hold its own nevertheless – mainly as a result of redrafting existing agreements – and generated good earnings. Furthermore, cost savings were realised following measures to optimise storage and transport processes.

## **OTHER BUSINESS AREAS**

The earnings development at Rudolf Spiegel Versand followed the trend of the previous year.

# Manufacturer Solutions division

The Manufacturer Solutions division bundles our service offering for the pharmaceutical industry. Pharmaceutical manufacturers in particular are confronted with aggressive competition in today's rapidly evolving pharmaceutical and healthcare market. Some pharmaceutical manufacturers therefore increasingly focus on their core competencies, relying on external providers of pharmaceutical services at certain points along the value-added chain. Manufacturer Solutions and the business areas within the division offer services to meet these demands.

In September 2011, we reached an agreement with Medco Health Solutions, Inc. to discontinue our joint services for chronically ill patients with effect as of the end of the third quarter. Consequently, we sold our 50% share in Medco Celezio B.V., the joint venture founded in 2010, to Medco Health Solutions, Inc.

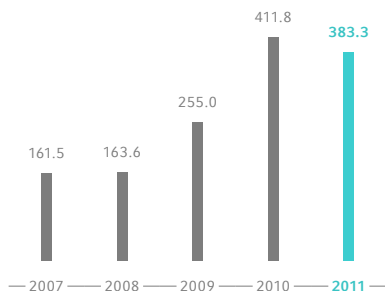
## Earnings development

### GROSS PROFIT <sup>1)</sup>

The Manufacturer Solutions division generated gross profit of EUR 383.3m in 2011, a decline of 6.9%. In 2011, the business area "Logistics Solutions" recorded gross profit of EUR 183.5m, down EUR 1.5m on the previous year. The "Marketing Solutions" business area also lost ground. Gross profit fell to EUR 197.4m, a year-on-year drop of 12.2% (previous year EUR 224.8m). "Efficient Care Pharma" generated gross profit of EUR 2.4m, an improvement on the previous-year figure (EUR 2.0m).

<sup>1)</sup> 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.

**GROSS PROFIT  
MANUFACTURER SOLUTIONS  
EUR M**



**EBITDA**

The division's EBITDA fell to EUR 4.4m before and EUR 0.4m after non-recurring expenses in connection with the Operational Excellence Program. This is largely attributable to the high start-up expenses for Medco Celesio and a fall in income from Movianto.

**EARNINGS DEVELOPMENT  
MANUFACTURER SOLUTIONS**

	2010		2011		Change on a euro basis %	Change adjusted for portfolio and currency effects %
	EUR M	% OF GROSS PROFIT	EUR M	% OF GROSS PROFIT		
Logistics Solutions – GROSS PROFIT	185.0	100.0	183.5	100.0	-0.8	-1.4
EBITDA	17.9	9.7	10.7	5.8	-40.6	-40.1
Marketing Solutions – GROSS PROFIT	224.8	100.0	197.4	100.0	-12.2	-9.6
EBITDA	-2.3	/	0.1	0.1	/	/
Efficient Care Pharma – GROSS PROFIT	2.0	100.0	2.4	100.0	19.3	34.5
EBITDA	-3.4	/	-10.4	/	-202.5	4.0
Total – GROSS PROFIT	411.8	100.0	383.3	100.0	-6.9	-5.7
EBITDA	12.2	3.0	0.4	0.1	-96.9	-35.9

## Business areas

### **LOGISTICS SOLUTIONS – MOVIANTO**

We have specialised in pharmaceutical logistics and related services in the Logistics Solutions business area, which currently consists exclusively of Movianto. We offer logistics services tailored to the pharmaceutical industry's need for storage, order picking, transport and packaging – currently in twelve European countries. Our 600 customers include most of the world's major pharmaceutical manufacturers. Movianto's core competencies include logistics services for particularly sensitive and for premium medicines. An increasing number of pharmaceutical products require special transport logistics such as a temperature-controlled delivery chain.

### **MARKETING SOLUTIONS – PHARMEXX**

Pharmexx is one of the leading contract sales organisations, providing pharmaceutical companies with innovative marketing and sales solutions. These encompass personnel services, direct marketing and sales support, for example with product launches. In 2011, Pharmexx had more than 250 customers in over 21 countries, including the top 25 pharmaceutical manufacturers, and was in contact with around 30,000 doctors, pharmacists and patients per day.

### **OTHER BUSINESS AREAS**

Other business areas comprise our UK subsidiary Evolution Homecare. It coordinates treatment using specialty pharmaceuticals which are brought to the patient at home and administered there. This is particularly necessary and useful for diseases which are not medicinally treated at a clinic in the interest of the patient or for reasons of cost, but which require complex and time-consuming treatment and advice. In 2011, we operated exclusively in the UK with Evolution Homecare, continuing efforts to build up the company there.



## Business development

### LOGISTICS SOLUTIONS – MOVIANTO

Our Logistics Solutions business area was not able to increase its business volume. Movianto continued to struggle with the effects of losing a large contract in the UK in the previous year – which could not be fully compensated in 2011 – together with start-up expenses in Portugal and a difficult Spanish market. A particularly challenging situation for us emerged in Spain – a country in which we actually enjoy a strong position. Despite contracts being in place, they could not be fulfilled as services could not be paid for.

The situation in Portugal was also tense. Movianto had set up a new subsidiary and developed warehouse capacity here in 2011. We faced delays, including late receipt of a license from the authorities, meaning that our market launch took longer than planned.

In Germany we also faced higher costs due to difficulties in carrying out a contract; in Denmark, high start-up expenses were incurred as planned for a new warehouse.

Although, due to the factors described, Movianto's earnings fell well short of the previous-year level, the business area secured a number of attractive new contracts in the second half of the year. However, most of the main effects resulting from these will not be seen until 2012 and thereafter.

### MARKETING SOLUTIONS – PHARMEXX

Pharmexx recorded growth in several countries, even though the pace of business expansion following restructuring fell short of expectations in many countries. Like Movianto, Pharmexx also struggled in the face of tough markets in Spain and Portugal and was unable to meet its targets in these countries. Actual development lagged behind expectations in Pharmexx's specialised business, e.g. documentation service for visits to physicians or assumption of complete marketing rights for individual product lines. Unfavourable contractual structures, such as those in Turkey, triggered a collapse in margins that was impossible to cushion. Our business in India and Brazil was also disappointing, developing more slowly than planned. An impairment loss of EUR 72.0m had to be recognised on goodwill as of 30 June 2011 to reflect these lower expectations of business prospects and the increased cost of capital, which is primarily due to the rise in the country-specific risk premium and the risk-free base interest rate.

Various new agreements concluded in the second half of 2011 will yield positive effects, but not until 2012.

#### **OTHER BUSINESS AREAS**

With revenue up 53.0% on the previous year, Evolution Homecare in the UK is on course for growth, although scheduled start-up losses were once again incurred.

Celesio AG and Medco Health Solutions, Inc. reached an agreement to discontinue their joint services for chronically ill patients with effect as of 30 September 2011. Celesio AG sold its 50% share in the joint venture founded in 2010, Medco Celesio B.V., to Medco Health Solutions, Inc. The future burdens originally included in planning no longer apply.

## Statement of cash flows

Celesio generated a positive free cash flow in 2011, albeit well below the level of the previous year due to poorer business performance and higher investment expenses.

### NET CASH FLOW FROM OPERATING ACTIVITIES

The net cash flow from operating activities decreased in the past fiscal year to EUR 559.3m, down EUR 93.0m on the previous year. The decrease is attributable to the EUR 184.4m fall in EBITDA, which was offset to some extent by an increase in cash and cash equivalents (adjusted for consolidation and currency effects) from the change in net working capital.<sup>1)</sup>

### NET CASH FLOW FROM INVESTING ACTIVITIES

Net cash flow from investing activities increased significantly in 2011 from EUR 124.0m to EUR 200.4m. The development is mainly due to capital expenditures to modernise the IT landscape as well as investments in our wholesale branch network and to realign, relocate or open pharmacies. There was a non-recurring effect of EUR 39.3m in the previous year as a result of selling the investment in Andrae-Noris Zahn AG (ANZAG). Proceeds from the sale of the warehouse in Oslo also had an impact.

### FREE CASH FLOW

Free cash flow fell well short of the previous year's level to EUR 238.1m – a drop of EUR 194.2m compared to the free cash flow in 2010. The development can be explained by the lower net cash flow from operating activities, the higher net cash flow from investing activities and an increase in interest paid compared to the same period in the previous year. The increase in interest paid is in part attributable to the first 4.5% coupon payment on the corporate bond of EUR 500m issued in 2010.

<sup>1)</sup> 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).

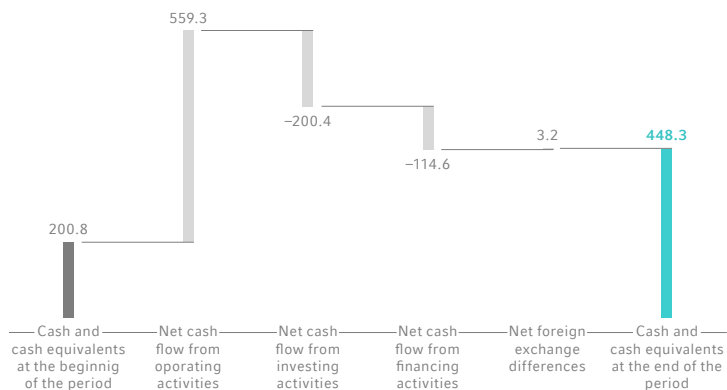
GROUP STATEMENT OF CASH FLOWS FOR THE 2011 FISCAL YEAR	2010 EUR M	2011 EUR M	Change EUR M
Net cash flow from operating activities	652.3	559.3	-93.0
Net cash flow from investing activities	-124.0	-200.4	-76.4
Interest paid and received	-96.0	-120.8	-24.8
<b>Free cash flow</b>	<b>432.3</b>	<b>238.1</b>	<b>-194.2</b>
Payments made to shareholders	-89.0	-86.8	2.2
Net cash flow from change in borrowings	-283.8	93.8	377.6
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	-2.3	-0.8	1.5
<b>Net change in cash and cash equivalents</b>	<b>57.2</b>	<b>244.3</b>	<b>187.1</b>
Net foreign exchange rate difference	15.9	3.2	-12.7
<b>Change in cash and cash equivalents</b>	<b>73.1</b>	<b>247.5</b>	<b>174.4</b>

The increase in cash and cash equivalents is partly attributable to the fact that not all proceeds from the convertible bond could be used to repay liabilities.

As of 31 December 2011, Celesio's level of debt had fallen in a year-on-year comparison. This was the result of improved net working capital management compared to the previous year – above all in Brazil and Norway – as well as the fact that payments to French suppliers were shifted to January in connection with the closing date.

There are no other current loans or borrowings due for repayment at present. Therefore, the the high cash flow remaining as of the reporting date can only be invested externally.

**CHANGE IN CASH AND CASH EQUIVALENTS  
IN THE 2011 FISCAL YEAR EUR M**



**NET WORKING CAPITAL**

Compared to the previous year, the development of net working capital (after adjustments for exchange and consolidation effects as well as valuation allowances on receivables and inventories and the reclassification of disposal groups) improved as of 31 December 2011. Trade receivables came to EUR 2,529.4m as of 31 December 2011. An increase in inventories and a relatively stable level of trade receivables was offset by a considerable increase – partly in connection with the closing date – in trade payables.

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

OPERATING ASSETS AND LIABILITIES	31/12/2010 EUR M	31/12/2011 EUR M	Change in statement of financial position EUR M	Change in income statement* EUR M
Inventories	1,688.1	1,791.5	103.4	-108.3
Trade receivables	2,522.0	2,529.4	7.4	59.8
Trade payables	2,514.6	2,799.4	284.8	211.0
Other net operating assets	117.3	150.8	33.5	33.3
<b>Operating net assets</b>	<b>1,578.2</b>	<b>1,370.7</b>	<b>-207.5</b>	<b>195.8</b>
<b>Other operating assets and liabilities</b>	<b>-303.0</b>	<b>-326.4</b>	<b>-23.4</b>	<b>-82.2</b>
<b>Net cash flow from change in net working capital</b>				<b>113.6</b>

\* Change adjusted for currency effects, changes in the consolidated group, assets and liabilities held for sale.

## Financing strategy and financial management

Our financing strategy is founded on the following principles:

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

For a long time, we refinanced almost exclusively via banks, but have gradually changed this in recent years. Today, we have a much broader financing structure. We have reduced our dependence on banks, extended maturities and secured favourable interest rates by issuing two convertible bonds and one corporate bond.

FINANCIAL LIABILITIES	31/12/2008	31/12/2009	31/12/2010	31/12/2011
	EUR M	EUR M	EUR M	EUR M
Liabilities to banks	1,388.9	1,022.7	418.2	254.9
Promissory notes and bonds	789.7	1,091.8	1,464.1	1,779.4
Lease liabilities	20.6	21.1	19.2	20.1
Other financial liabilities	17.3	32.5	21.8	12.6
<b>Group/total</b>	<b>2,216.5</b>	<b>2,168.1</b>	<b>1,923.3</b>	<b>2,067.0</b>

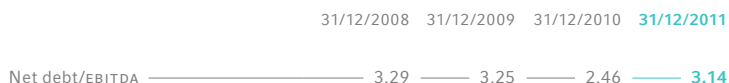
In light of ever stricter capital adequacy requirements for banks and the anticipated impact on lending, we remain committed to our goal of limiting bank financing to no more than 20 to 30% of our financial liabilities.

Up to 90% of financing is carried out via Celesio AG and the group's internal financing company Celesio Finance B.V. Local lines of credit are only used where it is not possible or not practical to draw on central sources.

For financing, we maintain a balanced maturity profile and a broad base of creditors, thus avoiding any dependency.

Celesio does not have an external credit rating. In light of the refinancing volume involved, we will not become a regular issuer on the capital market in the foreseeable future either. We therefore see no reason to revise our opinion that an external rating is not necessary.

We nonetheless carefully monitor the KPIs relevant for ratings. The net debt to EBITDA ratio is of particular importance here. We aim to keep the ratio of net debt to EBITDA below 3.



As on the equity side, we also place particular value on building long-term and sustainable relationships with our lending investors. Our creditor relations activities comprise an annual bankers' day, several international roadshows and numerous personal meetings to report promptly and in detail on current developments at the company. In the past, we always provided our core banks with information on the company's development and strategy prior to the annual renewal of credit lines. We will continue to pursue this policy of detailed dialogue with our creditors in future.

## Financial instruments

### CREDIT LINES

Long-term bilateral credit lines approved by banks are a major component of our financing portfolio. As the credit lines are confirmed for up to five years, it is extremely important to maintain a particularly trusting and cooperative working relationship with the banks. In spring 2011, we therefore prematurely terminated credit lines of over EUR 500m that we would no longer need in the foreseeable future as a result of issuing bonds. This step also enabled us to optimise our bank portfolio by parting ways with banks when continuing the business relationship no longer made sense for either party.

Celesio still has undrawn, long-term, confirmed credit lines in the nine-digit range. At least once a year, the Management Board determines the required cushion of available credit lines. The safety cushion was set at EUR 500m for the past year.

At holding level, Celesio had at its disposal of credit lines from 22 international banking groups as of the reporting date. Most of the credit lines at holding level have terms of between three and four years and some can be drawn in a range of currencies.



Only one bank accounted for slightly more than 10% of all confirmed bilateral credit lines at holding level as of the reporting date.

In addition, we also have access to a syndicated loan of EUR 600m, which has not been drawn at present. This loan matures on 11 February 2013.

## BONDS

We placed a second convertible bond on 29 March 2011. The bond was issued by Celesio Finance B.V. The bond has a term to maturity of seven years and a nominal volume of EUR 350m in denominations of EUR 100,000. Interest is charged at a fixed coupon rate of 2.5% per annum. The initial conversion price is EUR 22.48. The bond issue was oversubscribed by about nine times.

Celesio therefore has three bonds outstanding at present:

BONDS CELESIO GROUP	31/12/2010 EUR M	31/12/2011 EUR M	Coupon %	Due
Convertible bond 2009	350	350	3.75	29/10/2014
Corporate bond 2010	500	500	4.50	26/06/2017
Convertible bond 2011	/	350	2.50	07/04/2018
<b>Total</b>	<b>850</b>	<b>1.200</b>		

These figures are nominal values.

The bond agreements did not contain any financial covenants in 2011.

## PROMISSORY NOTES

Celesio did not issue any new promissory notes in the past fiscal year. Those currently in circulation mature as follows:

31/12/2010 EUR M	31/12/2011 EUR M	Due
100	100	15/06/2012
5	5	16/09/2013
105	105	15/12/2013
25	25	15/03/2014
150	150	15/06/2014
25	25	15/03/2016
<b>415</b>	<b>415</b>	

31/12/2010 GBP M	31/12/2011 GBP M	Due
70	70	17/12/2012
60	60	15/03/2013
80	80	15/06/2014
<b>210</b>	<b>210</b>	

As of 31 December 2011, our promissory notes had an equivalent value of EUR 666.9m (previous year EUR 659.4m), of which 37.7% (previous year 37.0%) was issued in pounds sterling.

## FACTORING

In 2011, we once again sold our UK subsidiary Lloydspharmacy's receivables from the National Health Service in England as well as its devolved administrations in Scotland and Wales. The receivables sold had a total volume of EUR 177.8m as of year end (previous year EUR 172.8m). Our Norwegian subsidiary Norsk Medisinaldepot also continued factoring its receivables from public-sector hospital pharmacies. The receivables sold in Norway had a volume of EUR 40.8m (previous year EUR 39.7m).

This factoring reduces both our refinancing risk in the respective currencies and our counterparty risk. The very good credit rating of the governments that act as guarantors for the receivables minimises our interest expense. The receivables sold are derecognised from the statement of financial position to reflect the transfer of significant risks and rewards to the purchaser.

## INVESTMENTS

In the past fiscal year, we made overnight deposits with banks. The credit standing is the main selection criterion for banks. We define maximum investment amounts for each bank to minimise the risk of default.

## FINANCING COSTS

We optimise financing costs and our counterparty risk by funding Celesio AG's working capital, which fluctuates daily, primarily at group level. We have set up cross-border cash pools with banks for accounts denominated in euro. We examine on an ongoing basis whether further group companies can be included in these cash pools.

On 31 December 2011, 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 2011 fiscal year is provided from → page 159 onwards of the notes to the consolidated financial statements.

## TOTAL ASSETS

The Celesio Group had total assets of EUR 8,794.3m as of 31 December 2011, an increase of EUR 391.6m compared to 31 December 2010. Consolidation effects in particular reduced total assets by EUR 165.3m. The group's gearing, i.e. the ratio of net financial debt to equity, came to 0.63, virtually unchanged compared to the end of the previous year (0.66). Net financial debt decreased from EUR 1,722.5m to EUR 1,618.7m. Due to the termination of the Medco Celesio B.v. joint venture, we did not contribute our DocMorris mail-order pharmacy. We do not disclose any assets or liabilities of disposal groups as of 31 December 2011. These assets and liabilities were reclassified to the original positions in the statement of financial position.

## NON-CURRENT ASSETS

Non-current assets increased by EUR 150.5m to EUR 3,601.3m. Of this, EUR 34.0m is attributable to currency effects and EUR 37.1m to changes in the consolidated group, primarily in connection with the acquisition of the Oncoprod Group. Furthermore, a total of EUR 95.6m was reclassified from disposal groups of the DocMorris mail-order pharmacy to non-current asset items. Further payments to pension funds, especially in the UK, as well as additions to intangible assets – mainly as a result of investing in the IT infrastructure – as well as the reversal of impairment losses on non-current VAT receivables contributed to the increase.

On the other hand, impairment losses were incurred. These mainly relate to the impairment of goodwill as of 30 June 2011, as well as impairment of intangible assets and property, plant and equipment in connection with the Operational Excellence Program.

## CURRENT ASSETS

Current assets increased by EUR 241.1m to EUR 5,193.0m. Currency effects had an impact of EUR –12.4m. Cash and cash equivalents increased by EUR 247.5m to EUR 448.3m and had a significant effect for two main reasons. The first is that net working capital improved considerably in France, Brazil and Norway. The second factor is the issue of the convertible bond in April 2011. We use some of the proceeds from this issue as a cash reserve, which is particularly high at the end of the month for cut-off reasons. Inventories increased by EUR 103.4m, while trade receivables were up EUR 7.4m to EUR 2,529.4m.

## EQUITY

At EUR 2,577.8m, equity was down EUR 23.3m on the end of the previous year. A major contributory factor here was the EUR 82.2m decrease in revenue reserves to EUR 1,311.5m, largely as a result of the dividend distribution for the 2010 fiscal year in May 2011. On the other hand, equity increased due to the recognition in the capital reserves of the conversion right of EUR 40.8m (less income tax effects) in connection with the convertible bond issued in April 2011. The equity ratio fell slightly to 29.3%.

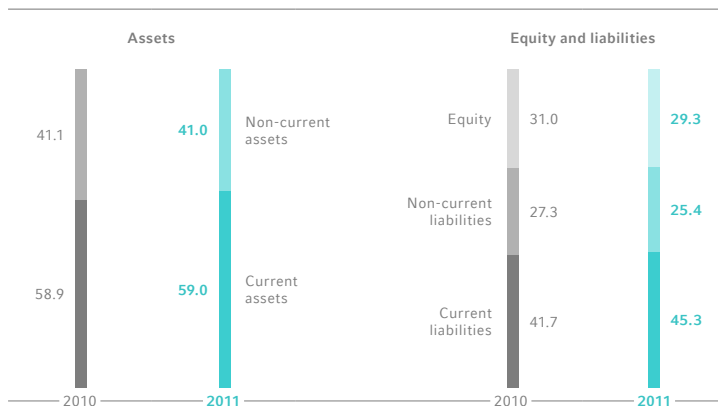
## NON-CURRENT LIABILITIES

Non-current liabilities decreased by EUR 60.5m to EUR 2,232.1m as of 31 December 2011. Financial liabilities increased by EUR 14.1m to EUR 1,775.5m, other liabilities by EUR 33.4m to EUR 120.9m, while other non-current provisions decreased by EUR 27.8m to EUR 92.5m. In line with maturities, portions of the purchase price liabilities for Panpharma were reclassified from non-current other liabilities to current other liabilities and promissory notes were reclassified from non-current financial liabilities to current financial liabilities. Proceeds from the 2011 convertible bond are disclosed net of the equity components from the conversion right under other financial liabilities.

## CURRENT LIABILITIES

In the same period, current liabilities rose by 13.5% or EUR 475.4m to EUR 3,984.4m. The major contributory factor was once again an increase in other liabilities, which went up by EUR 77.7m to EUR 662.6m. Current financial liabilities also increased by EUR 157.8m to EUR 291.5m. Other current financial liabilities grew slightly by EUR 14.2m to EUR 176.2m. In addition to the reclassifications from non-current items as described above, the rise in trade payables in connection with the cut-off date and obligations from the Operational Excellence Program also played an important role here. Conversely, lower provisions for bonuses and deferred taxes led to a reduction in current liabilities compared to the previous year.

**STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION OF THE CELESIO GROUP**  
31/12, %



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 Sec. 242 et seq. and Sec. 264 et seq. of the Handelsgesetzbuch (HGB, German Commercial Code) as well as the relevant provisions of the Aktiengesetz (AktG, German Stock Corporations Act).

Total assets increased by EUR 284.3m to EUR 3,145.4m as of 31 December 2011. Non-current assets increased by EUR 98.5m, mainly as a result of additions to affiliates due in particular to capital increases and contributions. In the previous year, the investment in the Dutch company Lloyds Nederland B.V. was exchanged in return for a 45% share in Brocacef Holding N.V.

The equity of Celesio AG increased by EUR 104.6m because the net profit for 2011 of EUR 171.9m significantly exceeded the dividend for the 2010 fiscal year of EUR 85.1m. The equity ratio came to 58.2% (previous year 60.3%). Compared to 2010, Celesio AG's net profit for the year increased by EUR 19.6m. It mainly comprises investment result, interest result and the management holding's net expenses.

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 decrease in the investment result of EUR 7.2m to EUR 244.9m is mainly due to the increase in expenses from absorbing losses of EUR 59.4m, the fact that financial assets were not written up in 2011 (write-ups of EUR 38.8m in the previous year) and a decrease of EUR 30.8m in income from profit and loss transfer agreements. This development was counterbalanced by a EUR 120.5m increase in investment income – especially from distributions of foreign subsidiaries – as well as the year-on-year decrease of EUR 1.4m in impairment losses recognised on financial assets. The impairment of financial assets came to EUR 14.7m in the reporting period and mainly relates to shares in a foreign investment.

The management holding's net expenses primarily consist of personnel expenses and other expenses. The EUR 13.3m rise in personnel expenses compared to the previous-year period is mainly attributable to obligations to settle contractual claims of EUR 16.9m in connection with the departure of former members of the Management Board. This was partly counterbalanced by the EUR 5.6m decrease in bonuses. The average headcount fell from 324 in the previous year to 312.

Other expenses increased to EUR 34.5m in 2011 compared to EUR 19.4m in the previous year. The development is mainly connected to higher cost allocations for IT services rendered to group companies – particularly in connection with the HP outsourcing agreement. There were further cost allocations for central services rendered by Celesio AG to the Medco Celesio joint venture and the online healthcare store which was not brought to completion.

Of the net profit of EUR 171.9m, EUR 86.0m was contributed to other revenue reserves. Profit available for distribution amounts to EUR 85.9m. A proposal will be made to the annual general meeting to distribute EUR 42.5m of this as a dividend of EUR 0.25 per ordinary share and to carry forward the remainder of EUR 43.4m to new account.



The business and earnings development of Celesio AG as management holding is closely connected to that of the Celesio Group. In 2012 and 2013, 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.

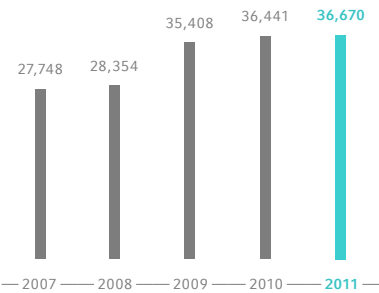
Over the next two years, investing activities will continue to focus on software for use across the group.

We expect a slight decrease in the headcount for 2012, partly in connection with the termination of employment agreements as a consequence of our Operational Excellence Program.

Our employees form the foundations for our success

We rely on having the best possible team so that we can live up to our promise of giving patients the best possible service. We promote personal development among our employees by recognising different strengths early, offering targeted support and practical opportunities to build on our people’s existing skills. At Celesio, we aim to improve efficiency steadily, supported by a framework of modern human resources management for sustainable performance, a strong focus on employee development and efforts to be an attractive employer.

CELESIO GROUP EMPLOYEES  
31/12



CELESIO GROUP EMPLOYEES

	Full time equivalents	
	Annual average	
	2010	2011
Patient and Consumer Solutions	15,916	15,668
Pharmacy Solutions	13,604	13,962
Manufacturer Solutions	6,360	6,639
Group holding	294	283
Total	36,174	36,552

## Employee figures<sup>1)</sup>

As of 31 December 2011, 36,670 full-time equivalents worked for Celesio – an increase of 0.6% on the end of the previous-year period. A total of 16,141 employees were employed in the Patient and Consumer Solutions division at the end of the reporting period, an increase of 3.4% year-on-year. This division accounted for the largest share of employees in the group at 44.0% (previous year 42.9%). The Pharmacy Solutions division had 14,038 employees as of year-end, a decrease of 0.1% year-on-year. Manufacturer Solutions saw the number of employees fall by 4.3% to 6,208. The remaining 283 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 2011 and a 92.2% share of employees located outside Germany (previous year 92.1%), we are one of the most international German groups.

Full time equivalents		Headcount			
31/12		Annual average		31/12	
2010	2011	2010	2011	2010	2011
15,615	16,141	23,541	23,021	23,249	23,810
14,050	14,038	16,009	16,408	16,551	16,405
6,488	6,208	6,588	6,875	6,713	6,445
288	283	315	314	313	317
36,441	36,670	46,453	46,618	46,826	46,977

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

## Modern personnel management for sustainable success

### OUR STRUCTURE:

#### For us, personnel management is country-specific.

As a group operating in various service areas and countries, we give our subsidiaries the latitude they need to structure their personnel work according to local needs.

#### Corporate Human Resources ensures smooth communication between countries and divisions.

In particular, this department coordinates our management development programme, which targets executive employees and those with high potential at the level of the group and subsidiaries.

Our aim for the future is to give employees even better prospects for international careers. After all, the cross-border exchange of know-how and leadership not only strengthens links across countries, but is also the epitome of “one Celesio”, our team spirit.

### RECRUITMENT AND STAFFING

Our personnel management aims to attract qualified employees to work at Celesio and retain them at the company long-term.

We once again received recognition on numerous occasions for being a high-quality and attractive employer. For instance, our Irish pharmacy chain DocMorris | Unicarepharmacy won the Best Employer and Company of the Year for the third time in a row at the Retail Excellence Ireland Awards 2011. Unicarepharmacy also retains its place in the top ten of the ranking by Great Place to Work Institute. Employees and teams in the UK were also honoured for their achievements – four Lloydspharmacy teams took home the “Pharmaceutical Care Award”, for example.

We also want to raise our profile as an attractive employer beyond the realm of the pharmacy. That is why we regularly send representatives to universities or job fairs in addition to holding our own information events for students. Job searches inevitably involve the internet these days. On our website, we provide detailed information about career options in each of our divisions. Candidates get a genuine impression of what it is like at Celesio thanks to employee profiles where individuals share their experiences – also an effective way to promote contact. The careers portal provides information in the form of videos and text.

NAME **Valerie Sick**

AGE **39**



## MILESTONES

SUBSIDIARY CONTROLLER, CELESIO AG

ON THE SUPERVISORY BOARD OF CELESIO'S SUBSIDIARIES IN DENMARK AND SLOVENIA (2004-2008)

HEAD OF WHOLESALE CONTROLLING, CELESIO AG

GROUP FINANCE DIRECTOR CAHILL MAY ROBERTS LTD, DUBLIN

2001 2003 2005 2007 2009 2011

## JOINED CELESIO

**2001**

## DEPARTMENT/POSITION

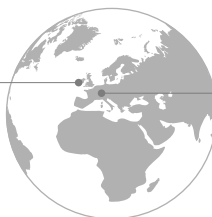
**Group finance director**

## STUDIED

**Business management** at the business school "Ecole de Commerce de Paris" in Paris and at the TU in Berlin.

## INTERNATIONAL EXPERIENCE

CAHILL MAY ROBERTS LTD DUBLIN



CELESIO AG STUTTGART

## DEGREE

**Diplom-Kauffrau** (business administration)

## ON CELESIO

"A lot of the business issues we face are the same for all countries - we can always learn from each other."

## GOALS

Use my management role to make a positive contribution to value and help keep risks to a minimum.

## INTERESTS

- Cycling
- Reading
- Languages

## **EMPLOYEE DEVELOPMENT**

Employee development is one of our priorities. Our employees are equipped to perform their working duties thanks to our varied education and training programmes. For instance, we give young people the opportunity to complete a vocational training course at the company 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 finance trainee programme is a roaring success and a good opportunity for launching a career at Celesio. Exciting and varied tasks introduce participants to our multi-faceted company. They have the security of a permanent, unlimited contract and spend three months at a foreign subsidiary to familiarise themselves with Celesio's operating business and broaden their horizons. Group employees with the highest potential are supported in management development programmes aimed at various career levels.

At our pharmacies, we offer patients and consumers consistently reliable, high-quality advice. We therefore prioritise regular and structured further training of pharmacists and pharmaceutical technicians. In addition to deepening pharmaceutical knowledge, 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.

NAME **Holger Landauer**

AGE **26**



## MILESTONES

STUDENT AT UNIVERSITY OF COOPERATIVE EDUCATION WITH DUAL PARTNER CELESIO AG

EUROPÄISCHE WIRTSCHAFTS-  
AKADEMIE  
MADRID

PLACEMENT  
ABROAD AT UNI-  
CAREPHARMACY  
LIMITED

ANALYST  
CORPORATE  
MS&A

HEAD OF CONTROLLING  
AND INTERNATIONAL  
ACCOUNTING AT  
THE ONCOPROD GROUP

2005 2006 2007 2008 2009 2010 2011 2012

## JOINED CELESIO

**2005**

## STUDIED

**International Business Administration** at the Stuttgart University of Cooperative Education (now: Baden-Wuerttemberg Cooperative State University)

## DEGREE

**Diplom Betriebswirt (BA)**

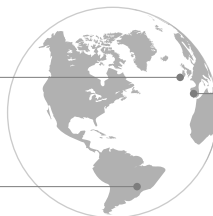
## DEPARTMENT/POSITION

**Head of controlling**

## INTERNATIONAL EXPERIENCE

UNICARE-  
PHARMACY  
LIMITED  
DUBLIN

ONCOPROD  
GROUP  
SAO PAULO



EUROPÄISCHE WIRTSCHAFTS-  
AKADEMIE  
MADRID

## ON CELESIO

"For me, life at Celesio means working independently, adopting an entrepreneurial attitude and taking responsibility. We are actively encouraged to come up with and implement our own ideas."

## GOALS

Continue my professional and personal development

## INTERESTS

- Sport
- Travel

# Research and development

As a trading company and service provider, we have no need to pursue research and development activities in the course of our business. We of course also develop our range of services and our IT infrastructure on a rolling basis. You can read more about this in sections on the development of each division.



# Overall picture of the economic situation

As one of the leading service providers within the pharmaceutical and health-care markets worldwide, we operate in an industry which is fundamentally characterised by good long-term development prospects. Growth is driven globally by the growing 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 were once again impacted by the curbing influence of government intervention in setting prices and margins for market participants in the past fiscal year. These measures are directly linked to the development of national budgets and national deficits. The scale of these measures has increased in the wake of the financial crisis. However, although unwelcome, they are nonetheless part of our business and a factor that we have to contend with. Thanks to our many years' experience in at least partly compensating for such measures, combined with our ability to innovate and our sound financing, we still consider the economic situation of the Celesio Group to be positive.

# Risk and opportunities report

All international companies face risks and opportunities on a daily basis which have the potential to affect operating business. Risk systems can be used to identify, evaluate and manage these in good time. At Celesio, we have several risk management systems in place to perform this task with the aim of protecting the company from damage and being able to respond to a change in market conditions at an early stage. The environment in which we operate is evolving all the time, placing new demands on an effective risk and opportunity management system. We therefore regularly review, adjust and refine the functionality of our risk systems.

- ① We take conscious and controlled **business risks** in the course of our operations – this is essential if we are to exploit opportunities to develop the company.

## Risk management

Our risk management is a component of the group's structural and procedural organisation and therefore an integral part of operating processes across all divisions, business areas and business units. This means that we can identify risks at an early stage and implement countermeasures to the extent possible. For this purpose, our employees are provided with an internal risk manual. This manual provides process guidelines, sets out areas of risk and defines group standards for a methodical, uniform approach to recording and assessing risks. Corporate Audit, Consulting and Risk Management is responsible for coordinating this area. Corporate Finance and Treasury is responsible for managing the group's financial risks.

We conduct a group-wide 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. As part of our regular planning and management system, we regularly update the risk management systems to reflect our understanding of new risks or market developments. All systems are tested for effectiveness at regular intervals and subject to a rolling process of refinement.

## 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 evaluate the market, the industry and any specific local issues, supported by market research and our active dialogue with market participants, opinion leaders and decisions makers. The decentralised structure of the Celesio Group promotes the rapid and flexible exploitation of opportunities that arise locally. Our new strategy will very much dominate in 2012 – you can read more about the business opportunities that we have identified from → *page 145 onwards*.

## Significant specific risks and opportunities

### ENVIRONMENT/MARKET RISKS AND OPPORTUNITIES

#### Economic risks and opportunities

We strive to offer patients the best possible care through our market, the pharmaceuticals and healthcare market. By their very nature, segments focused on healthcare are less sensitive to economic cycles. Demand for OTC medicines, cosmetics or care products does however dip as soon as there is an economic downturn. At times like this, we need to create incentives to buy - for example, modern new shop concepts.

#### Regulatory risks and opportunities

Pharmaceutical markets are subject to all kinds of government intervention which affect the financing of healthcare systems in particular and therefore also the compensation schemes for service providers. However, demographic change is driving demand for healthcare, pharmaceuticals, care and medical services – demand that, until recently, was fairly comfortably met by a complex healthcare system. As a result, numerous governments – including Germany, France, Portugal and Slovenia in 2012 – are intervening in compensation structures to make up for, or at least reduce, the higher spending associated with growing demand. We feel the effects of this intervention directly. It affects the development of our business and earnings and is the largest single risk for Celesio. Our ongoing and flexible cost management is one of the measures in place to help compensate for burdens of this kind and reduce this risk. Our new

strategy is another, including our renewed focus on our core business and a more centralised approach. Our decision to focus on markets like Brazil is part of this strategy (see our strategic cornerstones on → [page 71](#)).

### Specific market risks and opportunities

Risks relating to changes in the healthcare market are particularly critical to our success. These include:

- **Mergers of pharmaceutical manufacturers**

These could weaken our bargaining power when negotiating conditions and discounts, negatively influencing revenue and profitability. In the Manufacturer Solutions division, mergers between pharmaceutical manufacturers could cause us to lose or gain contracts. The geographical diversification of our business helps minimise this risk.

- **Exclusive wholesale distribution models.**

Examples include direct-to-pharmacy (ДТФ) supply by the manufacturer or the reduced wholesale model. Pharmaceutical manufacturers applying the reduced wholesale model work exclusively with a few selected wholesalers. Given our strong market position in wholesale, however, we will generally apply exclusive sales models as we believe that the opportunities of developing in this direction outweigh the risks.

- **Tougher competition in logistics.**

Conventional logistics companies are increasingly looking for market niches, including entry to the pharmaceutical distribution business. Our experience, reputation, specialisation and the efforts to develop new services – such as individual warehouses for customers – help us keep this risk in check, however.

- **Removal of pharmacy-only status**

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 sales channel for pharmaceuticals. We also invest in further training for pharmacists to improve the quality of advice further and thereby improve our own position compared to competitors.

## **CORPORATE STRATEGY RISKS AND OPPORTUNITIES.**

Optimising our portfolio is one element of our strategy, including divestiture projects in line with our recent strategic changes. They come into play when disposing of a unit is a more promising prospect than continuing operations. These kinds of decisions are always associated with risks, not least those relating to employing and tying up capital. That is why acquisition and investment plans, including potential risks, are examined in a due diligence process and analysed in terms of return on risks. Corporate M&A and Market Intelligence is responsible for preparing complex acquisition projects, performing detailed market and competition analyses in advance. For individual aspects, it gathers input from the respective specialist departments, all of which comment on the plan from their 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 block or hinder original targets, despite extensive due diligence and market analyses. We therefore conduct annual impairment tests, which can lead to an adjustment of goodwill. Most of these points also apply to potential divestiture projects. A detailed examination is carried out in advance, with external support if required, so that all opportunities and risks associated with the measure can be taken into consideration appropriately. Given that the market and environment can, at times, change rapidly, original planning assumptions and targets are liable to yield unexpected results. We are also exposed to risks arising from interests companies 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 the pharmaceuticals supply in all countries. Regardless of the fact that a complex structure of this kind is automatically associated with greater risk, our operating business is also exposed to the following highly specific risks:

- **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. All of the components of the program are refined on an ongoing basis.

- **Dispensing errors**

We minimise the risk of dispensing errors through regular training for our pharmacists and pharmaceutical technicians.

- **Incorrect handling of medicines in the logistics chain.**

There are many products, such as insulin or vaccinations, that have to be stored and transported at a certain temperature. If the cold chain is broken, products have to be destroyed and we may also have to contend with damage to our reputation and lost revenue. We have virtually eliminated this risk by optimising our process through preventative measures such as round-the-clock temperature monitoring at warehouses and insulated transport containers.

## FINANCIAL RISKS

### Currency risks

As a company with international operations, currency risks are highly significant for us. 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. If transaction risks arise as a result of international supply relationships, we usually 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. As a rule, we do not use derivatives to hedge against translation risks. The risk from translating items of the financial statements is reduced by using natural hedging. This means that we refinance our subsidiaries in local currency; 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. Other currencies of significance to us are the Norwegian krone and the Brazilian real. The inclusion of the Brazilian real following the acquisition of Panpharma and Oncoprod improved our currency portfolio significantly.

### 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. To mitigate any remaining risk of default, we have a strict receivables management system in place, which involves rolling payment pattern checks and comprehensive credit assessments. In general, the financial situation of the pharmacies being supplied or of the government payer also depends on the development of the economy. If the economy remains weak over a prolonged period, there could be a general increase in receivables outstanding, coupled with a decrease in the quality of individual receivables. Non-recourse factoring in the UK and Norway reduced our risk of default on receivables in the reporting period.

### 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 2011 by issuing a convertible bond. 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 net working capital, both of which facilitate our efforts to avoid liquidity and financing risks.

### Interest rate risks

Changes in market interest rates affect future interest payments on liabilities with a floating rate of interest. We therefore primarily employ long-term fixed interest agreements or interest caps. We also enter into interest swaps to exchange interest obligations with other market players for a fixed term

### 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 can cause volatility in security prices. As a result, the measurement of investments held to cover pension obligations could be subject to change.



## Information technology risks

Our company's operating and strategic management is built around a sophisticated IT structure which, in order to ensure smooth business operations, has to be fully operational at all times and secured to protect against unauthorised data access or manipulation. Regular capital expenditures to ensure synchronisation across the group safeguards the maintenance and ongoing development of our IT systems. This rolling integration of specific IT applications in a group-wide standard could give rise to procedural risks and have repercussions for the present IT infrastructure. In addition, numerous data security processes are employed and security tests conducted to safeguard the accessibility of vital business data.

The Europe-wide outsourcing of our IT infrastructure to an external service provider, a process started in spring 2009, presents opportunities. We hope to draw synergy effects from the harmonisation and standardisation of the IT infrastructure and exploit these. 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 through continuous 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 critical success factor for all companies, and Celesio is no exception. That is why our personnel work focuses on recruiting qualified specialists and executives. In order to achieve this, we market ourselves as an appealing employer to universities and on the employment market, offering comprehensive training and further education programmes, attractive development prospects and incentives. There is, of course, a risk that employees will leave the company, taking their specialist knowledge and customer links with them in spite of all the employee retention incentives on offer. Furthermore, employee turnover tends to be elevated in periods of disruption (structural change, savings programs). In a bid to contain this risk as much as possible, we maintain a culture of open dialogue through measures such as our

regular “town hall meetings” for employees, a Management Board blog and our employee magazine, to name but a few.

The risk of temporarily losing know-how in the wake of absences or turnover of key employees is especially pronounced at the smaller companies. This risk is kept to a minimum through deputy arrangements and careful succession planning.

## 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. The 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 as well as an IT platform for preparing the disclosures in the notes. Inclusion in the consolidated financial statements generally takes the form of 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 of 30 September of a given year, almost equivalent to preparing separate financial statements in terms of nature and scope, and the fast close as of 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 – these 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. Through the hard close and other interim financial statements, we can 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. We perform an annual check that processes and systems are effective in the meaning of the internal control system required by the BilMoG.

- 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, including but not limited to 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 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. Regulatory measures in the various healthcare systems present major potential risks to our future development. 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 implement our new strategy. 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.

## Overall economic prospects

The International Monetary Fund (IMF) began the new year by adjusting global economic forecasts downwards on 24 January 2012. The September 2011 prediction for global economic growth of 4.0% was replaced by an expected rate of just 3.3%. The latest edition of the IMF's World Economic Outlook blamed the debt crisis in Europe as the main factor curbing growth. The euro zone fared particularly badly in the IMF forecast, with the economy set to contract by 0.5%. Germany was the only euro-zone country on course for growth – albeit by a marginal 0.3%. The IMF had originally predicted an additional percentage point for Germany in September. Looking ahead to 2012 and 2013, Germany should be able to avoid recession and even achieve growth of 1.5% in 2013. The IMF has also scaled back its forecast for the emerging economies and now assumes a slower rate of growth, with countries such as China, India, Brazil or Russia averaging 5.4%.

The World Bank also downgraded its outlook for the next two years in early January and is even less optimistic than the IMF. The global economy is expected to grow by just 2.5% in 2012 and the leading industrial nations such as Germany, France, the US or Japan can only expect a rate of 1.4%. The World Bank's twice-yearly report on global economic prospects had assumed a global growth of 3.6% in June 2011. With a growth of 5.4%, the emerging economies will also develop less quickly than originally predicted (6.2%). The report's authors consider the interplay between the downturn in the euro zone and the simultaneous stalling of growth in the emerging economies particularly critical. These two developments could reinforce one other, creating an even weaker global economic climate. Global economic growth in 2013 will be slower than expected just a few months ago. Nevertheless, the tense situation should be relieved by a growth rate of 3.1% and a recovery in the euro zone.

## Our industry – markets in flux

The healthcare and pharmaceutical markets face major changes in the coming years. Spending on healthcare is increasing, not just in terms of the number of people prepared to pay privately, but also the amount per head, according to a recent study commissioned by the Federal Ministry of Economics and Technology. The global market is growing at a rate of around 6.0% per year – faster than the global GDP. The healthcare market, worth around USD 5.7bn today, is predicted to grow to a volume of around USD 20bn by 2030. The drivers of growth are an aging population, technological advances and stronger purchasing power. Demographic change is transforming the face of the global population. According to the Federal Statistical Office, the population in Germany alone will contract by around seven million to 75 million by 2050. The birth rate is falling while life expectancy is rising – to an average of 77 years (men) and 82 years (women). The World Health Organisation (WHO) predicts that the average age will increase by just under 20% by 2030. As older people become ill more frequently than younger ones, the volume of prescriptions is rising. Coupled with the growing trend towards improved health awareness, this will increase demand for healthcare products and services. Spending per head on healthcare is therefore on the rise, a development that is supported by growing purchasing power, a rise in chronic conditions and technological advances.

The pharmaceutical and healthcare markets will presumably be faced with government intervention – in some cases on a massive scale – in their compensation structures, and the frequency, extent, and unpredictability of this intervention will increase.

In this environment, there is a growing need to establish efficient structures and processes in the pharmacy markets.


Parallel to changes in the mature markets of Europe and the US, strong – and in our opinion sustainable – growth can be observed in the pharmerging markets such as China, Brazil, India and Russia. According to a forecast by IMS Health, they will make the largest contribution to growth in the global pharmaceutical markets over the next five years. China will advance to become the third largest pharmaceutical market in the world, while Brazil, Russia and India will exhibit robust growth. IMS Health expects these regions to expand to account for 48.0% of global growth in the pharmaceutical and healthcare markets by 2013, compared to a share of just 37.0% in 2009.



Globally, then, the pharmaceutical and healthcare markets are in a state of flux, as are the business models of pharmaceutical manufacturers for they address growing challenges.

Factors that are shaping the market increasingly rapidly include:

- Development and opportunities in the pharmerging markets.
- Expiry of numerous patents for blockbuster products.
- Growing price regulation in many countries as a result of austerity measures in the healthcare sector.
- Fewer product innovations, i.e. a smaller number of new medicines and active agents reaching market maturity compared to earlier years.
- Increasing use of cost-benefit analyses in assessing new medicines and active agents.

 **Blockbuster** is the term used by the pharmaceutical industry for a medicine that generates global revenue in excess of USD 1bn.

### The future of Celesio

“The year 2011 marked both a turnaround and a fresh start for our company. With the five cornerstones of our new strategy which spans all divisions, we have positioned Celesio well to rise to the future challenges facing our market. Our vision is clear – serving patients best. Celesio is committed to better healthcare. For us, that means focusing on stabilising our earnings in 2012, then implementing our strategy in 2013 – a year that will be under the banner of »One Celesio«. The measures already launched in our Operational Excellence Program are showing first concrete results. Even though the year ahead will not be an easy one for Celesio, we are confident that we are on the right track.”

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## Business development

We want to improve integration between our divisions as part of our new strategy. Under the motto “One Celesio”, we have started to realise the synergies – in the area of procurement, for example – of a fully integrated business model, bundling our know-how and best practice solutions from all countries for the good of the whole group. Measures include the merger of various administrative functions. An Operational Excellence Program – to be carried out over several years – will form the basis for implementing our new strategy. This programme should secure a change in the development of earnings and will enable us to improve our competitive position in a sustainable way.

## The five cornerstones of our strategy

### FOCUS ON OUR CORE BUSINESS

Measures to optimise our supply chain will be at the heart of our efforts to focus on our core business. We have identified good opportunities for new sources of income, assuming on the one hand that the traditional wholesale business as we know it today continues to come under pressure from tougher competition and government measures, but that Celesio will retain its ability to draw on excellent know-how on the other. We want to optimise the end-to-end supply chain. We already stand out from our competitors by offering highly efficient logistics processes (cost leadership, finely meshed logistics) and a range of innovative services. One example is WAW!Top in Germany, our efficient inventory management system which adapts and optimises a pharmacy’s stocks based on demand. Another is e-Placement, a support tool offering customised optimisation solutions for positioning products on display in pharmacies.

Within the end-to-end supply chain project, we focus on the manufacturer and pharmacy as the customer interface. We are helping to shape the industry trend towards optimising materials flow, which reduces manufacturers’ capacity needs in warehousing and logistics. At present, there is too much overlap in storage capacity at various stages of the pharmaceutical supply chain – we want to address this issue. For instance, we are involved in discussions with various industry players to develop a new concept that would reduce storage periods and adjust delivery times to meet actual demand. We intend to launch a pilot scheme in the first half of 2012.

We also intend to involve pharmacists more, working with them to develop sustainable solutions to streamline pharmacy processes. This service approach includes back-office management as a key component. A significant portion of a pharmacy's personnel expenses is incurred in connection with back office tasks such as placing orders, accepting deliveries, or checking supplies of medicines. Streamlining processes in this area frees up the pharmacist to concentrate on core competencies, i.e. advising patients and consumers. We will initially launch this project at our own pharmacies and are in the process of defining which countries will take part in the pilot phases. In a next step, we will extend pilot schemes to independent pharmacies in Germany and Austria.

These two major projects are accompanied by further measures that we have defined in accordance with our efforts to stabilise EBITDA, one of our targets for 2012. For instance, we will continue to review and optimise our branch network with the aim of rapidly improving efficiency.

#### EUROPEAN NETWORK OF PHARMACIES

We want to harmonise our European network of pharmacies in accordance with our »One Celesio« strategy. Our focus will lie on product range and pharmacy services, that is to say Celesio's range of services for pharmacists. At present we have our own retail pharmacies in seven countries. We want to build on this foundation and make the information, processes and ranges that are successful internationally also available internationally. We have also undertaken to resolve the conflict that has arisen with pharmacists in Germany as a result of the purchase of the DocMorris mail-order pharmacy by the end of 2012. We remain open to all options to achieve this. Looking at patients and consumers, we also intend to develop innovative service ranges that will help our brand partners and our own pharmacies stand out from the competition. We want to set up a platform to combine these services and make them available across all countries. We are currently in the process of examining local best practices to identify those that are applicable across the group, define cross-border standards and bundle our purchasing power. We will present the new concept for our European network of pharmacies in 2012 and roll out the first measures gradually in the second half of the year. We expect the new concept to start generating earnings in 2013.

## **REGIONAL EXPANSION**

We have identified potential growth beyond our traditional regional markets. We believe that there are particularly good opportunities for expansion in the growth regions outside of Europe – so-called pharmerging markets characterised by positive economic development and increasing spending on health and well-being. Our acquisition of Oncoprod in Brazil marked an initial step in our drive for regional expansion. This group, together with Panpharma, makes us market leaders in wholesale and in the distribution of specialty medicines. We expect the Brazilian pharmaceutical market – and therefore the pharmaceutical wholesale business – to outperform Europe in terms of growth in 2012 and 2013. As part of our strategy of focusing on our core business, we are currently examining further opportunities for expansion in Latin America in the medium term as well as – in the longer term – the Middle East.

## **MANUFACTURER SOLUTIONS UNDER REVIEW**

As reported, we are currently reviewing our Manufacturer Solutions division against the background of our focus on core business. We are analysing the options for further development of Movianto and Pharmexx both within and outside the Celesio Group and expect to present our solution by the end of 2012. We will determine the structural and organisational impact once we have reached a final decision.

## **OPERATIONAL EXCELLENCE PROGRAM**

Our Operational Excellence Program was launched in October 2011 with the aim of boosting the efficiency of our business processes. In the current fiscal year, the programme will stabilise earnings and lay the foundation for future growth in earnings. Non-recurring expenses of EUR 100m are associated with the measures, most of which were incurred in the past fiscal year but will not have a cash effect until 2012. The Operational Excellence Program should secure cost savings in the tens of millions range from 2013 onwards, although we expect a significant contribution to earnings as early as 2012. Besides streamlining organisational structures at our headquarters and national companies, the measures focus on best-in-class procurement to realise untapped negotiation potential as well as on restructuring our pharmacy and wholesale network.

## Divisions

### PATIENT AND CONSUMER SOLUTIONS

#### Lloydspharmacy

We expect earnings to improve slightly in the UK following the initial realignment measures carried out in 2011, although new government savings measures introduced in October 2011 will impact on this improvement. There are further portfolio measures in the pipeline.

Lloydspharmacy will provide medicines to the international athletes at the Olympic Games in London in 2012. We received supplementary funding for this from the Organising Committee in August. Lloydspharmacy won the contract after a competitive tender, and will run a pharmacy in the Olympic Village, where it will dispense any necessary medicines or other medical products to the athletes. We are also contracted to supply pharmaceuticals and other pharmacy items to the official first aid and medical support team at the 2012 Olympics.

#### DocMorris

We expect a positive overall development for the DocMorris business area. We also anticipate a sustained, positive development in Norway, our second largest pharmacy market.

There are plans in Italy to liberalise the branch restrictions for pharmacies. We expect this to result in new pharmacies opening up, which could present a general burden. It remains to be seen exactly what form the changes will take, it is therefore difficult to predict the impact.

The Irish market is still critical in light of its economic situation and the austerity measures affecting the healthcare sector. In the past, our Irish pharmacies have demonstrated that they were more resilient to the strain of government measures than the market in general.

The Belgian market remains tough. The new government passed resolutions for savings measures in the Belgian healthcare system as soon as it came into power at the end of 2011. These measures affect Celesio. To contain the impact of these developments on our earnings power, we closed or sold twelve low-return or unprofitable pharmacies in 2011.

We anticipate a significant decrease in start-up expenses in Sweden in 2012, driven in part by countermeasures taken in 2011 (closure of several pharmacies, downsizing administrative functions). We will cautiously press ahead with our efforts to expand our presence in Sweden. Four further pharmacies will be closed in the first half of 2012 as a necessary part of portfolio optimisation measures. We also expect a positive overall development for our mail-order business.

## PHARMACY SOLUTIONS

### France

The new margins system launched in France and additional price cuts for over-the-counter (OTC) products represent an earnings risk for our French subsidiary OCP. The market will remain fiercely competitive in light of these measures.

### Germany

Following the introduction of fixed and non-discountable compensation of EUR 0.70 per packet plus a variable margin of 3.15% as part of the AMNOG measures (Gesetz zur Neuordnung des Arzneimittelmarktes, Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance), we expect the market to recover with a positive impact on GENE's earnings power.

### UK

Some important pharmaceuticals will lose their patent protection in the UK in 2012. Due to the high market share of such products, our UK wholesale subsidiary AAH will be particularly hard hit. Our planning assumes a decline in earnings at AAH.

### Brazil

We still assume that the Brazilian market will outperform Europe in terms of growth. Panpharma's business stands to profit from this development in terms of market share in both the prescription-only and generics segments. We anticipate additional efficiency gains from 2012 onwards thanks to the further transfer of logistics know-how.

Our expectations for Oncoprod also remain optimistic. We look forward to above-average growth in earnings.

## Norway

We moved into our new warehouse in Oslo at the end of 2011. Efficiency gains will be seen from 2012 onwards.

All countries potentially face further austerity measures in light of national budget deficits. It cannot be ruled out that Slovenia and Portugal in particular will be affected by – as yet unquantifiable – cuts in healthcare spending. We nevertheless assume that revenue will continue along a path of stable development.

## MANUFACTURER SOLUTIONS

### Logistic Solutions

Earnings are set to grow at Movianto in 2012. While contractual losses burdened earnings in 2011, the new agreements concluded in the second half of 2011, coupled with cost optimisation measures, look set to impact positively on our future business development.

### Marketing Solutions

We adapted capacity at Pharmexx in 2011 to reflect lower demand. This involved further restructuring measures. We therefore expect an increase in earnings – but a lower cost base – for 2012.

## INVESTMENTS AND CAPITAL EXPENDITURES

We anticipate the volume of investment in our existing business to match the level of 2011. The higher rate of capital expenditures compared to previous years is mainly attributable to essential modernisation and standardisation measures in our IT across the company. Investments in our pharmacy and wholesale branch networks also play an important role and this trend will continue in 2013.

## DEPRECIATION, AMORTISATION AND IMPAIRMENT

We expect a year-on-year increase for 2012 in the double-digit range.



## FINANCIAL RESULT AND TAX RATE

The special effects in 2011, which are described in the financial result section under revenue and earnings development, will continue to impact the 2012 fiscal year. The group's tax rate may be influenced by a change in the earnings mix returned by the different countries in which the group operates, or a change in the specific effective tax rates in each country. Although we expect volatility over the course of the year, the adjusted rate should drop below the 2011 level before falling again in 2013. We anticipate a continual improvement in the adjusted tax rate over the next two years overall, although this hinges above all on how the earnings situation develops in Germany.

## EMPLOYEES

The Operational Excellence Program will lead to a reduction in our number of employees.

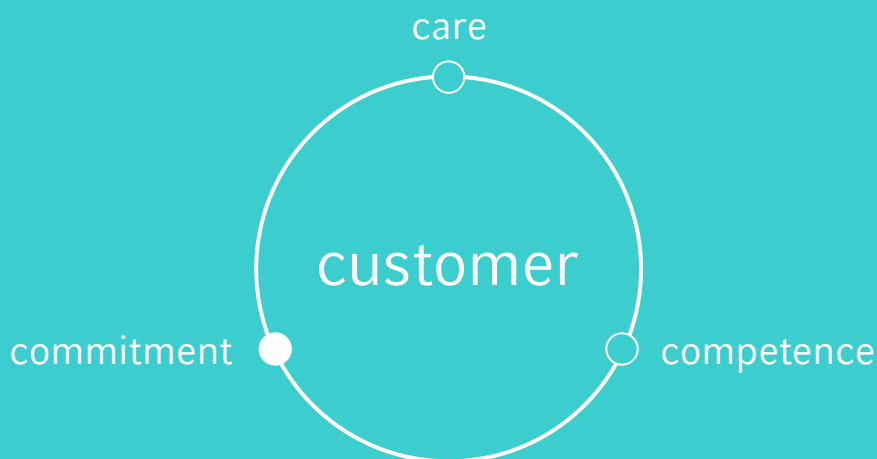
## EARNINGS FORECAST

We assume that adjusted EBITDA will at least match the previous-year level in 2012. The Operational Excellence Program – to be realised over several years – will have a stabilising and positive effect. The part of budgeted costs from the Operational Excellence Program as yet not recognised in expenses will increase expenses, particularly in the first half of 2012. We assume that this programme will compensate for the regulatory intervention already announced in the UK, France and Portugal as well as tougher competition in key markets such as France. However, we cannot rule out the possibility of further burdens from extreme government measures over the next two years. Our earnings are also sensitive to exchange rate fluctuations – which can be to our advantage or disadvantage. However, based on our diversified currency portfolio, we assume that any positive or negative effects will balance each other out to some extent at least and cushion the net impact. 2013 will see a return to growth in the markets in which we currently operate.

Celesio is currently examining whether the distribution rate for dividends should be increased for 2012 or subsequent years.

“Supported by our new strategy, we look to the fiscal years ahead with optimism. We are confident that the focus on our core business and other strategic cornerstones puts us in an excellent position and has placed us well to rise to future challenges. Once we have stabilised earnings, 2013 will see a return to growth in the markets in which we currently operate. However, we would like to point out that it is difficult to quantify developments in a year of change like the one described here. Attempts at making a forecast are made all the more difficult by the financial and economic crises and austerity measures that such crises trigger. We expect to be able to provide a more detailed outlook in the quarterly reports of the coming year.”

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SERVING PATIENTS BEST

WE FOCUS ON GIVING  
PATIENTS THE BEST  
POSSIBLE CARE.

# ©ommitment

Our service is an important component of healthcare and our contribution to safeguarding public health. Our activities are future-oriented and built on our commitment and responsibility – and our priority of always serving patients best.

# Consolidated financial statements

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# Group income statement for the 2011 fiscal year

	Notes No.	2010 EUR M	2011 EUR M
<b>Revenue</b>	1	23,277.6	23,026.4
Own work capitalised		0.1	0.1
<b>Total operating performance</b>		23,277.7	23,026.5
Cost of raw materials, consumables and supplies and of purchased goods		-20,439.6	-20,276.6
<b>Gross profit</b>		2,838.1	2,749.9
Other income	2	240.7	257.5
Other expenses	3	-925.8	-1,004.1
Personnel expenses	4	-1,460.7	-1,492.8
Result from associates accounted for using the equity method	5	-0.2	-3.7
Result from other investments	5	7.1	8.0
<b>EBITDA</b>		699.2	514.8
Amortisation of non-current intangible assets and depreciation of property, plant and equipment	6	-133.0	-143.4
Impairment losses recorded on intangible assets and property, plant and equipment	6	-0.6	-134.6
<b>EBIT</b>		565.6	236.8
Interest expense	7	-148.6	-157.3
Interest income	7	10.1	8.6
Other financial result	7	-17.8	15.9
<b>Profit before tax</b>		409.3	104.0
Income taxes	8	-144.3	-97.9
<b>Net profit</b>		265.0	6.1
Of which attributable to non-controlling interests		5.8	3.9
<b>Of which attributable to the shareholders of Celsio AG</b>		259.2	2.2
<b>Earnings per share – basic (EUR)</b>	9	1.52	0.01
<b>Earnings per share – diluted (EUR) <sup>1)</sup></b>	9	1.48	0.01

1) In accordance with IAS 33.41, the effect of potentially dilutive ordinary shares has not been included in the reporting period as these shares would improve the diluted earnings per share.

# Group statement of comprehensive income for the 2011 fiscal year

	2010 EUR M	2011 EUR M
<b>Net profit</b>	<b>265,0</b>	<b>6.1</b>
Gains from marking available-for-sale financial assets to market	0.0	0.6
<i>Of which income taxes</i>	0.0	0.0
Losses from derivative financial instruments to hedge cash flows	-1.6	-5.9
<i>Of which income taxes</i>	3.8	-5.2
Revaluation in the course of business combinations achieved in stages	-1.3	0.0
Exchange differences	81.1	3.7
<b>Other comprehensive income</b>	<b>78.2</b>	<b>-1.6</b>
<i>Of which attributable to non-controlling interests</i>	0.0	0.6
<b>Comprehensive income</b>	<b>343.2</b>	<b>4.5</b>
Of which attributable to non-controlling interests	5.8	4.5
<b>Of which attributable to the shareholders of Celesio AG</b>	<b>337.4</b>	<b>0.0</b>

For more information please refer to note (10).

# Group statement of financial position as of 31 December 2011

ASSETS	Notes No.	31/12/2010 EUR M	31/12/2011 EUR M
<b>Non-current assets</b>		<b>3,450.8</b>	<b>3,601.3</b>
Intangible assets	11	2,545.9	2,637.2
Property, plant and equipment	12	592.3	608.3
Associates accounted for using the equity method	13	80.6	82.3
Other financial assets	13	107.6	116.6
Other non-current assets		0.0	29.5
Income tax receivables		3.1	2.5
Deferred tax assets	14	121.3	124.9
<b>Current assets</b>		<b>4,951.9</b>	<b>5,193.0</b>
Inventories	15	1,688.1	1,791.5
Trade receivables	17	2,522.0	2,529.4
Income tax receivables		28.9	28.9
Other receivables and other assets	17	365.5	392.7
Cash and cash equivalents	18	200.8	448.3
Non-current assets held for sale	16	2.5	2.2
Assets of a disposal group classified as held for sale	16	144.1	0.0
<b>Total assets</b>		<b>8,402.7</b>	<b>8,794.3</b>



<b>EQUITY AND LIABILITIES</b>	Notes No.	31/12/2010 EUR M	31/12/2011 EUR M
<b>Equity</b>	19	2,601.1	2,577.8
Issued capital		217.7	217.7
Capital reserves		1,145.2	1,186.0
Revenue reserves		1,393.7	1,311.5
Revaluation reserves		-167.4	-169.6
<b>Equity attributable to shareholders of Celesio AG</b>		<b>2,589.2</b>	<b>2,545.6</b>
Non-controlling interests		11.9	32.2
 <b>Liabilities</b>		 <b>5,801.6</b>	 <b>6,216.5</b>
<b>Non-current liabilities</b>		<b>2,292.6</b>	<b>2,232.1</b>
Financial liabilities	23	1,789.6	1,775.5
Pension provisions	20	142.1	134.6
Other non-current provisions	21	120.3	92.5
Other liabilities	22	154.3	120.9
Deferred tax liabilities	14	86.3	108.6
 <b>Current liabilities</b>		 <b>3,509.0</b>	 <b>3,984.4</b>
Financial liabilities	23	133.7	291.5
Trade payables	24	2,514.6	2,799.4
Other current provisions	21	162.0	176.2
Income tax liabilities		72.3	54.7
Other liabilities	24	584.9	662.6
Liabilities of a disposal group classified as held for sale	16	41.5	0.0
 <b>Total equity and liabilities</b>		 <b>8,402.7</b>	 <b>8,794.3</b>

# Group statement of cash flows for the 2011 fiscal year

Profit before tax	
Financial result	
EBIT	
Amortisation of non-current intangible assets and depreciation of property, plant and equipment	
Impairment losses recorded on intangible assets and property, plant and equipment	
<b>EBITDA</b>	
Result from associates accounted for using the equity method and other equity investments	
Net result from the disposal of non-current assets and subsidiaries	
Impairment of operating assets	
Non-cash change in pension provisions	
Other non-cash income and expenses	
Income taxes paid	
Dividends received	
Change in net operating assets	
Change in inventories	
Change in trade receivables	
Change in trade payables	
Change in other net operating assets	
Change in other assets and other liabilities	
<b>Net cash flow from operating activities</b>	
Proceeds from the disposal of non-current assets	
Capital expenditure on non-current assets	
Proceeds from the sale of subsidiaries	
Cash paid for business combinations	
<b>Net cash flow from investing activities</b>	
Payments made to shareholders (including non-controlling interests)	
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	
Proceeds from borrowings	
Repayment of borrowings	
Interest paid	
Interest received	
<b>Net cash flow from financing activities</b>	
<b>Net change in cash and cash equivalents</b>	
Net foreign exchange rate difference	
Cash and cash equivalents at the beginning of the period	
<b>Cash and cash equivalents at the end of the period</b>	

	2010 EUR M	2011 EUR M
	409.3	104.0
	-156.3	-132.8
	565.6	236.8
	-133.0	-143.4
	-0.6	-134.6
	699.2	514.8
	-6.9	-4.3
	-28.1	-23.5
	51.4	62.9
	19.1	20.2
	1.3	-1.8
	-150.3	-131.7
	9.0	9.1
	146.4	195.8
	-81.0	-108.3
	37.2	59.8
	169.6	211.0
	20.6	33.3
	-88.8	-82.2
	652.3	559.3
	75.0	42.6
	-163.0	-213.2
	-3.7	3.1
	-32.3	-32.9
	-124.0	-200.4
	-89.0	-86.8
	-2.3	-0.8
	633.7	756.3
	-917.5	-662.5
	-106.1	-129.1
	10.1	8.3
	-471.1	-114.6
	57.2	244.3
	15.9	3.2
	127.7	200.8
	200.8	448.3

The presentation of cash flows from operating activities was changed effective 1 January 2011. In the previous year, there was also a reclassification within the item net cash flow from investing activities.

More information on the group statement of cash flows can be found on [→ page 278](#).

# Group statement of changes in equity for the 2011 fiscal year

	Issued capital EUR M	Capital reserves EUR M	Revenue reserves EUR M
<b>As of 01/01/11</b>	<b>217.7</b>	<b>1,145.2</b>	<b>1,393.7</b>
Change in capital	0.0	40.8	0.0
Dividends	0.0	0.0	-85.1
Changes in ownership interests in subsidiaries that do not result in a loss of control	0.0	0.0	0.7
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	2.2
Comprehensive income	0.0	0.0	2.2
<b>As of 31/12/11</b>	<b>217.7</b>	<b>1,186.0</b>	<b>1,311.5</b>
<b>As of 01/01/10</b>	<b>217.7</b>	<b>1,145.2</b>	<b>1,221.7</b>
Change in capital	0.0	0.0	0.0
Dividends	0.0	0.0	-85.0
Changes 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
<b>As of 31/12/10</b>	<b>217.7</b>	<b>1,145.2</b>	<b>1,393.7</b>

	Revaluation reserves				Equity attributable to shareholders of Celesio AG	Non-controlling interests	Equity
	Translation reserves EUR M	Asset revaluation reserves EUR M	Available-for-sale financial assets EUR M	Cash flow hedges EUR M	EUR M	EUR M	EUR M
	-151.5	-0.4	-0.6	-14.9	2,589.2	11.9	2,601.1
	0.0	0.0	0.0	0.0	40.8	0.0	40.8
	0.0	0.0	0.0	0.0	-85.1	-1.7	-86.8
	0.0	0.0	0.0	0.0	0.7	-1.5	-0.8
	0.0	0.0	0.0	0.0	0.0	19.0	19.0
	3.1	0.0	0.6	-5.9	-2.2	0.6	-1.6
	0.0	0.0	0.0	0.0	2.2	3.9	6.1
	3.1	0.0	0.6	-5.9	0.0	4.5	4.5
	-148.4	-0.4	0.0	-20.8	2,545.6	32.2	2,577.8
	-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

For more information please refer to note (19).

# Group segment reporting by business area for the 2011 fiscal year

	Patient and Consumer Solutions		Pharmacy Solutions	
	Pharmacies EUR M	Other busi- ness areas EUR M	Total Patient and Consumer Solutions EUR M	Wholesale EUR M
<b>Income statement</b>				
<b>Revenue</b>	<b>3,571.4</b>	<b>0.0</b>	<b>3,571.4</b>	<b>18,814.3</b>
External revenue	3,569.8	0.0	3,569.8	18,814.3
Inter-segment revenue	1.6	0.0	1.6	0.0
<b>Gross profit</b>	<b>1,175.1</b>	<b>0.0</b>	<b>1,175.1</b>	<b>1,189.3</b>
<b>EBITDA</b>	<b>183.4</b>	<b>-2.0</b>	<b>181.4</b>	<b>425.0</b>
<i>Of which other significant non-cash income</i>	1.3	7.5	8.8	18.5
<i>Of which other significant non-cash expenses</i>	-11.0	-1.2	-12.2	-71.6
<i>Of which result from associates accounted for using the equity method</i>	-2.6	6.3	3.7	0.3
Amortisation of non-current intangible assets and depreciation of property, plant and equipment	-62.0	0.0	-62.0	-58.0
Impairment losses recorded on intangible assets and property, plant and equipment	-9.9	0.0	-9.9	-45.9
<b>EBIT</b>	<b>111.5</b>	<b>-2.0</b>	<b>109.5</b>	<b>321.1</b>
<b>Segment assets</b>	<b>2,005.3</b>	<b>75.4</b>	<b>2,080.7</b>	<b>2,037.2</b>
<i>Of which non-current assets and disposal groups held for sale</i>	0.0	0.0	0.0	2.2
<i>Of which goodwill</i>	1,673.0	0.0	1,673.0	518.3
<i>Of which associates accounted for using the equity method</i>	1.3	75.4	76.7	4.5
<b>Capital expenditures</b>	<b>113.8</b>	<b>2.4</b>	<b>116.2</b>	<b>116.0</b>
<b>Employees</b>				
Headcount annual average	23,021	0	23,021	16,371
Headcount as of 31/12	23,810	0	23,810	16,373
Full-time equivalents annual average	15,668	0	15,668	13,935
Full-time equivalents as of 31/12	16,141	0	16,141	14,015

Pharmacy Solutions		Manufacturer Solutions				Others EUR M	Consolidation EUR M	Group EUR M
Other business areas EUR M	Total Pharmacy Solutions EUR M	Logistic Solutions EUR M	Marketing Solutions EUR M	Efficient Care Pharma EUR M	Total Manufacturer Solutions EUR M			
5.0	— 18,819.3	— 453.7	— 204.3	— 56.9	— 714.9	— 0.0	— -79.2	— 23,026.4
5.0	— 18,819.3	— 381.5	— 203.0	— 52.8	— 637.3	— 0.0	— 0.0	— 23,026.4
0.0	— 0.0	— 72.2	— 1.3	— 4.1	— 77.6	— 0.0	— -79.2	— 0.0
2.2	— 1,191.5	— 183.5	— 197.4	— 2.4	— 383.3	— 0.0	— 0.0	— 2,749.9
-0.6	— 424.4	— 10.7	— 0.1	— -10.4	— 0.4	— -91.4	— 0.0	— 514.8
0.1	— 18.6	— 0.2	— 0.2	— 0.3	— 0.7	— 0.0	— 0.0	— 28.1
-0.5	— -72.1	— -2.0	— -0.3	— -7.2	— -9.5	— -1.3	— 0.0	— -95.1
0.0	— 0.3	— 0.0	— -1.0	— -6.7	— -7.7	— 0.0	— 0.0	— -3.7
-0.3	— -58.3	— -9.0	— -4.0	— -0.4	— -13.4	— -9.7	— 0.0	— -143.4
-3.6	— -49.5	— -0.3	— -72.0	— 0.0	— -72.3	— -2.9	— 0.0	— -134.6
-4.5	— 316.6	— 1.4	— -75.9	— -10.8	— -85.3	— -104.0	— 0.0	— 236.8
9.1	— 2,046.3	— 188.2	— 70.4	— 7.1	— 265.7	— 6.3	— -2.5	— 4,396.5
0.0	— 2.2	— 0.0	— 0.0	— 0.0	— 0.0	— 0.0	— 0.0	— 2.2
0.8	— 519.1	— 98.6	— 64.8	— 0.0	— 163.4	— 0.0	— 0.0	— 2,355.5
0.0	— 4.5	— 0.0	— 1.1	— 0.0	— 1.1	— 0.0	— 0.0	— 82.3
0.1	— 116.1	— 22.2	— 0.9	— 5.5	— 28.6	— 11.8	— 0.0	— 272.7
37	— 16,408	— 1,848	— 4,960	— 67	— 6,875	— 314	— 0	— 46,618
32	— 16,405	— 1,902	— 4,501	— 42	— 6,445	— 317	— 0	— 46,977
27	— 13,962	— 1,764	— 4,810	— 65	— 6,639	— 283	— 0	— 36,552
23	— 14,038	— 1,804	— 4,363	— 41	— 6,208	— 283	— 0	— 36,670

More information on the group segment reporting can be found on  
→ page 280.

# Group segment reporting by business area for the 2010 fiscal year

	Patient and Consumer Solutions		Pharmacy Solutions	
	Pharma- cies <sup>1)</sup> EUR M	Other busi- ness areas <sup>1)</sup> EUR M	Total Patient and Consumer Solutions <sup>1)</sup> EUR M	Wholesale EUR M
<b>Income statement</b>				
<b>Revenue</b>	<b>3,618.1</b>	<b>0.0</b>	<b>3,618.1</b>	<b>19,015.5</b>
External revenue	3,618.1	0.0	3,618.1	19,014.4
Inter-segment revenue	0.0	0.0	0.0	1.1
<b>Gross profit</b>	<b>1,217.5</b>	<b>0.0</b>	<b>1,217.5</b>	<b>1,206.5</b>
<b>EBITDA</b>	<b>316.0</b>	<b>0.7</b>	<b>316.7</b>	<b>459.2</b>
<i>Of which other significant non-cash income</i>	1.7	0.7	2.4	20.5
<i>Of which other significant non-cash expenses</i>	-8.5	0.0	-8.5	-65.8
<i>Of which result from associates accounted for using the equity method</i>	-1.2	0.7	-0.5	0.2
Amortisation of non-current intangible assets and depreciation of property, plant and equipment	-57.1	0.0	-57.1	-56.4
Impairment losses recorded on intangible assets and property, plant and equipment	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>258.9</b>	<b>0.7</b>	<b>259.6</b>	<b>402.8</b>
<b>Segment assets</b>	<b>1,970.4</b>	<b>69.6</b>	<b>2,040.0</b>	<b>2,190.5</b>
<i>Of which non-current assets and disposal groups held for sale</i>	99.6	0.0	99.6	2.5
<i>Of which goodwill</i>	1,556.9	0.0	1,556.9	527.5
<i>Of which associates accounted for using the equity method</i>	3.6	69.6	73.2	4.5
<b>Capital expenditures</b>	<b>85.0</b>	<b>0.0</b>	<b>85.0</b>	<b>78.7</b>
<b>Employees</b>				
Headcount annual average	23,541	0	23,541	15,969
Headcount as of 31/12	23,249	0	23,249	16,512
Full-time equivalents annual average	15,916	0	15,916	13,575
Full-time equivalents as of 31/12	15,615	0	15,615	14,021

1) Previous-year figures adjusted to reflect new reporting structure.



Pharmacy Solutions		Manufacturer Solutions				Others EUR M	Consolidation EUR M	Group EUR M
Other business areas EUR M	Total Pharmacy Solutions EUR M	Logistic Solutions EUR M	Marketing Solutions EUR M	Efficient Care Pharma EUR M	Total Manufacturer Solutions EUR M			
5.3	— 19,020.8	— 444.2	— 231.6	— 38.8	— 714.6	— 0.0	— -75.9	— 23,277.6
5.3	— 19,019.7	— 373.9	— 230.5	— 35.4	— 639.8	— 0.0	— 0.0	— 23,277.6
0.0	— 1.1	— 70.3	— 1.1	— 3.4	— 74.8	— 0.0	— -75.9	— 0.0
2.3	— 1,208.8	— 185.0	— 224.8	— 2.0	— 411.8	— 0.0	— 0.0	— 2,838.1
-3.1	— 456.1	— 17.9	— -2.3	— -3.4	— 12.2	— -85.8	— 0.0	— 699.2
0.0	— 20.5	— 0.2	— 0.5	— 0.0	— 0.7	— 2.1	— 0.0	— 25.7
-0.6	— -66.4	— -1.9	— -0.7	— -0.1	— -2.7	— -0.8	— 0.0	— -78.4
0.0	— 0.2	— 0.0	— 0.2	— -0.1	— 0.1	— 0.0	— 0.0	— -0.2
-0.4	— -56.8	— -7.6	— -4.4	— -0.1	— -12.1	— -7.0	— 0.0	— -133.0
0.0	— 0.0	— -0.1	— -0.5	— 0.0	— -0.6	— 0.0	— 0.0	— -0.6
-3.5	— 399.3	— 10.2	— -7.2	— -3.5	— -0.5	— -92.8	— 0.0	— 565.6
12.2	— 2,202.7	— 170.7	— 161.1	— 7.0	— 338.8	— 25.0	— -4.4	— 4,602.1
0.0	— 2.5	— 0.0	— 0.0	— 0.0	— 0.0	— 3.0	— 0.0	— 105.1
0.8	— 528.3	— 96.9	— 136.1	— 0.0	— 233.0	— 0.1	— 0.0	— 2,318.3
0.0	— 4.5	— 0.0	— 2.2	— 0.7	— 2.9	— 0.0	— 0.0	— 80.6
0.5	— 79.2	— 13.0	— 0.9	— 0.1	— 14.0	— 20.6	— 0.0	— 198.8
40	— 16,009	— 1,703	— 4,847	— 38	— 6,588	— 315	— 0	— 46,453
39	— 16,551	— 1,730	— 4,922	— 61	— 6,713	— 313	— 0	— 46,826
29	— 13,604	— 1,626	— 4,698	— 36	— 6,360	— 294	— 0	— 36,174
29	— 14,050	— 1,650	— 4,780	— 58	— 6,488	— 288	— 0	— 36,441

More information on the group segment reporting can be found on  
→ page 280.

# Group segment reporting by country for the 2011 fiscal year

	Germany		France		
	2010 EUR M	2011 EUR M	2010 EUR M	2011 EUR M	
External revenue	4,346.4	4,383.1	6,838.4	6,706.7	
Segment assets	872.7	793.1	440.1	332.4	
<i>Of which non-current assets <sup>1)</sup></i>	302.0	250.2	214.7	208.0	

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

	United Kingdom		Other countries		Group	
	2010 EUR M	2011 EUR M	2010 EUR M	2011 EUR M	2010 EUR M	2011 EUR M
	4,856.9	4,697.3	7,235.9	7,239.3	23,277.6	23,026.4
	1,555.3	1,558.5	1,734.0	1,712.5	4,602.1	4,396.5
	1,602.8	1,688.0	1,018.7	1,099.3	3,138.2	3,245.5

More information on the group segment reporting can be found on  
→ [page 280](#).

# 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 of 31 December 2011 – 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 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 22 February 2012.

## Basis of consolidation

The consolidated financial statements have been prepared from the separate financial statements of the consolidated group entities as of 31 December 2011. These have been prepared in compliance with the group's uniform accounting policies, based on IFRSs. The consolidated subsidiaries 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 included 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 existing 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 consolidated taking account of the original shares and disclosing respective non-controlling interests. A purchase price liability was recognised through revenue reserves for put options of the former owner.

The consolidation of investments is performed in accordance with the acquisition 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 interest in the net assets of the acquired company is recognised as goodwill. 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. Later adjustments to the fair value of this contingent consideration that constitute an asset or a liability are treated in accordance with IAS 39. Differences in debt instruments are recognised through profit or loss but no adjustment is made in the case of equity instruments. 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. A change in a contingent liability is recognised by adjusting the purchase price liability and the historic acquisition cost of the business combination, which impacts on goodwill 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 of 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 renewed testing, 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 are presented separately in the group income statement and the group statement of financial position. 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 in accordance with the option provided in IAS 31. Other investments are recognised at fair value in accordance with IAS 39 or, if no fair 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, their functional currencies are the national currencies applicable in each case. Assets and liabilities are therefore translated at the rate at the end of the reporting period pursuant to 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 using the exchange rate at the end of the reporting period. 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 year-on-year development in exchange rates relevant for the Celesio Group:

Country	Currency	Closing rate		Average exchange rate	
		31/12/2010	31/12/2011	31/12/2010	31/12/2011
United Kingdom	GBP	0.8608	0.8353	0.8571	0.8676
Brazil	BRL	2.2177	2.4159	2.3265	2.3240
Norway	NOK	7.8000	7.7540	8.0025	7.7927
Czech Republic	CZK	25.0610	25.7870	25.2726	24.5812
Denmark	DKK	7.4535	7.4342	7.4473	7.4506
Sweden	SEK	8.9655	8.9120	9.5272	9.0278

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 statement of comprehensive income. Non-monetary items denominated in foreign currency are recognised at their historical rates in the separate financial statements.

## New International Financial Reporting Standards

The IASB and the International Financial Reporting Interpretations Committee (IFRS IC) have issued amendments to existing IFRSs and new standards and interpretations whose application has been mandatory since 1 January 2011. The following standards and interpretations have been applied by the Celesio Group for the first time in this reporting period:

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

IASB issued a further **omnibus of amendments** in May 2010, »Improvements to International Financial Reporting Standards«. These consist primarily of clarifications and simplifications in the application of IFRSs. First-time application did not have any material impact on Celesio's consolidated financial statements.

Furthermore, the following standards and interpretations have become mandatory since 1 January 2011 but did not have any material impact on the consolidated financial statements of Celesio. »**IAS 32** – Classification of Rights Issues«, »**IFRIC 14** – Prepayments of a Minimum Funding Requirement« and »**IFRIC 19** – Extinguishing Financial Liabilities with Equity Instruments«.

The IASB and the IFRS IC have issued additional standards and interpretations that are not yet mandatory for the reporting period. The adoption of these standards is contingent upon the European Union recognising those standards which it had not as yet recognised by the date on which the financial statements were compiled.



Specifically, the standards and interpretations concerned are:

IFRS STANDARD/INTERPRETATION	Published by the IASB	Mandatory for fiscal years starting on or after	EU endorsement
IAS 1 — Presentation of items of other comprehensive income (oci)	16/06/2011	01/07/2012	No
IAS 12 — Deferred tax: recovery of underlying assets	20/12/2010	01/01/2012	No
IAS 19 — Post-employment benefits	16/06/2011	01/01/2013	No
IAS 27 — Separate financial statements	12/05/2011	01/01/2013	No
IAS 28 — Investments in associates and joint ventures	12/05/2011	01/01/2013	No
IAS 32 — Offsetting financial assets and financial liabilities	16/12/2011	01/01/2014	No
IFRS 1 — Removal of the fixed transition dates for first-time adopters of IFRSs	20/12/2010	01/07/2011	No
IFRS 1 — Severe hyperinflation	20/12/2010	01/07/2011	No
IFRS 7 — Disclosures: transfers of financial assets	07/10/2010	01/07/2011	Yes
IFRS 7 — Offsetting financial assets and financial liabilities	16/12/2011	01/01/2013	No
IFRS 7 — Disclosures on transition to IFRS 9	16/12/2011	01/01/2013	No
IFRS 9 — Classification and measurement	12/11/2009	01/01/2015	No
IFRS 9 — Financial instruments: classification and measurement	28/10/2010	01/01/2015	No
IFRS 10 — Consolidated financial statements	12/05/2011	01/01/2013	No
IFRS 11 — Joint arrangements	12/05/2011	01/01/2013	No
IFRS 12 — Disclosure of interests in other entities	12/05/2011	01/01/2013	No
IFRS 13 — Fair value measurement	12/05/2011	01/01/2013	No
IFRIC 20 — Stripping costs in the production phase of a surface mine	19/10/2011	01/01/2013	No

From a current perspective, none of the amendments set out above will have a material impact on the assets position, financial position and earnings of the Celesio Group, although further disclosure requirements are expected. Only the new provisions of IAS 19 are expected to have an effect. The elimination of the

corridor method and introduction of direct recognition of actuarial gains and losses in other comprehensive income will impact significantly on the revaluation reserves, pension provisions and therefore comprehensive income. Net cumulative unrecognised actuarial losses came to EUR 152.0m as of 31 December 2011.

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 as they mainly pertain to company names. 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 Wholesale business area correspond, as in the previous year, to the business area of the respective country (e.g. Wholesale Germany). Within Manufacturer Solutions, the Movianto and the Pharmexx Group business areas are each considered separate cash-generating units as in the previous year. Within Retail Pharmacies in the previous year, the business areas were broken down by country into cash-generating units. The cash-generating units Mail-order Pharmacies and Retail Pharmacies UK were merged to form the cash-generating unit Lloydspharmacy as of 1 January 2011. At the same time, the Mail-order Pharmacies and Retail Pharmacies units in other countries were combined in the cash-generating unit DocMorris due to the fact that all non-UK pharmacies now fall under DocMorris. The reporting structure was changed accordingly.

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, independent studies on medium-term market development – comparing Celesio's projected performance to that of the market – and the expectation for long-term growth in the healthcare market in light of demographic and other developments.

The planning is based on past developments and expectations of future market developments at the level of the cash-generating unit. 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. The anticipated impact of definite or foreseeable

government measures is also considered for pharmacies and the wholesale business. The number of participants in brand partnership programmes is a significant factor for franchise models.

Planning for the cash-generating unit Lloydspharmacy takes into account effects expected to compensate for government measures as well as an anticipated increase in revenue adjusted for currency effects over the detailed planning period. The Management Board expects profitability to increase in the DocMorris cash-generating unit as a result of an increase in unit sales of higher-margin product ranges and because there were no further start-up losses in connection with expanding the pharmacy network in certain countries, especially Sweden.

For Wholesale France, the Management Board anticipates stable gross profit margins despite growing pressure from competition and stagnating pharmaceutical markets. In the detailed planning period for Wholesale UK, gross profit margins are expected to fall slightly mainly as a result of the change in product mix. We expect stable market development for Wholesale Austria.

The main factors affecting Pharmexx will be the international standardisation of pharmaceutical manufacturers' service portfolios and the implementation of restructuring and integration measures performed in 2010 and 2011. In addition to exploiting market potential in Germany and the UK, market growth in India in particular will form the basis for improving gross profit margins and EBITDA. Restructuring measures were launched in Spain and Portugal in the fourth quarter of 2011 in response to the overall economic environment. These are expected to lead to cost savings over the detailed planning period, although scheduled expenses will result in special burdens in 2012.

Planning assumptions in the Movianto business area are based on the volume of logistics and distribution activities expected to be outsourced by pharmaceutical manufacturers and the corresponding capacity utilisation. In certain countries, growth is expected in special areas of business such as Movianto's transport solutions, specialty services and value added services. Moreover, planning provides for sustainable savings as a result of cost-cutting measures implemented in the fourth quarter of 2011.

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 **scheduled impairment tests** on goodwill and brands in the third quarter of each year.

The following overview summarises the parameters used in the impairment test for each division to determine the value in use.

	Goodwill		WACC <sup>1)</sup>		Growth rate after the detailed planning period <sup>1)</sup>	
	31/12/2010 EUR M	31/12/2011 EUR M	2010 %	2011 %	2010 %	2011 %
Patient and Consumer Solutions	1,556.9	1,673.0	8.5–10.7	9.7–10.6	1.5–3.0	1.9–2.0
Of which Lloydspharmacy	1,191.6	1,235.2	9.3	9.7	2.0	2.0
Of which DocMorris	365.3	437.8	8.5–10.7	10.6	1.5–3.0	1.9
Pharmacy Solutions	528.3	519.1	8.7–12.8	9.8–17.9	2.0	2.0–3.0
Of which Wholesale France	134.1	134.1	10.1	10.8	2.0	2.0
Of which Wholesale UK	145.1	149.5	9.4	9.8	2.0	2.0
Of which Wholesale Austria	101.3	101.3	9.1	9.9	2.0	2.0
Manufacturer Solutions	233.0	163.4	9.3–10.0	10.3–11.8	2.0	2.0
Of which Pharmexx	136.1	64.8	10.0	11.8	2.0	2.0
Of which Movianto	96.9	98.6	9.3	10.3	2.0	2.0

1) Assumptions as of 31 August 2011.

Scenarios for critical calculation parameters such as the weighted average cost of capital (wacc) and the growth rate after the detailed planning period were carried out to validate the values in use as of 31 August 2011. Management considers an increase of 1.0 percentage points in the wacc and a decrease in the growth rate of 0.5 percentage points after the detailed planning period (terminal phase) to be possible. Based on the assumptions set out above, the value in use of the cash-generating unit Wholesale Austria exceeds the carrying amount by EUR 21.9m. If the weighted average cost of capital were to increase by 0.5 percentage points, the carrying amount of the cash-generating unit would correspond to its value in use. Based on the assumptions set out above, the value in use of the cash-generating unit Movianto exceeds the carrying amount by EUR 24.9m. If the weighted average cost of capital were to increase by 0.95 percentage points, the carrying amount of the cash-generating unit would correspond to its value in use. Based on the assumptions set out above, the value in use of the cash-generating unit Pharmexx exceeds the carrying

amount by EUR 6.3m. If the weighted average cost of capital were to increase by 0.66 percentage points, the carrying amount of the cash-generating unit would correspond to its value in use. The scenario analyses did not reveal any need to record impairment losses on the intangible assets of the other cash-generating units in the third quarter of 2011.

Impairment charges were recognised as of 30 June 2011. Further details are provided in note (06) Depreciation, amortisation, and impairment. The **extraordinary impairment test** performed as of 30 September 2011 did not reveal the need to recognise additional impairment losses. As was already the case on 30 June 2011 and 30 September 2011, the market capitalisation of Celesio AG, i.e. the value of all shares issued by the company, had fallen below the carrying amount of equity as of 31 December 2011. This was a triggering event for another extraordinary impairment test. As a result, all assets that fall within the scope of IAS 36 were tested for impairment. As of 31 December 2011, the significant cash-generating units Wholesale Austria, Lloydspharmacy, Movianto and Pharmexx were once again tested for impairment. They were selected on the basis of materiality due to the low coverage of the carrying amount due to their operating development or the amount of goodwill allocated. As part of impairment testing, planning was updated to reflect current events and capitalisation rates were recalculated if necessary.

For Lloydspharmacy the WACC came to 8.3% and the growth rate after the detailed planning period to 2.0% as of 31 December 2011. The cash-generating unit Wholesale Austria had a WACC of 8.5% and a growth rate of 2.0% after the detailed planning period. The WACC amounted to 10.0% for the cash-generating unit Pharmexx, while its growth rate after the detailed planning period came to 2.0%. The cash-generating unit Movianto recorded a WACC of 9.1% and a growth rate after the detailed planning period of 2.0%. No adjustments were required following the impairment testing.

Further scenarios were analysed for the critical calculation parameters to verify the values in use as of 31 December 2011. Management considers the following scenarios to be possible:

- An increase in WACC of 1.0 percentage point
- A decrease in the growth rate after the detailed planning period of 0.5 percentage points
- A one-year delay in planned revenue, retaining the margins of the base scenario (on account of prevailing market uncertainty)

In the base assumptions set out above, the value in use of the cash-generating unit Pharmexx exceeds the carrying amount by EUR 11.4m. If the weighted average cost of capital were to increase by 0.92 percentage points, the carrying amount of the cash-generating unit would correspond to its value in use. These scenario analyses did not reveal any potential impairment of intangible assets.

In light of the historically low risk-free interest rates, alternative scenarios were also calculated for a decrease in the market risk premium of 0.5 percentage points from 5.0% to 5.5% as of 31 December 2011. In the base assumptions described, the value in use of the cash-generating unit Pharmexx exceeds the carrying amount by EUR 5.5m. If the weighted average cost of capital were to increase by 0.47 percentage points, the carrying amount of the cash-generating unit would correspond to its value in use. The additional scenario analyses did not reveal any further need for impairment with the exception of Pharmexx where a one-year delay in planned revenue would lead to a potential impairment loss of EUR 1.6m.

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

The DocMorris brand with an unchanged carrying amount of EUR 57.3m is an asset of the company carried by the cash-generating unit DocMorris. Significant measurement factors relate to the development of the franchise model and mail-order business as well as brand licensing. A weighted average cost of capital of 8.4% to 8.7% (previous year 8.3% to 9.1%) was applied for the impairment test of the DocMorris brand and a growth rate of 1.5% to 2.0% (previous year 2.0%) for the period following the detailed planning period.

**Property, plant and equipment** are carried at amortised cost including all incidental costs of acquisition and less any trade discounts or rebates in accordance with IAS 16. 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.

Any government grants or subsidies received for the acquisition or production of an asset are recorded as deferred income. As in the previous year, government grants were immaterial.

Property, plant and equipment are depreciated on a straight-line basis over their useful lives; an indefinite useful life is assumed for land. 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 eleven 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 five years. 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.

In addition to the finance leases, Celesio 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 a qualifying 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 2011 or 2010.



**Investments** and securities 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 cost and there are objective indications that the asset is permanently impaired, an impairment loss is charged through profit or loss. The accumulated losses previously recorded under other comprehensive income are released to the income statement. 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 below its cost significantly or for a prolonged time. 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 in the category financial assets measured at fair value through profit or loss are posted to profit or loss. When the assets are subsequently measured, any fluctuations in fair 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 generally accepted valuation techniques. Such techniques may include using recent comparable 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.

**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.

**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. The investment is tested for impairment 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 can only take 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 and no longer subject to amortisation and depreciation 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 and the relevant management level has agreed a plan for sale. This usually requires approval from the Management Board and sometimes also from the Supervisory Board. Further requirements are that 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 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** contain liquid funds such as cash on hand, checks and bank balances with a term to maturity of less than three months. They are recognised at nominal value. Foreign cash reserves have been valued using the 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 fair 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 of 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 offsetting changes in fair value or cash flows. They are assessed continuously to determine whether they actually have been highly effective throughout the 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. Conversely, the 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 fair 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. The calculation uses the market interest rates applicable for the remaining term of the derivatives.

**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 are recognised on unused tax losses at the amount at which the associated tax benefits are likely to be realised through future taxable profit and these can be reliably measured. The amount is based on tax planning taking into account the future tax strategy and any limitations on carrying forward tax losses. The calculation of deferred taxes is based on the tax rates valid in the countries concerned at the time they were recognised or which had been enacted for future periods. A uniform group tax rate of 30.7% is used for the German companies.

**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.

Restructuring provisions are only recognised when the company has issued a detailed formal plan for the restructuring and has raised a valid expectation in the employees affected that it will carry out the restructuring.

**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 obligation is remeasured at the end of each reporting period using a binomial model. 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.

With the exception of derivative financial instruments, **liabilities** are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial derivatives are recognised at fair value in accordance with IAS 39.

The debt components of convertible bonds are 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 corporate bond issued in 2010 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 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 using the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

**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 and meet the criteria for recognition pursuant to IFRS 3. Subsequent measurement is based on the obligation initially recognised. If the obligation has been extinguished – statute-barred, for example – the contingent liability is released. Contingent liabilities not assumed in the course of a business combination are not recognised. Contingent assets are not recognised.

**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.

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. When classifying a lease as a finance lease, the income is deferred and released through profit and loss over the term of the agreement.



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 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. Please refer to the disclosures on business combinations starting on → *page 201*.

### 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 assumptions of management about the future development of the value of the asset and the discount rates used. There were no such cases in the reporting period.

### IMPAIRMENT OF GOODWILL AND COMMERCIAL BRANDS

The annual impairment test of goodwill and brands with an indefinite useful life 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 pharmacy and wholesale business, the development in the number of brand partnerships for franchise systems and the international standardisation in the services portfolio at Pharmexx. Movianto's planning assumptions are based on the volume of logistics and distribution activities expected to be outsourced by pharmaceutical manufacturers and the corresponding capacity utilisation. The assessment of the cash flows from new business activities, on which the recoverable amount is based, 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 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. Please also refer to the notes on impairment testing for goodwill and brands starting on → [page 183](#).

#### **TRADE RECEIVABLES AND OTHER ASSETS**

The allowance for bad debts totalling EUR 106.8m (previous year EUR 118.9m) is based to a large extent on estimates and judgements of individual receivables taking into account the creditworthiness of the respective customer, the current economic situation and the analysis of historical bad debts on a portfolio basis. 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 fair value of the defined benefit obligation of EUR 712.7m (previous year EUR 674.4m) are determined using actuarial calculations. The actuarial calculation 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 with top ratings in the country in question and also performs sensitivity analyses. 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, particularly those 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 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 for litigation to reflect 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. The tax risks relate primarily to VAT liabilities towards Brazilian federal states. Due to uncertainty as to the exact outflow of cash, the risk was recognised upon initial consolidation as a contingent liability of EUR 113.9m, the best estimate. The net carrying amount as of 31 December 2011 was determined to be EUR 73.1m based on external expert appraisal. 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 limiting reimbursement claims to a maximum amount; the reimbursements can possibly be offset against future purchase price instalments. Reimbursement claims reduce the amount recognised for the purchase price liability. Celesio assesses its legal and tax risks at regular intervals, consulting external lawyers where necessary. The assessment may change as new information

becomes available, making it necessary to recognise an additional provision pursuant to IAS 37, adjust the existing provision pursuant or release the contingent liability. Upon utilisation, expenses may arise for Celesio which exceed the provision amount.

#### **DEFERRED TAXES**

The measurement of deferred tax assets and liabilities requires management to make certain assumptions and estimates. In addition to the interpretation of the tax legislation applicable to the respective taxpayer, the calculation of deferred tax assets on temporary differences and unused tax losses involves assessing the extent to which future taxable income will become available and how tax strategies will be implemented to exploit loss carryforwards. For more information please refer to note (14).

#### **CONTINGENT CONSIDERATION FROM BUSINESS COMBINATIONS**

The measurement of contingent consideration from business combination requires management to make certain assumptions and estimates. The measurement is based on management planning, if available. The disclosure of the possible range of contingent consideration usually assumes a hypothetical increase or decrease in the relevant underlying earnings or other performance indicators. Please refer to the disclosures on business combinations starting on → *page 201*.

All assumptions and estimates are based on circumstances prevailing at the end of the reporting period. Future events and changes in conditions can 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 adjusted 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 adjustment of the carrying amounts of the assets and liabilities disclosed in the consolidated financial statements is therefore expected in the 2012 fiscal year.

## Consolidated group

The consolidated group comprises 531 fully consolidated domestic and foreign companies (previous year 619). As in the previous year, this includes seven 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 nine (previous year twelve) entities were consolidated on the basis of potential voting rights from shares not held by Celesio.

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

	Number
<b>As of 01/01/2011</b>	<b>619</b>
Acquisition of shares	11
Formations	4
Mergers with other group entities	-13
Disposals	-2
Liquidations	-88
<b>As of 31/12/2011</b>	<b>531</b>
<i>Of which domestic entities</i>	35
<i>Of which foreign entities</i>	496

In 2011, 88 group companies were liquidated. In almost all cases the companies were holding and shelf companies in the UK that were no longer needed and closed in the course of streamlining the investment structure.

16 (previous year 16) associates were consolidated using the equity method. There were no joint ventures (previous year one).

The complete list of shareholdings – an integral component of the notes to the consolidated financial statements – is published in the electronic version of the German Federal Gazette and on the website [celesio.com](http://celesio.com).

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, UK
Distribuidora Farmacêutica Panarello Ltda.	Goiânia, Brazil
GEHE Pharma Handel GmbH	Stuttgart, Germany
Herba Chemosan Apotheker-AG	Vienna, Austria
Lloyds Pharmacy Limited	Coventry, UK
Norsk Medisinaldepot AS	Oslo, Norway
ocp Portugal, Produtos Farmaceuticos, S.A.	Maia, Portugal
ocp Répartition S.A.	Saint Ouen, France
Pharma BELGIUM S.A.	Brussels, Belgium
Tjellesen Max Jenne A/S	Rodovre, Denmark

## Business combinations and disposals in the 2011 fiscal year

### BUSINESS COMBINATIONS

In the course of optimising the portfolio in the Patient and Consumer Solutions division in the 2011 fiscal year, three retail pharmacies in the Czech Republic and one retail pharmacy each in Norway, the UK and in Belgium were acquired and consolidated.

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

On 7 October 2011, Celesio's Pharmacy Solutions division acquired a 60% interest in the Brazilian company mcm Medicines Holding S.A. São Paulo, the holding company of the Oncoprod Group.

First-time consolidation was performed on the basis of a preliminary purchase price allocation as it was not possible to finish the allocation of fair value by the end of the reporting period. The purchase price allocation will be concluded within twelve months of the acquisition date in each case.

The table below provides the significant details of the companies acquired in 2011:

<b>BUSINESS COMBINATIONS IN THE 2011 FISCAL YEAR</b>	<b>Oncoprod Group EUR M</b>	<b>Other acquisitions EUR M</b>	<b>Total EUR M</b>
<b>Consideration transferred</b>	<b>48.5</b>	<b>11.5</b>	<b>60.0</b>
Purchase price payment	45.9	7.9	53.8
Contingent consideration	2.6	0.1	2.7
Shares previously recognised using the equity method	0.0	3.5	3.5
Remeasurement of shares previously recognised at equity	0.0	0.0	0.0
Cash purchase price	22.0	6.3	28.3
<b>Fair value of assets and liabilities assumed</b>			
<b>Total non-current and current assets</b>	<b>164.2</b>	<b>2.6</b>	<b>166.8</b>
Intangible assets	21.0	0.3	21.3
Property, plant and equipment	2.1	0.2	2.3
Deferred tax assets	2.7	0.0	2.7
Inventories	31.9	0.2	32.1
Trade receivables	68.1	0.1	68.2
Cash and cash equivalents	23.9	1.6	25.5
Other assets	14.5	0.2	14.7
<b>Total liabilities</b>	<b>116.7</b>	<b>2.0</b>	<b>118.7</b>
Financial liabilities	41.7	1.3	43.0
Deferred tax liabilities	9.8	0.0	9.8
Trade payables	53.7	0.1	53.8
Other liabilities	11.5	0.6	12.1
<b>Goodwill</b>	<b>20.0</b>	<b>10.9</b>	<b>30.9</b>
<b>Non-controlling interests</b>	<b>19.0</b>	<b>0.0</b>	<b>19.0</b>



Incidental acquisition-related costs of EUR 0.1m were expensed through profit or loss. No equity instruments were issued to settle purchase price liabilities. Due to the fact that the fair value of the investment measured using the equity method, which was already held by the Celesio Group prior to the date on which control was obtained by the group, corresponds to its carrying amount, there is no impact on profit or loss from revaluing the shares in the income statement.

The fair value of the receivables acquired in the combination amounts to EUR 82.9m after deducting valuation allowances of EUR 1.7m. This includes trade receivables of EUR 68.2m.

The goodwill generally reflects the expected future cash flows that will be generated by the business combinations and the expertise of the employees. The full goodwill method was not applied. Consequently, non-controlling interests were measured at their share in the fair value of the identifiable net assets.

Revenue attributable to the entities acquired in the 2011 fiscal year amounts to EUR 117.0m and the net profit to EUR 0.2m. Had these entities been acquired at the beginning of the fiscal year, the entities would have contributed EUR 414.5m to group revenue and EUR 1.4m to the group's net profit.

## **SIGNIFICANT BUSINESS COMBINATIONS**

On 7 October 2011, Celesio's Pharmacy Solutions division acquired a 60% interest in the Brazilian company MCM Medicines Holding S.A. São Paulo, the holding company of the Oncoprod Group. Oncoprod is Brazil's leading wholesaler for specialty pharmaceuticals such as medicines used in cancer treatments. The customer groups and product segments served by Panpharma and the Oncoprod Group complement each other without overlapping. With this acquisition, Celesio is able to build on its market position in the Brazilian market, which remains highly attractive.

The contingent consideration reflects an earn-out agreement where the settlement price depends on an earnings target. The agreement is intended to reflect the fair value of the company. At the time of acquisition, a fair value of EUR 2.6m was assumed for the contingent consideration on the basis of long-term planning. Assuming a fluctuation of 10% in the earnings indicator compared to the underlying planning, the undiscounted cash flows would fall within a range of EUR 6.1m to EUR 0.0m. There is no cap on the contingent consideration but it does depend on the future developments of earnings.

Celesio agreed reimbursement claims with the former owner for contractually defined risks from the period prior to acquisition. If reimbursement is claimed,

these claims will initially be treated as receivables. After a period of around two years, they will then be settled by the former owner in the form of additional shares or possibly a cash payment. The reimbursement claims against the former owner are capped at BRL 130.7m (approximately EUR 54.1m).

The acquisition gave rise to goodwill of EUR 20.0m which reflects the expected future cash flows, employee expertise and a leading market position in Brazil. In the course of the preliminary purchase price allocation of the Oncoprod Group, 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 4.4m) and contracts with customers (EUR 16.2m) and was recognised under intangible assets.

The revenue attributable to the Oncoprod Group amounts to EUR 106.1m and its net loss comes to EUR 0.2m. Had the company been consolidated from the beginning of the fiscal year, it would have contributed EUR 400.7m to group revenue and EUR 0.9m to the group's net profit. The contribution to net profit would have been EUR 0.8m higher without the amortisation of intangible assets identified in the course of the preliminary purchase price allocation.

#### **CHANGE IN CONTINGENT CONSIDERATION**

The contingent consideration recognised for acquisitions after 1 January 2010 decreased by EUR 0.2m to EUR 5.5 in the reporting period. The change is attributable to new contingent consideration (EUR 2.7m), the settlement of existing contingent consideration (EUR 3.2m) as well as currency and interest effects (EUR 0.1m and EUR 0.2m, respectively). The fair value of contingent consideration was in most cases determined on the basis of the earnings indicator taking long-term planning into account. This did not give rise to any major changes in the fair value or ranges 2011.

#### **DISPOSALS**

In the course of streamlining the portfolio, the Patient and Consumer Solutions division sold eight retail pharmacies in the UK and two in Belgium in the 2011 fiscal year.

In addition, the German company Perfect Life AG – disclosed under Patient and Consumer Solutions – and the Italian company Deltafarm s.r.l. were sold. Deltafarm was previously reported under Others because it was a legal entity for leasing a warehouse. In the process, assets (mainly property, plant and equipment and intangible assets) of EUR 6.0m and liabilities of EUR 2.6m were disposed of.

Losses from the disposals totalled EUR 2.1m. They were disclosed under other operating expenses.

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

In the 2011 fiscal year, optimisation of the portfolio led to additional share acquisitions for a number of fully consolidated entities in the Pharmexx Group, in Pharmacy Solutions in Austria and Slovenia and in Others in France. The consideration paid to the former shareholders for these acquisitions amounted to EUR 0.8m. The carrying amount of the additional shares amounted to EUR 1.5m. Pursuant to IAS 27, the difference of EUR 0.7m was not reflected in goodwill but was added to the revenue reserves while simultaneously reducing non-controlling interests.

## Business combinations and disposals in the 2010 fiscal year

### **BUSINESS COMBINATIONS**

Preliminary purchase price allocations were used as the basis for consolidation for business combinations in the 2010 fiscal years. They were all completed within twelve months of the acquisition date in each case. There were no significant effects on the comparable period from the finalisation of the purchase price allocation. The final figures are presented below.

The table below provides the significant details of the companies acquired in 2010:

<b>BUSINESS COMBINATIONS IN THE 2010 FISCAL YEAR</b>		Total EUR M
<b>Consideration transferred</b>		<b>29.3</b>
Purchase price payment		8.6
Contingent consideration		5.6
Shares previously recognised using the equity method		14.7
Remeasurement of shares previously recognised using the equity method		0.4
Cash purchase price		3.6
<b>Fair value of assets and liabilities assumed</b>		
<b>Total non-current and current assets</b>		<b>23.7</b>
Intangible assets		0.1
Property, plant and equipment		0.8
Inventories		2.7
Trade receivables		12.1
Cash and cash equivalents		5.0
Other assets		3.0
<b>Total liabilities</b>		<b>22.6</b>
Financial liabilities		2.9
Trade payables		3.8
Other liabilities		15.9
<b>Goodwill</b>		<b>28.1</b>
<b>Non-controlling interests</b>		<b>-0.1</b>

The fair value of the receivables acquired in the combination amount 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.

The goodwill generally reflects the expected future cash flows that will be generated by the combination – including in some cases as a result of the leading market position of the acquisition – and the expertise of the employees. The full goodwill method was not applied. Consequently, non-controlling interests were measured at their share in the fair value of the identifiable net assets.

The entities acquired in 2010 generated revenue of EUR 70.4m and net profit of EUR 3.3m. Had these entities been consolidated from the beginning of the fiscal year, they would have contributed EUR 81.2m to group revenue and EUR 3.6m to the net profit of the group.

## DISPOSALS

In the comparative period 2010, the Patient and Consumer Solutions division sold six retail pharmacies in the UK and three in the Netherlands. In the Pharmexx business area, four companies were deconsolidated in Germany, one in Chile (with its parent in Luxembourg) and two in Brazil. The two Brazilian entities were previously consolidated on the basis of exercisable call options. These call options were not exercised and have expired. They were deconsolidated in the comparative period accordingly.

Moreover, on 30 November 2010 the activities of the Dutch subsidiary, Lloyds Nederland B.V., were merged 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 proceeds from the disposal amounted to EUR 72.5m. Of this amount EUR 68.1m is attributable to the contribution of Lloyds Nederland B.V. to Brocacef Holding N.V. The non-cash components of the proceeds from the disposal totalled EUR 69.8m. These resulted primarily from the 45% holding in Brocacef Holding N.V. that was received as consideration and is consolidated using the equity method. In the 2010 fiscal year, the entities sold generated revenue of EUR 162.1m while still consolidated.

# Notes to the group income statement

## OPERATIONAL EXCELLENCE PROGRAM

A multi-year Operational Excellence Program has been launched to support sustainable improvements in the company's competitive position and operating performance. This comprehensive catalogue of measures is a key component of the group's realignment and is already expected to have a positive impact on earnings development in 2012.

Long-term corporate projects include bundling and optimising procurement activities, the supply chain and the wholesale branch network across the group. Measures include stopping projects with high start-up expenses, reducing the losses incurred in connection with setting up new pharmacies in Sweden and cutting direct costs at all major administrative centres across the Celesio group.

Significant expenses relate to termination agreements offered to employees with obligations totalling EUR 24.9m. Expenses of EUR 25.3m were incurred for prematurely terminating agreements such as rental contracts and leases. In addition, impairment losses of EUR 8.3m were charged for intangible assets, especially IT systems and usage rights no longer needed, while impairment losses of EUR 7.9m were recorded on property, plant and equipment – primarily in connection with pharmacy closures. Further expenses were incurred for obsolete inventories at pharmacies and wholesale branches affected by closure of EUR 4.0m, the premature termination of projects of EUR 4.7m and other items of EUR 5.5m relating to measures.

Expenses of EUR 46.3m are attributable to Patient and Consumer Solutions and, of that, EUR 20.4m stems from pharmacy closures in Sweden. The Pharmacy Solutions division accounts for expenses of EUR 17.4m, while EUR 4.4m and EUR 12.5m is allocable to Manufacturer Solutions and Others, respectively.

The Operational Excellence Program, especially the package of short-term measures, led to expenses of EUR 80.6m in the reporting period. The expenses break down into cost of materials (EUR 4.0m), other expenses (EUR 33.5m), personnel expenses (EUR 24.9m), result from associates accounted for using the equity method (EUR 1.1m), amortisation, depreciation and impairment (EUR 16.2m) and other financial result (EUR 0.9m). EUR 58.6m of the expenses are expected to be cash effective, especially in 2012.

## (01) REVENUE

A breakdown of revenue by division and country is part of segment reporting. The revenue generated stems from sales of merchandise of EUR 22,521.7m (previous year EUR 22,778.9m) and services rendered of EUR 504.7m (previous year EUR 498.7m).

## (02) OTHER INCOME

	2010 EUR M	2011 EUR M
Advertising subsidies	74.0	72.1
Income from bad debts collected	21.3	37.5
Net gain on the disposal of non-current non-financial assets	29.3	25.7
Income from data sales	17.8	16.9
Income from rent and lease agreements	11.0	11.1
Sundry other income	87.3	94.2
<b>Total</b>	<b>240.7</b>	<b>257.5</b>

Other income includes income from transactions that are not part of the core business of the Celesio Group. This includes income from marketing activities, services and data processing and IT services as well as income from letting buildings.

The advertising subsidies include in particular income from suppliers and pharmacies for services rendered.

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

Gains on the disposal of non-current non-financial assets mainly relate to the sale of two warehouses in the Wholesale business area.

Sundry other income includes own work capitalised from IT projects of EUR 6.1m (previous year EUR 4.2m). This item also contains income from services to manufacturers and pharmacists.

### (03) OTHER EXPENSES

	2010 EUR M	2011 EUR M
Transportation expenses	-245.4	-255.7
Building expenses	-201.3	-214.6
IT and communication expenses	-147.3	-158.6
Promotion and advertising expenses	-65.9	-69.4
Restructuring expenses	-1.5	-32.7
Legal and consulting costs	-44.6	-51.6
Valuation allowances for bad debts	-32.5	-40.0
Travel expenses	-36.8	-36.1
Third-party personnel services	-21.3	-24.2
Net loss on the disposal of non-current non-financial assets	-1.7	-1.8
Sundry other expenses	-127.5	-119.4
<b>Total</b>	<b>-925.8</b>	<b>-1,004.1</b>

Building expenses include rent and lease expenses of EUR 125.6m (previous year EUR 114.2m).

Restructuring expenses increased by EUR 31.2m compared to the previous year as a result of measures approved as part of the Operational Excellence Program. In particular, this increase relates to expenses for terminating contractual obligations prematurely.

Legal and consulting costs of EUR 0.8m were incurred in connection with the Operational Excellence Program.

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 previous allowances had been recognised.

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

Sundry other expenses relate to the general costs of administration and sales, such as the costs of customer seminars and conferences and office supplies. The item also contains audit and advisory services, other taxes and fees and maintenance and repairs. The net currency result from operations contains exchange rate gains of EUR 0.8m (previous year EUR 1.2m) and offsetting exchange rate losses of EUR 0.9m (previous year EUR 0.9m), 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, expenses for the development of software of EUR 10.1m (previous year EUR 11.4m) were recorded under other expenses because the criteria for recognising them as assets pursuant to IAS 38 were not satisfied.

#### (04) PERSONNEL EXPENSES/EMPLOYEES

	2010 EUR M	2011 EUR M
Wages and salaries	-1,111.1	-1,145.8
Social security	-206.2	-206.9
Post-employment expenses	-32.3	-32.5
Personnel services	-89.6	-89.1
Other personnel expenses	-21.5	-18.5
<b>Total</b>	<b>-1,460.7</b>	<b>-1,492.8</b>

Wages and salaries include expenses of EUR 24.9m incurred in the course of implementing the Operational Excellence Program. They relate to termination benefits to employees and expenses in connection with the settlement of contractual claims of former members of the Management Board.

Personnel services essentially consist of expenses for freelance 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 0.4m) from cash-settled share-based compensation programmes. There were 36,670 full-time equivalents as of 31 December 2011 (previous year 36,441). A breakdown of the headcount can be found under segment reporting.

## (05) INVESTMENT RESULT

	2010 EUR M	2011 EUR M
Result from associates accounted for using the equity method	-0.2	-3.7
Result from other investments	7.1	8.0
<b>Total</b>	<b>6.9</b>	<b>4.3</b>

The result from other investments primarily comprises income from dividends from non-listed entities.

The result from associates accounted for using the equity method includes expenses of EUR 1.1m attributable to the implementation of measures from the Operational Excellence Program; they relate to winding-up an investment.

## (06) DEPRECIATION, AMORTISATION AND IMPAIRMENT

	2010 EUR M	2011 EUR M
Depreciation of property, plant and equipment	-98.0	-99.2
Amortisation of intangible assets	-35.0	-44.2
Impairment losses recorded on property, plant and equipment	0.0	-8.2
Impairment losses recorded on intangible assets	-0.6	-126.4
<b>Total</b>	<b>-133.6</b>	<b>-278.0</b>

Of the impairment losses recorded on property, plant and equipment, primarily in connection with pharmacy and branch closures, an amount of EUR 3.8m was attributable to land, land rights and buildings. Most of this (EUR 3.5m) was in connection with the Operational Excellence Program. Further impairment losses in connection with implementing the Operational Excellence Program were recorded under plant and machinery (EUR 0.5m) and other equipment, furniture and fixtures (EUR 3.9m).

Of the impairment losses on intangible assets, EUR 0.1m relates to concessions, industrial rights and similar rights. These impairment losses were incurred in connection with the Operational Excellence Program. Impairment losses of EUR 4.6 were charged to other intangible assets, of which EUR 3.7m was attributable to the Operational Excellence Program. Operational excellence measures also led to impairment losses being recorded on payments on account.

The program was responsible for EUR 4.5m of total impairment losses of EUR 5.4m recognised under this item and relate primarily to IT systems and usage rights that are no longer needed.

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

The impairment losses recorded on goodwill and other intangible assets with an indefinite useful life break down by cash-generating unit as follows:

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

Following the negative developments on certain European pharmaceutical markets and the increase over the year in interest rates used for discounting the projected cash flows, goodwill had to be adjusted in these three cash-generating units on account of the extraordinary impairment test as of 30 June 2011. Negative developments are primarily the result of even higher burdens from government austerity measures in the healthcare sector in Europe, the rise in interest rates as of 30 June 2011 and the slow development of the pharmaceutical markets, especially in Portugal and Denmark.

The pharmaceutical market in Portugal is contracting and the overall economic situation remains difficult. A range of government measures are planned that will negatively affect Portugal. In the first half year of 2011, revenue at ocp Portugal fell by 16.3%. Full impairment had to be recognised on goodwill of EUR 23.3m to reflect these developments, the expected decrease in the operating result and the increased cost of capital, which is primarily due to the rise in the country-specific risk premium and the risk-free base interest rate. No further impairment charges are necessary as the fair value of assets exceeds their carrying amount.

The Danish market is also in decline, with fierce competition looking set to negatively impact the operating result of the Danish wholesale business – a trend that will continue in the future. Against this background, the Danish wholesaler Tjellesen Max Jenne reported a 9.1% drop in revenue in the first half year of 2011. The tougher competition has squeezed our margins and profits for the long term. This development, coupled with higher cost of capital (especially the risk-free base interest rate), led to impairment losses of EUR 13.6m and EUR 7.4m being recognised on goodwill and the brand, respectively.

Business at Pharmexx could not be expanded quite as rapidly as expected despite the restructuring measures implemented over the past two years. Although the company succeeded in stabilising business in most countries, the volume of new contracts failed to meet expectations. An impairment loss of EUR 72.0m had to be recognised on goodwill to reflect lower expectations of business prospects and the increased cost of capital, which is primarily due to the rise in the country-specific risk premium and the risk-free base interest rate. The lower expectations are due to negative developments in the European pharmaceutical markets. This increased pressure on pharmaceutical manufacturers, which in turn led to delays in incoming orders at Pharmexx.

## (07) FINANCIAL RESULT

	2010 EUR M	2011 EUR M
Interest and similar expenses <sup>1)</sup>	-148.6	-157.3
<i>Of which received from affiliates</i>	-0.1	-0.1
<i>Of which for finance leases</i>	-1.2	-1.3
<i>Of which for pensions</i>	-6.8	-5.5
Interest and similar income <sup>1)</sup>	10.1	8.6
<i>Of which received from affiliates</i>	0.0	0.0
Other financial result <sup>1)</sup>	-17.8	15.9
<b>Total</b>	<b>-156.3</b>	<b>-132.8</b>

1) Impairment and reversals of impairment on loans are disclosed under other financial result. The previous-year figures were restated accordingly. There were no material effects.

Interest and similar expenses include interest expenses totalling EUR 124.5m (previous year EUR 109.9m) for financial liabilities 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.

Interest and similar income include interest income totalling EUR 8.6m (previous year EUR 9.9m) for financial assets not measured at fair value through profit or loss.

The line item other financial result relates to changes in the fair value of derivatives used to hedge financial liabilities. Changes in fair values of derivative exchange rate hedges in the reporting period gave rise to income of EUR 2.2m (previous year EUR 2.0m). Changes in the fair values of derivative exchange rate hedges gave rise to expenses of EUR 8.7m (previous year income of EUR 2.9m). Moreover, the financial result contains exchange rate gains of EUR 223.5m (previous year EUR 205.9m) and exchange rate losses of EUR 199.9m (previous year EUR 228.8m) related to non-operating receivables and liabilities denominated in foreign currencies.

Other financial result also contains impairment losses on loans (and reversals thereof), of which EUR 0.9m is linked to the implementation of the Operational Excellence Program.

## (08) INCOME TAXES

	2010 EUR M	2011 EUR M
Current taxes	-140.4	-115.2
Deferred taxes	-3.9	17.3
<b>Income taxes</b>	<b>-144.3</b>	<b>-97.9</b>

Income taxes of EUR -2.8m relate to Germany (previous year EUR 5.8m), while EUR -95.1m relates to other countries (previous year EUR -150.1m).

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 57.5m (previous year EUR 64.3m) existed for the retained profits of domestic and foreign subsidiaries and associates. In compliance with IAS 12, no deferred tax liabilities are accounted for to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

In the reporting period, the deferred tax expense decreased due to the recognition of deferred tax assets on unused tax losses from previous periods of EUR 6.5m (previous year EUR 2.2m). The utilisation of unused tax losses, which in past periods was considered unlikely, resulted in a reduction of EUR 0.6m in the income tax burden in 2011 (previous year EUR 2.0m). At the end of the reporting period, the group carried unused tax losses of EUR 425.8m (previous year EUR 335.0m) and interest carried forward of EUR 86.3m (previous year EUR 62.5m), which from a current perspective are unlikely to be utilised. Consequently, no deferred taxes have been recognised on these unused tax losses. Of the interest carried forward and unused tax losses, a total of EUR 503.0m (previous year EUR 390.4m) can be carried forward for an indefinite period while an amount of EUR 9.1m (previous year EUR 7.1m) lapses within the next fifteen years. In addition, deferred taxes totalling EUR 64.6m (previous year EUR 54.8m) have been recognised on unused tax losses of EUR 200.7m (previous year EUR 163.3m). As in the previous year, no deferred tax assets recognised on unused loss carryforwards were written down in the reporting period.

In addition, deferred taxes totalling EUR 64.6m (previous year EUR 54.8m) have been recognised on unused tax losses of EUR 200.7m (previous year EUR 163.3m).

The tax loss carryforwards of EUR 126.7m (previous year EUR 125.6m) and deferred tax assets of EUR 43.1m (previous year EUR 42.7m) mainly originate from the Brazilian wholesaler Panpharma.

Current taxes include tax expense from other periods of EUR 1.2m (previous year tax income of EUR 3.6m). Deferred taxes on temporary differences led to a total income of EUR 4.5m (previous year expense of EUR 11.9m).

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%:

	31/12/2010		31/12/2011	
	EUR M	%	EUR M	%
Profit before tax	409.3	100.0	104.0	100.0
<b>Expected income tax expense</b>	<b>125.7</b>	<b>30.7</b>	<b>31.9</b>	<b>30.7</b>
Effect of differing national tax rates	-8.8	-2.1	-3.2	-3.1
Tax from previous periods	-3.6	-0.9	1.2	1.2
Tax effect of non-deductible expenses and tax-exempt income	15.4	3.8	19.1	18.4
Impact of changes to tax rates on deferred taxes	-1.2	-0.3	-2.2	-2.1
Non-recognition, adjustment or utilisation of tax losses	29.1	7.1	32.9	31.6
Impact of tax-neutral amortisation of goodwill	0.0	0.0	32.1	30.9
Other tax effects	-12.3	-3.0	-13.9	-13.6
<b>Income tax expense</b>	<b>144.3</b>	<b>35.3</b>	<b>97.9</b>	<b>94.2</b>

## (09) EARNINGS PER SHARE

	2010	2011
Profit attributable to shareholders of Celesio AG (EUR m)	259.2	2.2
Weighted number of no-par shares outstanding	170,100,000	170,100,000
<b>Basic earnings per share (EUR)</b>	<b>1.52</b>	<b>0.01</b>
Profit/loss attributable to shareholders of Celesio AG (EUR m)	259.2	2.2
Adjustment to interest expense for convertible bond (net, EUR m)	16.3	/
Net profit used to determine diluted earnings per share	275.5	2.2
Weighted number of no-par shares outstanding	170,100,000	170,100,000
Weighted adjustment to potentially convertible no-par shares	15,562,472	/
Weighted average number of shares used to determine diluted earnings per share	185,662,472	170,100,000
<b>Diluted earnings per share (EUR)</b>	<b>1.48</b>	<b>0.01</b>

The basic 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 a result of adding all options to Celesio shares associated with the convertible bond to the average number of shares outstanding. There were 27.0m share options in the reporting period (previous year 15.6m). Because an additional convertible bond was issued during the year, the options arising were considered on a pro rata temporis basis in the reporting period (11.4m options). It is assumed that the convertible bonds will be exchanged in full for shares. The net profit for the year is adjusted to eliminate the related interest expense and any tax effect of the bond. In accordance with IAS 33.41, the effect of potentially dilutive ordinary shares was not included in the reporting period, as these shares would improve diluted earnings per share.



#### (10) COMPONENTS OF OTHER COMPREHENSIVE INCOME

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

	2010 EUR M	2011 EUR M
Losses from the current year	-3.2	-0.9
Less loss reclassified to profit and loss	-3.2	-1.5
<b>Available-for-sale financial assets</b>	<b>0.0</b>	<b>0.6</b>
Losses from the current year	-27.6	-24.2
Less reclassification to profit and loss	-26.0	-18.3
<b>Derivative financial instruments to hedge cash flows</b>	<b>-1.6</b>	<b>-5.9</b>

# Notes to the group statement of financial position

## (11) INTANGIBLE ASSETS

	2010		
	Conces- sions, industrial rights and similar rights EUR M	Goodwill EUR M	Other intangible assets EUR M
<b>Accumulated historical cost as of 01/01</b>	<b>164.6</b>	<b>2,849.7</b>	<b>194.0</b>
Translation differences	2.0	55.1	5.2
Additions to the consolidated group	0.1	0.0	0.0
Additions	23.8	61.2	0.4
Reclassifications	19.1	0.0	-1.6
Disposals	-1.4	0.0	-0.1
Disposals from the consolidated group	-1.3	-168.0	-1.6
Reclassifications to or from assets held for sale	-5.7	-69.2	-25.8
<b>As of 31/12</b>	<b>201.2</b>	<b>2,728.8</b>	<b>170.5</b>
<b>Accumulated amortisation and impairment as of 01/01</b>	<b>107.1</b>	<b>544.7</b>	<b>37.7</b>
Translation differences	1.0	0.0	0.6
Additions	19.9	0.5	15.2
Reclassifications	0.6	0.0	-1.5
Disposals	-0.9	0.0	0.0
Disposals from the consolidated group	-0.8	-134.7	-0.3
Write-ups	-0.4	0.0	0.0
Reclassifications to or from assets held for sale	-3.6	0.0	-8.5
<b>As of 31/12</b>	<b>122.9</b>	<b>410.5</b>	<b>43.2</b>
<b>Carrying amount as of 31/12</b>	<b>78.3</b>	<b>2,318.3</b>	<b>127.3</b>

	2010			2011			
	Payments on account EUR M	Total EUR M	Conces- sions, industrial rights and similar rights EUR M	Goodwill EUR M	Other intangible assets EUR M	Payments on account EUR M	Total EUR M
	20.6	3,228.9	201.2	2,728.8	170.5	22.0	3,122.5
	0.0	62.3	1.3	38.5	-3.9	0.1	36.0
	0.0	0.1	0.6	0.0	20.7	0.0	21.3
	22.6	108.0	25.6	39.9	1.2	49.4	116.1
	-16.6	0.9	10.5	0.0	0.0	-9.9	0.6
	-0.3	-1.8	-0.6	-0.5	-0.1	0.0	-1.2
	-1.5	-172.4	0.0	-1.0	0.0	-2.4	-3.4
	-2.8	-103.5	5.7	69.2	25.8	2.8	103.5
	22.0	3,122.5	244.3	2,874.9	214.2	62.0	3,395.4
	0.0	689.5	122.9	410.5	43.2	0.0	576.6
	0.0	1.6	0.7	0.0	-1.1	0.0	-0.4
	0.0	35.6	30.1	108.9	26.2	5.4	170.6
	0.0	-0.9	0.0	0.0	0.0	0.0	0.0
	0.0	-0.9	-0.6	0.0	-0.1	0.0	-0.7
	0.0	-135.8	0.0	0.0	0.0	0.0	0.0
	0.0	-0.4	0.0	0.0	0.0	0.0	0.0
	0.0	-12.1	3.6	0.0	8.5	0.0	12.1
	0.0	576.6	156.7	519.4	76.7	5.4	758.2
	22.0	2,545.9	87.6	2,355.5	137.5	56.6	2,637.2

The decrease in goodwill on account of disposals from the consolidated group results primarily from the deconsolidation of eight pharmacies in the UK. The additions to goodwill in 2011 primarily relate to the acquisition of the Oncoprod Group, the revision of the purchase price liability for Panpharma, and further acquisitions in the Patient and Consumer Solutions division. More information on the business combinations can be found starting on [→ page 201](#).

Brands with an indefinite useful life of EUR 75.3m (previous year EUR 79.7m), including EUR 57.3m (previous year EUR 57.3m) for DocMorris, were capitalised in the course of acquisitions and are presented under other intangible assets. In addition, an amount of EUR 12.4m (previous year EUR 9.5m) is allocated to Wholesale Brazil for the Panpharma and Oncoprod brands and EUR 5.6m (previous year EUR 5.6m) is allocated to Pharmexx.



## (12) PROPERTY, PLANT AND EQUIPMENT

	2010		
	Land, land rights and buildings EUR M	Plant and machinery EUR M	Other equipment, furniture and fixtures EUR M
<b>Accumulated historical cost as of 01/01</b>	<b>703.8</b>	<b>277.9</b>	<b>516.6</b>
Translation differences	5.7	2.5	12.5
Additions to the consolidated group	0.1	0.0	0.8
Additions	30.1	17.8	41.2
Reclassifications	2.0	12.4	2.4
Disposals	-19.9	-14.1	-16.3
Disposals from the consolidated group	-15.1	-3.6	-5.4
Reclassifications to or from assets held for sale	-7.6	0.0	-5.7
<b>As of 31/12</b>	<b>699.1</b>	<b>292.9</b>	<b>546.1</b>
<b>Accumulated depreciation and impairment as of 01/01</b>	<b>344.4</b>	<b>211.3</b>	<b>349.9</b>
Translation differences	2.7	1.7	7.4
Additions	28.4	18.8	50.8
Reclassifications	0.1	1.3	-0.5
Disposals	-15.7	-13.3	-15.0
Disposals from the consolidated group	-6.3	-2.1	-3.3
Write-ups	0.0	0.0	0.0
Reclassifications to or from assets held for sale	-2.2	0.0	-4.8
<b>As of 31/12</b>	<b>351.4</b>	<b>217.7</b>	<b>384.5</b>
<b>Carrying amount as of 31/12</b>	<b>347.7</b>	<b>75.2</b>	<b>161.6</b>
<i>Of which finance leases</i>			
<i>Carrying amount as of 31/12</i>	<i>32.4</i>	<i>0.7</i>	<i>4.7</i>

Property, plant and equipment of EUR 60.2m (previous year EUR 64.8m) was pledged as collateral.

	2010			2011			
	Payments on account and assets under con- struction EUR M	Total EUR M	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 con- struction EUR M	Total EUR M
	14.5	1,512.8	699.1	292.9	546.1	7.8	1,545.9
	0.2	20.9	3.2	1.8	9.3	0.0	14.3
	0.0	0.9	0.1	0.5	1.7	0.0	2.3
	11.1	100.2	19.6	20.7	66.6	19.3	126.2
	-17.7	-0.9	3.6	4.8	-1.2	-7.8	-0.6
	0.0	-50.3	-23.3	-10.9	-33.0	-1.8	-69.0
	0.0	-24.1	-0.1	0.0	-0.8	0.0	-0.9
	-0.3	-13.6	0.0	0.0	5.7	0.3	6.0
	7.8	1,545.9	702.2	309.8	594.4	17.8	1,624.2
	0.0	905.6	351.4	217.7	384.5	0.0	953.6
	0.0	11.8	1.4	1.6	7.8	0.0	10.8
	0.0	98.0	31.8	19.9	55.7	0.0	107.4
	0.0	0.9	0.0	0.7	-0.7	0.0	0.0
	0.0	-44.0	-18.0	-10.7	-31.1	0.0	-59.8
	0.0	-11.7	-0.1	0.0	-0.8	0.0	-0.9
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	-7.0	0.0	0.0	4.8	0.0	4.8
	0.0	953.6	366.5	229.2	420.2	0.0	1,015.9
	7.8	592.3	335.7	80.6	174.2	17.8	608.3
	0.0	37.8	29.2	0.5	9.2	0.0	38.9

### **(13) OTHER FINANCIAL ASSETS AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD**

Other financial assets mainly contain investments in entities that are not listed on a public 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 of 31 December 2011, investments in entities not listed on a public exchange of EUR 53.6m (previous year EUR 51.2m) were measured at amortised cost for that reason.

Associates accounted for using the equity method consist primarily of the investments in Brocacef Holding N.V., Netherlands. The reporting date of Brocacef Holding N.V. is 31 January. However, it is consolidated on the basis of profit/loss for the period from 1 January to 31 December 2011.

The share of the net profit/loss 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 -3.7m (previous year EUR -0.2m). The carrying amount of associates accounted for using the equity method came to EUR 82.3m (previous year EUR 80.6m). The purchase price allocation for the equity investment in Brocacef Holding N.V. was finalised within twelve months of the acquisition date. There were no material effects.

These entities generated revenue of EUR 980.5m in the reporting period (previous year EUR 954.4m) and net profit of EUR 13.0m (previous year EUR 12.0m). Non-current assets totalled EUR 227.5m (previous year EUR 237.9m) while current assets came to EUR 246.3m (previous year EUR 222.3m). Total liabilities break down into non-current items of EUR 86.5m (previous year EUR 109.3m) and current items of EUR 149.6m (previous year EUR 124.6m).



#### (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:

	31/12/2010		31/12/2011	
	Assets EUR M	Liabilities EUR M	Assets EUR M	Liabilities EUR M
Intangible assets	0.8	82.0	0.6	92.7
Property, plant and equipment	3.9	42.3	2.0	34.3
Other non-current assets	2.3	9.7	2.5	20.7
Current assets	28.8	18.7	28.3	22.5
Financial liabilities	3.7	1.0	3.6	0.0
Provisions	51.9	0.5	44.2	1.8
Other liabilities	45.7	2.7	43.7	1.2
<b>Sum of deferred taxes on temporary differences</b>	<b>137.1</b>	<b>156.9</b>	<b>124.9</b>	<b>173.2</b>
Deferred taxes on unused tax losses	54.8	0.0	64.6	0.0
Less offsetting	-70.6	-70.6	-64.6	-64.6
<b>Total</b>	<b>121.3</b>	<b>86.3</b>	<b>124.9</b>	<b>108.6</b>

The deferred taxes in the revaluation reserves contain deferred tax assets totalling EUR 4.2m (previous year EUR 9.3m). These are a result of changes in the value of available-for-sale financial assets and derivative financial instruments used for cash flow hedges without any effect on income. We also refer to note (19) Equity for explanations relating to deferred taxes in connection with the issue of the convertible bond. More information on deferred taxes can be found in note (08).

## (15) INVENTORIES

	31/12/2010 EUR M	31/12/2011 EUR M
Raw materials, consumables and supplies	2.0	2.0
Finished goods and merchandise	1,685.7	1,789.4
Payments on account	0.4	0.1
<b>Total</b>	<b>1,688.1</b>	<b>1,791.5</b>

Inventories were written down by EUR 29.5m in the reporting period (previous year EUR 24.2m). Of this, EUR 4.0m was incurred for obsolete inventories at pharmacies and wholesale branches affected by closure as part of our Operational Excellence Program. This was offset by write-ups of inventories of EUR 15.2m (previous year EUR 14.2m) that were sold after having previously been written down. The carrying amount of inventories, measured at the lower of cost and net realisable value, came to EUR 39.8m (previous year EUR 51.6m). In addition to the customary retention of title clauses, inventories of EUR 105.2m (previous year 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

In the previous year, Celesio agreed to set up a Europe-wide joint venture with the us healthcare group, Medco Health Solutions, Inc., in which each of the parent companies held a 50% interest. Official approval from the antitrust authorities was issued on 2 August 2010, with Medco Celesio B.V. being founded in the third quarter of 2010. Celesio was to contribute the Apotheke DocMorris mail-order pharmacy and Medco was to contribute the Europa Apotheek Venlo mail-order pharmacy to the joint venture. In the statement of financial position as of 30 June 2010, all assets and liabilities under disposal groups classified as held for sale were reclassified to current assets or current liabilities for the first time.

On 27 September 2011, Celesio and Medco Health Solutions, Inc. reached an agreement to discontinue their joint services with effect as of 30 September 2011. Celesio sold its 50% share in the joint venture Medco Celesio B.V. to Medco Health Solutions, Inc., USA. The disposal groups were reversed in the statement of financial position as of 30 September 2011 and all assets and liabilities were reclassified to their original positions. The depreciation, amortisation or

revaluations that would have been recognised had they not been classified as held for sale totalled EUR 4.4m, of which EUR 2.1m relates to the previous year, and was recognised through the income statement in accordance with IFRS 5. The tax effect came to EUR 1.1m, of which EUR 0.5m relates to the previous year.

Deltafarm s.r.l. was reclassified in November 2010. Consequently, its assets and liabilities were reclassified to current assets and current liabilities in the statement of financial position as of 31 December 2010. The disposal took place in the first quarter of 2011.

The Wholesale business area includes a property with a carrying amount of EUR 2.2m which is classified as held for sale and expected to be sold in the first quarter of 2012.

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

	2010 EUR M	2011 EUR M
Intangible assets	91.4	0.0
Property, plant and equipment	6.8	2.2
Deferred tax assets	2.6	0.0
Inventories	11.5	0.0
Trade receivables	27.7	0.0
Cash and cash equivalents	0.2	0.0
Other assets	6.4	0.0
<b>Assets</b>	<b>146.6</b>	<b>2.2</b>
Financial liabilities	0.0	0.0
Deferred tax liabilities	3.9	0.0
Trade payables	15.2	0.0
Other liabilities	22.4	0.0
<b>Liabilities</b>	<b>41.5</b>	<b>0.0</b>

## (17) RECEIVABLES AND OTHER ASSETS

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

	31/12/2010 EUR M	31/12/2011 EUR M
Trade receivables	2,522.0	2,529.4
Income tax receivables	28.9	28.9
Receivables from affiliates	8.8	0.4
Receivables from associates and other investments	1.5	3.3
Derivative financial instruments	6.2	4.5
VAT and other tax receivables	95.9	105.5
Other assets	253.1	279.0
<b>Other receivables and other assets</b>	<b>365.5</b>	<b>392.7</b>
<b>Total</b>	<b>2,916.4</b>	<b>2,951.0</b>

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).

Receivables from affiliates, which are due from the Franz Haniel & Cie. Group, 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 6.0m (previous year EUR 4.5m) was received. Wholesale Brazil pledged receivables totalling EUR 25.3m as collateral for its own liabilities.

Bad debt allowances developed as follows over the reporting period:

	2010 EUR M	2011 EUR M
<b>As of 01/01</b>	<b>122.8</b>	<b>103.6</b>
Additions	29.1	27.2
Utilisation	-34.4	-22.9
Reversals	-18.9	-15.9
Currency, consolidated group and other changes	5.0	-7.2
<b>As of 31/12</b>	<b>103.6</b>	<b>84.8</b>

The table below shows the ageing structure of trade receivables as of the reporting date:

	31/12/2010 EUR M	31/12/2011 EUR M
Trade receivables that are neither impaired nor overdue	2,251.9	2,178.0
Trade receivables that are not impaired but are overdue	213.6	287.4
Of which < 3 months	171.7	237.5
Of which 3 – 6 months	24.9	23.9
Of which 6 – 12 months	7.5	15.1
Of which > 12 months	9.5	10.9
Impaired trade receivables	56.5	64.0
<b>Trade receivables</b>	<b>2,522.0</b>	<b>2,529.4</b>

In the case of the receivables that are neither impaired nor past due, there is no indication that the debtors will not be able to meet their payment obligations.

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

	2010 EUR M	2011 EUR M
<b>As of 01/01</b>	<b>13.6</b>	<b>15.3</b>
Additions	1.1	9.5
Utilisation	-0.5	-1.7
Reversals	0.8	-1.2
Currency, consolidated group and other changes	0.3	0.1
<b>As of 31/12</b>	<b>15.3</b>	<b>22.0</b>

The table below shows the ageing structure of receivables recognised in other assets as of the reporting date:

	31/12/2010 EUR M	31/12/2011 EUR M
Receivables reported under other assets that are neither impaired nor overdue	168.9	170.6
Receivables reported under other assets that are not impaired but are overdue	33.7	42.7
Of which < 3 months	25.8	36.1
Of which 3 – 6 months	3.6	5.2
Of which 6 – 12 months	2.2	0.6
Of which > 12 months	2.1	0.8
Impaired receivables reported under other assets	1.3	5.3
<b>Receivables reported under other assets</b>	<b>203.9</b>	<b>218.6</b>

## (18) CASH AND CASH EQUIVALENTS

	31/12/2010 EUR M	31/12/2011 EUR M
Cash on hand	4.0	4.5
Cash at banks	196.8	443.8
<b>Total</b>	<b>200.8</b>	<b>448.3</b>

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, either for existing loans or 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 16 May 2016 (authorised capital 2011). In addition, the capital stock was contingently increased in 2009 and 2010 by up to EUR 21.8m, split into 17,010,000 no-par registered shares (contingent capital 2009 and 2010).

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

### Convertible bond

On 7 April 2011, Celesio Finance B.V. issued a convertible bond with a nominal value of EUR 350.0m guaranteed by Celesio AG. The bond is split into denominations of EUR 100,000, has a coupon of 2.50% per year and matures on 7 April 2018 if not repaid, converted or repurchased in the meantime. The convertible bond grants the investor a right to convert the bond into no-par shares in Celesio AG, based on the contingent capital 2010. The conversion price stood at EUR 22.48, both on the date the bond was issued and as of the reporting date. According to the terms of the bond, the conversion price will be adjusted during the term of the bond to account for extraordinary events (capital increase, stock splits, etc.). The conversion rights granted by the bond correspond to approximately 15.6m shares. The conversion rights less the share of transaction costs of EUR 0.5m and the related deferred taxes of EUR 13.7m increased capital reserves in the reporting period by EUR 40.8m.

In 2009, Celesio Finance B.V. already issued a convertible bond – based on the contingent capital 2009 – with a nominal value of EUR 350.0m. and a coupon of 3.75%. The bond falls due on 29 October 2014 unless it is repaid, converted or repurchased in the meantime. The conversion price stood at EUR 22.49, both on the date the bond was issued and as of the reporting date.

### 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 mainly comprises translation effects and the impact of marking to market financial instruments used for cash flow hedges. The reserve for cash flow hedges came to EUR –20.8 (previous year EUR –14.9m). In addition, this item also includes changes in the fair value of securities categorised as available-for-sale financial assets which totalled EUR 0.0m in the reporting period (previous year EUR –0.6m). An amount of EUR 19.8m (previous year EUR 29.2m) including deferred tax was reclassified from the reserves to interest expense or the investment result 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. The loan agreements do not contain any covenants.



	31/12/2010 EUR M	31/12/2011 EUR M
Equity	2,601.1	2,577.8
/ Total equity and liabilities	8,402.7	8,794.3
<b>Equity ratio (%)</b>	<b>31.0</b>	<b>29.3</b>
Net financial debt	1,722.5	1,618.7
/ Equity	2,601.1	2,577.8
<b>Gearing</b>	<b>0.66</b>	<b>0.63</b>
EBIT	565.6	236.8
/ Financial result	156.3	132.8
<b>Interest coverage ratio</b>	<b>3.6</b>	<b>1.8</b>

## (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 and are determined using the actuarial projected unit credit method in accordance with IAS 19. Most of the obligations relate to companies in the UK, Norway and Germany. In Norway, the pension scheme is state-regulated and managed by the Norwegian Public Service Pension Fund ("Statens Pensjonskasse"). In the UK there is a joint pension scheme in place for employees of the Patient and Consumer Solutions and Pharmacy Solutions divisions. This scheme is largely funded by external pension funds. The obligations in Germany are financed via provisions with the exception of the contractual trust arrangement entered into for some of the pension obligations for the Management Board in the reporting period.

The actuarial calculations for determining the defined benefit obligations were based on the following country-specific parameters:

	2010 %	2011 %
Discount rate by currency		
EUR	4.8	5.2
NOK	3.7	2.8
GBP	5.4	5.1

Future salary increases were between 0.0% and 3.8% depending on country (previous year between 2.0% and 4.4%), while future pension increases were between 0.0% and 3.0% (previous year between 1.8% and 3.4%).

Net benefit expense recognised in the income statement in the reporting period can be broken down as follows:

	2010 EUR M	2011 EUR M
Current service cost	17.8	21.4
Past service cost	0.0	1.7
Amortisation of actuarial losses	6.1	5.1
Interest cost on benefit obligation	30.2	30.0
Expected return on plan assets	-23.4	-24.4
Curtailments/settlements and other changes	-4.8	-8.0
<b>Total</b>	<b>25.9</b>	<b>25.8</b>

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.

The net defined benefit liability comprises the net pension asset and the provisions recognised. The item developed as follows in the reporting period:

	2010 EUR M	2011 EUR M
<b>Net defined benefit liability as of 01/01</b>	<b>143.1</b>	<b>142.1</b>
Net benefit expense	25.9	25.8
Benefits paid	-24.9	-27.0
Contributions to plan assets	-3.4	-17.0
Currency changes	1.8	0.4
Consolidated group and other changes	-0.4	0.0
<b>Net defined benefit liability as of 31/12</b>	<b>142.1</b>	<b>124.3</b>

The table below shows a reconciliation of the funding status of defined benefit plans to the amounts recognised in the group statement of financial position:

	2010 EUR M	2011 EUR M
Present value of the PBO, funded	566.1	598.3
Fair value of plan assets	-402.7	-436.4
<b>Funded status</b>	<b>163.4</b>	<b>161.9</b>
Present value of the PBO, unfunded	108.3	114.4
Unrecognised actuarial losses (accumulated)	-129.6	-152.0
<b>Net defined benefit liability as of 31/12</b>	<b>142.1</b>	<b>124.3</b>
Of which net pension asset	0.0	10.3
Of which provisions for pensions and similar obligations	142.1	134.6

The net pension asset is disclosed under other non-current assets.

The present value of the defined benefit obligation and the fair value of the plan assets developed as follows in the reporting period:

	2010 EUR M	2011 EUR M
<b>Defined benefit obligation as of 01/01</b>	<b>618.5</b>	<b>674.4</b>
Service cost	17.8	21.4
Interest expense	30.2	30.0
Contributions by plan participants	0.3	0.3
Benefits paid	-24.6	-27.0
Unrecognised actuarial losses	0.9	10.9
Past service cost	0.0	1.7
Curtailments/settlements	-4.8	-8.0
Currency changes	23.9	9.3
Consolidated group and other changes	12.2	-0.3
<b>Defined benefit obligation as of 31/12</b>	<b>674.4</b>	<b>712.7</b>

	2010 EUR M	2011 EUR M
<b>Fair value of plan assets as of 01/01</b>	<b>355.8</b>	<b>402.7</b>
Expected return on plan assets	23.4	24.4
Contributions by employer	22.9	37.1
Contributions by plan participants	0.3	0.3
Benefits paid from plan assets	-19.2	-20.1
Unrecognised actuarial gains/losses	2.8	-17.2
Currency changes	16.7	10.0
Consolidated group and other changes	0.0	-0.8
<b>Fair value of plan assets as of 31/12</b>	<b>402.7</b>	<b>436.4</b>

Plan assets do not include any financial instruments or assets used by the Celesio group.

Celesio contributed EUR 7.2m to the contractual trust arrangement concluded in 2011 to fund any excess over the amount covered by the pension guarantee association in the obligatory components of the pension obligation to the Management Board of Celesio AG.

The table below provides a breakdown of the expected return on plan assets.

	2010 EUR M	2010 %	2011 EUR M	2011 %
Equity instruments	66.3	3.5–7.3	69.6	3.0–6.9
Fixed-interest securities	274.4	3.5–6.2	297.3	3.0–6.2
Real estate	17.2	3.5–6.5	18.6	3.0–6.2
Other	44.8	3.5–7.3	50.9	2.0–6.3
<b>Fair value of plan assets as of 31/12</b>	<b>402.7</b>	<b>/</b>	<b>436.4</b>	<b>/</b>

The expected return is based on historical and anticipated future average returns in the considered asset categories, which can be compared with the expectations of external sources.

Employer contributions to plan assets are expected to come to EUR 29.1m in the 2012 fiscal year.

The funding status has developed as follows since 2007:

	2007 EUR M	2008 EUR M	2009 EUR M	2010 EUR M	2011 EUR M
Defined benefit obligation	573.4	519.3	618.5	674.4	712.7
Fair value of plan assets	412.9	299.2	355.8	402.7	436.4
<b>Deficit</b>	<b>160.5</b>	<b>220.1</b>	<b>262.7</b>	<b>271.7</b>	<b>276.3</b>

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:

	2007 EUR M	2008 EUR M	2009 EUR M	2010 EUR M	2011 EUR M
Expected return on plan assets	25.5	23.4	21.3	23.4	24.4
Actual return on plan assets	5.7	-15.4	23.8	34.0	7.2

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	2011 EUR M
Experience adjustments of the defined benefit obligation	3.3	2.5	-5.5	0.1	-1.8
Experience adjustments of plan assets	-19.8	-38.8	2.5	10.6	-17.2

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 12.3m in the reporting period (previous year EUR 13.2m). In addition, employer contributions were made to state pension funds. The employer's direct contribution amounted to EUR 42.5m (previous year EUR 41.2m).

## (21) OTHER PROVISIONS

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

	2010	2011	Changes in currency and in the consolidated group
	Carrying amount as of 31/12 EUR M	Of which due within 1 year EUR M	EUR M
Provisions for obligations to personnel	100.1	62.3	1.5
Provisions for litigation and other legal risks	106.7	34.8	-2.8
Provisions for restructuring measures	4.8	4.8	0.6
Other provisions	70.7	60.1	-1.4
<b>Total</b>	<b>282.3</b>	<b>162.0</b>	<b>-2.1</b>

Provisions with a term of more than twelve months are discounted. This involves applying risk-free interest rates ranging from 1.4% to 10.8% (previous year 1.3% to 10.8%) depending on the term and currency zone.

Provisions with an expected term to maturity of more than five years amounted to EUR 22.7m (previous year EUR 20.3m).

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 0.4m (previous year EUR 0.7m) of the personnel obligations. These cash-settled share-based payment transactions relate to the performance cash schemes of the Management Board and a share-based payment programme for employees. In 2010 there was also a further share-based payment programme whereby employees of a subsidiary had the option to purchase shares in the company at nominal 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 options were exercised by the subsidiary at the beginning of 2011. The average residual term of share-based payment programmes is 2.3 years (previous year 0.1 years).



2011

	Additions EUR M	Utilisations EUR M	Reversals EUR M	Unwinding EUR M	Reclassi- fications EUR M	Carrying amount as of 31/12 EUR M	Of which due within 1 year EUR M
	60.3	-69.0	-4.9	1.0	0.0	89.0	53.9
	4.7	-7.6	-23.9	0.0	0.0	77.1	28.3
	52.6	-11.4	-1.1	0.0	0.0	45.5	42.8
	17.3	-17.5	-12.1	0.1	0.0	57.1	51.2
	134.9	-105.5	-42.0	1.1	0.0	268.7	176.2

The share-based components of the performance cash scheme and the portion of the Management Board bonus retained over a vesting period of approximately three years are classified as cash-settled share-based payment transactions as defined by IFRS 2. The share-based components of the performance cash scheme are measured using a binominal option pricing model using risk-free interest rate and historical patterns of volatility as the main measurement assumptions.

The expenses for the benefits received or the liability to settle these benefits are recognised over the vesting period. The portion of the Management Board bonus retained over a vesting period of approximately three years was measured at fair value as of 31 December 2011 because it had not yet been divided into phantom shares at the end of the reporting period. The liability is remeasured at each reporting date and on the settlement date. Changes in fair value are recognised in the income statement.

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

	2010 EUR M	2011 EUR M
<b>As of 01/01</b>	<b>1.0</b>	<b>0.7</b>
Additions due to changes in the consolidated group	0.0	0.0
Granted	0.4	0.5
Exercised	-0.3	-0.6
Forfeited/released	0.4	-0.2
Expired	0.0	0.0
<b>As of 31/12</b>	<b>0.7</b>	<b>0.4</b>
Exercisable	0.7	0.0

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.

Restructuring provisions mainly relate to claims in connection with termination agreements offered to employees as well as obligations from the premature termination of contractual arrangements, for example rental and lease agreements. The expenses were incurred as a result of measures taken under the Operational Excellence Program.

Other provisions contain obligations from real estate such as the obligation to restore rented buildings and rooms or pending losses from properties rented under non-cancellable rental agreements that are no longer needed.

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 1.9m with regard to provisions for obligations to personnel and EUR 29.2m with regard to provisions for litigation, mainly 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 reversal of 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

	31/12/2010			Carrying amount EUR M
	Due in			
	<1 year EUR M	1–5 years EUR M	>5 years EUR M	
<b>Financial liabilities</b>				
Liabilities to banks	117.0	274.9	26.3	418.2
Promissory notes and bonds	0.0	945.7	518.4	1,464.1
Lease liabilities	5.1	10.0	4.1	19.2
Other financial liabilities	11.6	8.4	1.8	21.8
	133.7	1,239.0	550.6	1,923.3
<b>Trade payables and other liabilities</b>				
Trade payables	2,514.6	0.0	0.0	2,514.6
Income tax liabilities	72.3	0.0	0.0	72.3
Liabilities to affiliates	4.0	0.0	0.0	4.0
Liabilities to associates and other investments	2.4	0.0	0.0	2.4
Other liabilities	578.5	154.3	0.0	732.8
	3,171.8	154.3	0.0	3,326.1
<b>Liabilities</b>	3,305.5	1,393.3	550.6	5,249.4

## (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 58.9m (previous year EUR 62.7m) has been assigned.

31/12/2011				
	Due in			Carrying amount
	<1 year EUR M	1–5 years EUR M	>5 years EUR M	EUR M
	95.2	135.6	24.1	254.9
	183.7	801.4	794.3	1,779.4
	6.1	11.0	3.0	20.1
	6.5	4.9	1.2	12.6
	291.5	952.9	822.6	2,067.0
	2,799.4	0.0	0.0	2,799.4
	54.7	0.0	0.0	54.7
	0.1	0.0	0.0	0.1
	4.1	0.0	0.0	4.1
	658.4	120.9	0.0	779.3
	3,516.7	120.9	0.0	3,637.6
	3,808.2	1,073.8	822.6	5,704.6

#### a) Liabilities to banks

Liabilities to banks consist primarily of long-term bilateral credit lines. In addition, special purpose lease entities have arranged fixed-interest loans of EUR 58.0m to finance real estate (previous year EUR 62.8m). The fair value of these fixed interest loans is EUR 68.1m (previous year EUR 72.7m). 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, a convertible bond for the first time in 2009 and a corporate bond for the first time in 2010. A second convertible bond was placed on 7 April 2011. Explanatory notes on the convertible bonds are presented in note (19). As of 31 December 2011 the promissory note and bonds displayed the following features:

	Promissory notes		Convertible bonds		Corporate bonds	
	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011
	EUR M	EUR M	EUR M	EUR M	EUR M	EUR M
Nominal values	659.4	666.9	350.0	700.0	500.0	500.0
Of which at fixed interest	131.3	133.8	350.0	700.0	500.0	500.0
Of which at floating rates	528.1	533.1	0.0	0.0	0.0	0.0
Market values	687.5	686.7	401.4	625.9	495.7	479.0
Of which at fixed interest	144.4	143.0	401.4	625.9	495.7	479.0
Of which at floating rates	543.1	543.7	0.0	0.0	0.0	0.0
Carrying amounts	658.9	666.5	311.8	618.5	493.4	494.4
Currencies	EUR, GBP	EUR, GBP	EUR	EUR	EUR	EUR
Original maturities	4–7 years	4–7 years	5 years	5–7 years	7 years	7 years
Effective interest rates	1.22–5.42 %	1.72–5.42 %	7.10 %	5.38–7.10 %	4.74 %	4.74 %

## 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.

	31/12/2010 EUR M	31/12/2011 EUR M
Minimum lease payments	22.2	23.0
<i>Due within 1 year</i>	5.8	7.0
<i>Due within 2 to 5 years</i>	11.9	13.0
<i>Due in more than 5 years</i>	4.5	3.0
Interest portion	-3.0	-2.9
<b>Net present value</b>	<b>19.2</b>	<b>20.1</b>

#### (24) TRADE PAYABLES AND OTHER LIABILITIES

Trade payables contain payments on account of orders of EUR 78.3m (previous year EUR 63.3m).

Other liabilities comprise:

	31/12/2010 EUR M	31/12/2011 EUR M
Personnel liabilities	134.4	138.4
Other tax liabilities	84.9	86.6
Outstanding invoices	121.7	164.3
Derivative financial instruments	67.0	57.6
Interest liabilities	24.1	29.4
Other liabilities	300.7	303.0
<b>Total</b>	<b>732.8</b>	<b>779.3</b>

Other liabilities mainly comprise purchase price liabilities in connection with Panpharma and other business combinations.

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

## **(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. We only enter into derivatives for hedging purposes. They are not used for trading or other speculative purposes. Banks are carefully selected for transactions of this kind.

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 swaps were used in the past fiscal year to hedge interest risks. An interest swap involves swapping the fixed or floating interest rate in the underlying transaction for the entire term of the underlying instrument. The decision on whether to use derivative financial instruments is based on the projected



interest rate risk on debt. The interest 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 of 31 December 2011 would have resulted in a pre-tax profit that was EUR 1.3m lower (previous year EUR 2.1m). A hypothetical decrease of one percentage point in the EUR-market interest rate as of 31 December 2011 would have resulted in a pre-tax profit that was EUR 1.3m higher (previous year EUR 2.1m). An increase of one percentage point in the EUR-market interest rate as of 31 December 2011 would have led to an increase in equity of EUR 3.5m (previous year EUR 5.5m). A decrease of one percentage point in the EUR-market interest rate would have led to a decrease in equity of EUR 3.6m (previous year EUR 5.8m).
- A hypothetical increase of one percentage point in the GBP-market interest rate as of 31 December 2011 would have resulted in a pre-tax profit that was EUR 0.1m higher (previous year EUR 0.1m lower). A hypothetical decrease of one percentage point in the GBP-market interest rate would not have an impact on the pre-tax profit (previous year pre-tax profit would have been EUR 0.2m higher). An increase of one percentage point in the GBP-market interest rate as of 31 December 2011 would have led to an increase in equity of EUR 8.4m (previous year EUR 13.4m). A decrease of one percentage point in the GBP-market interest rate would have led to a decrease in equity of EUR 8.9m (previous year EUR 14.5m).

Due to the convertible bond issued in 2009 and a second one issued in the reporting period as well as the corporate bond placed in 2010, the group's debt exposure to floating interest rates has fallen significantly, 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 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, currency swaps and non-deliverable forwards were used in the 2011 fiscal year to hedge against foreign exchange exposures. As of the reporting date there were only forward exchange contracts, currency swaps and non-deliverable foreign exchange options. No physical settlement takes place in the exchange currencies on the maturity date of a non-deliverable derivative. Rather, one party makes a net payment on the basis of how the exchange rate has developed. The Celesio Group uses these derivatives to hedge against the currency risk in countries with foreign exchange controls such as Brazil. 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.

Without adjusting for loans denominated in currencies other than the functional currency, a 10% appreciation or depreciation of pound sterling against the euro would have increased or decreased pre-tax profit by EUR 64.8m (previous year increased or decreased by EUR 54.8m).

Adjusted for these loans, a 10% depreciation or appreciation of pound sterling against the euro would have decreased or increased the pre-tax profit by EUR 30.7m (previous year decreased or increased by EUR 9.6m).

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 inter-company loans denominated in a different currency.

A 10% appreciation or depreciation of the pound sterling against the euro as of 31 December 2011 would have increased or decreased the translation reserves recognised in other comprehensive income by EUR 0.4m (previous year EUR 0.9m).

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 basically 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 starting on → *page 264*. The Celesio Group's maximum credit risk is limited to the nominal amounts possible from financial guarantees as well as the fair values of financial assets – including derivative financial instruments with a positive fair value – disclosed in the statement of financial position. At the end of the reporting period the group had issued guarantees with a total nominal amount of EUR 242.7m (previous year EUR 293.1m). Celesio mitigates the counterparty risk of cash and cash equivalents held at banks selecting banks with a defined minimum rating. 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 4.5m (previous year EUR 6.2m).

#### **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 can draw on a syndicated credit line of EUR 600m. 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 maintains a suitable level of free credit lines in reserve in connection with the group's indebtedness.

#### **f) Other price risks**

The Celesio Group was not exposed to any material risks from other price fluctuations as of the reporting date.

#### **g) Hedges**

The Celesio Group uses hedges to secure future cash flows. These include exchange rate hedges for planned purchases of merchandise as well as capital expenditures and disposals, although there were no cases requiring a hedge as of the reporting date.

### Cash flow hedges

The Celesio Group obtains its finance primarily from long-term bilateral lines of credit, promissory notes, two convertible bonds 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 uses cash flow hedges as part of the measures to secure the associated interest risk.

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 of 31 December 2011 are expected (interest payments).

	Cash flows 2012 M	Cash flows 2013 M	Cash flows 2014–2016 M	Cash flows 2017–2021 M	Cash flows 2022 onwards M	Total cash flows M
EUR	–2.3	–2.0	–1.4	0.0	0.0	–5.7
GBP	–2.5	–1.7	–4.1	–1.7	0.0	–10.0
DKK	–1.3	–0.3	0.0	0.0	0.0	–1.6

The hedged interest payments result from liabilities subject to floating-interest rates with a nominal value of EUR 180.0m, GBP 210.0m, 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 of 31 December 2010 were expected (interest payments).

	Cash flows 2011 M	Cash flows 2012 M	Cash flows 2013–2015 M	Cash flows 2016–2020 M	Cash flows 2021 onwards M	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, and czk 1,055.0m. There are also items totalling DKK 120.0m.

Losses of EUR 24.2m including deferred taxes were made in the reporting period in connection with cash flow hedges (previous year EUR 27.6m) which have been recorded under other comprehensive income. During the fiscal year losses of EUR 18.3m (previous year EUR 26.0m) from previous years were transferred from equity to interest expenses and deferred taxes. Of this amount EUR 5.9m (previous year EUR 5.0m) was recorded in interest expenses due to the dedesignation of hedge instruments and the sale of hedging instruments after the underlying was extinguished.

#### Fair value hedge

No fair value hedges were used in the 2011 fiscal year.

## Summary of derivative financial instruments

Derivative financial instruments break down as follows:

	31/12/2010			31/12/2011		
	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
Interest instruments	0.0	0.0	0.0	0.0	0.0	0.0
Currency instruments	387.5	6.2	0.3	318.2	4.5	0.0
<b>Derivative financial assets</b>	<b>387.5</b>	<b>6.2</b>	<b>0.3</b>	<b>318.2</b>	<b>4.5</b>	<b>0.0</b>
Interest instruments	759.1	65.9	63.1	458.3	52.4	51.8
Currency instruments	188.1	1.1	0.0	449.9	5.2	0.0
<b>Derivative financial liabilities</b>	<b>947.2</b>	<b>67.0</b>	<b>63.1</b>	<b>908.2</b>	<b>57.6</b>	<b>51.8</b>

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 of 31 December 2011 the values were as follows:

**Primary financial liabilities and financial guarantees**

Liabilities to banks

Promissory notes and bonds

Trade payables

Liabilities to affiliates

Liabilities to associates and other investments

Lease liabilities

Other financial liabilities

Liabilities from business combinations

Financial guarantees

**Derivative financial assets**

Derivatives not designated for hedge accounting

**Derivative financial liabilities**

Derivatives designated for hedge accounting

Derivatives not designated for hedge accounting



Cash flows 2012 EUR M	Cash flows 2013 EUR M	Cash flows 2014–2016 EUR M	Cash flows 2017–2021 EUR M	Cash flows 2022 onwards M	Total cash flows EUR M	Total carrying amounts EUR M
— 100.0	— 13.9	— 161.8	— 18.9	— 10.6	— 305.2	254.9
— 246.7	— 238.9	— 764.1	— 890.0	0.0	— 2,139.7	1,779.4
— 2,799.4	0.0	0.0	0.0	0.0	— 2,799.4	2,799.4
— 0.1	0.0	0.0	0.0	0.0	— 0.1	0.1
— 4.1	0.0	0.0	0.0	0.0	— 4.1	4.1
— 7.0	— 4.6	— 8.4	— 3.0	0.0	— 23.0	20.1
— 6.6	— 3.6	— 1.8	— 0.4	— 1.4	— 13.8	12.6
— 70.2	— 77.5	— 97.8	— 1.7	0.0	— 247.2	179.4
— 148.7	— 25.6	— 37.7	— 21.9	— 8.8	— 190.7	3.3
— 3,382.8	— 364.1	— 1,071.6	— 935.9	— 20.8	— 5,775.2	5,053.3
0.9	0.0	0.0	0.0	0.0	0.9	4.5
0.9	0.0	0.0	0.0	0.0	0.9	4.5
— 14.3	— 10.9	— 21.9	— 8.4	0.0	— 55.5	51.8
— 5.6	— 0.2	0.0	0.0	0.0	— 5.8	5.8
— 19.9	— 11.1	— 21.9	— 8.4	0.0	— 61.3	57.6

As of 31 December 2010 the values were as follows:

**Primary financial liabilities and financial guarantees**

Liabilities to banks

Promissory notes and bonds

Trade payables

Liabilities to affiliates

Liabilities to associates and other investments

Lease liabilities

Other financial liabilities

Liabilities from business combinations

Financial guarantees

**Derivative financial assets**

Derivatives designated for hedge accounting

Derivatives not designated for hedge accounting

**Derivative financial liabilities**

Derivatives designated for hedge accounting

Derivatives not designated for hedge accounting

Cash flows denominated in foreign currency are translated using the spot rate at the end of the reporting period. Variable cash flows from interest are disclosed on the basis of the rate most recently fixed. 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.

	Cash flows 2011 EUR M	Cash flows 2012 EUR M	Cash flows 2013–2015 EUR M	Cash flows 2016–2020 EUR M	Cash flows 2021 onwards M	Total cash flows EUR M	Total carrying amounts EUR M
	-229.1	-12.9	-110.2	-195.4	-12.7	-560.3	418.2
	-52.9	-233.6	-913.3	-570.2	0.0	-1,770.0	1,464.1
	-2,514.6	0.0	0.0	0.0	0.0	-2,514.6	2,514.6
	-4.0	0.0	0.0	0.0	0.0	-4.0	4.0
	-2.4	0.0	0.0	0.0	0.0	-2.4	2.4
	-5.8	-4.9	-7.0	-4.5	0.0	-22.2	19.2
	-12.2	-5.7	-4.3	-1.8	-1.4	-25.4	21.8
	-30.4	-50.2	-145.3	-2.8	0.0	-228.7	184.5
	-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
	0.0	0.0	0.0	0.0	0.0	0.0	0.3
	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
	-22.2	-18.5	-37.3	-22.0	0.0	-100.0	63.1
	-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

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 AS OF 31 DECEMBER 2011

<b>Assets</b>	
Available-for-sale financial assets – equity instruments	
Available-for-sale financial assets – debt instruments	
Financial assets measured at fair value through profit or loss	
Loans to investments	
Other loans	
<b>Other financial assets</b>	
<b>Trade receivables</b>	
Receivables from affiliates	
Receivables from associates and other investments	
Derivative financial instruments – designated as hedging instruments	
Derivative financial instruments – not designated as hedging instruments	
Other assets	
<b>Other receivables and other assets</b>	
<b>Cash and cash equivalents</b>	

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

31/12/2011

	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
	0.0	0.0	0.0	54.6	0.0	0.0	54.6	54.6
	0.0	0.0	0.0	4.1	0.0	0.0	4.1	4.1
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	14.4	0.0	0.0	0.0	14.4	14.4
	0.0	0.0	41.6	0.0	1.9	0.0	43.5	43.5
	0.0	0.0	56.0	58.7	1.9	0.0	116.6	116.6
	0.0	0.0	2,529.4	0.0	0.0	0.0	2,529.4	2,529.4
	0.0	0.0	0.4	0.0	0.0	0.0	0.4	0.4
	0.0	0.0	3.3	0.0	0.0	0.0	3.3	3.3
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	4.5	0.0	0.0	0.0	0.0	4.5	4.5
	0.0	0.0	234.5	0.0	0.7	149.3	384.5	384.5
	0.0	4.5	238.2	0.0	0.7	149.3	392.7	392.7
	0.0	0.0	448.3	0.0	0.0	0.0	448.3	448.3

The development of impairments on loans and receivables is presented in note (17). Impairments of EUR 0.9m (previous year EUR 3.7m) relate to assets available for sale.

**RECONCILIATION OF FINANCIAL INSTRUMENTS  
TO IAS 39 CATEGORIES AS OF 31 DECEMBER 2010**

<b>Assets</b>	
Available-for-sale financial assets – equity instruments	
Available-for-sale financial assets – debt instruments	
Financial assets measured at fair value through profit or loss	
Loans to investments	
Other loans	
<b>Other financial assets</b>	
<b>Trade receivables</b>	
Receivables from affiliates	
Receivables from associates and other investments	
Derivative financial instruments – designated as hedging instruments	
Derivative financial instruments – not designated as hedging instruments	
Other assets	
<b>Other receivables and other assets</b>	
<b>Cash and cash equivalents</b>	

31/12/2010

	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
	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

## RECONCILIATION OF FINANCIAL INSTRUMENTS TO IAS 39 CATEGORIES AS OF 31 DECEMBER 2011

### Liabilities

Liabilities to banks

Promissory notes and bonds

Lease liabilities

Other financial liabilities

### Non-current financial liabilities

### Other non-current liabilities

Liabilities to banks

Promissory notes and bonds

Lease liabilities

Other financial liabilities

### Current financial liabilities

### Trade payables

Liabilities to affiliates

Liabilities to associates and other investments

Personnel liabilities

Other tax liabilities

Outstanding invoices

Derivative financial instruments – designated as hedging instruments

Derivative financial instruments – not designated as hedging instruments

Interest liabilities

Other liabilities

### Other current liabilities



31/12/2011						
	Financial liabilities held for trading EUR M	Other financial liabilities EUR M	No IAS-39 category EUR M	Outside the scope of IFRS 7 EUR M	Carrying amount EUR M	Fair value EUR M
	0.0	159.7	0.0	0.0	159.7	169.9
	0.0	1,595.7	0.0	0.0	1,595.7	1,604.5
	0.0	0.0	14.0	0.0	14.0	14.0
	0.0	6.1	0.0	0.0	6.1	6.1
	0.0	1,761.5	14.0	0.0	1,775.5	1,794.5
	0.0	9.1	5.0	106.8	120.9	120.9
	0.0	95.2	0.0	0.0	95.2	95.2
	0.0	183.7	0.0	0.0	183.7	187.1
	0.0	0.0	6.1	0.0	6.1	6.1
	0.0	6.5	0.0	0.0	6.5	6.5
	0.0	285.4	6.1	0.0	291.5	294.9
	0.0	2,799.4	0.0	0.0	2,799.4	2,799.4
	0.0	0.1	0.0	0.0	0.1	0.1
	0.0	4.1	0.0	0.0	4.1	4.1
	0.0	0.0	0.0	138.4	138.4	138.4
	0.0	0.0	0.0	86.6	86.6	86.6
	0.0	164.3	0.0	0.0	164.3	164.3
	0.0	0.0	51.8	0.0	51.8	51.8
	5.8	0.0	0.0	0.0	5.8	5.8
	0.0	29.4	0.0	0.0	29.4	29.4
	0.0	26.6	0.4	155.1	182.1	182.1
	5.8	224.5	52.2	380.1	662.6	662.6

## RECONCILIATION OF FINANCIAL INSTRUMENTS TO IAS 39 CATEGORIES AS OF 31 DECEMBER 2010

### Liabilities

Liabilities to banks

Promissory notes and bonds

Lease liabilities

Other financial liabilities

### Non-current financial liabilities

### Other non-current liabilities

Liabilities to banks

Promissory notes and bonds

Lease liabilities

Other financial liabilities

### Current financial liabilities

### Trade payables

Liabilities to affiliates

Liabilities to associates and other investments

Personnel liabilities

Other tax liabilities

Outstanding invoices

Derivative financial instruments – designated as hedging instruments

Derivative financial instruments – not designated as hedging instruments

Interest liabilities

Other liabilities

### Other current liabilities

31/12/2010						
	Financial liabilities held for trading EUR M	Other financial liabilities EUR M	No IAS-39 category EUR M	Outside the scope of IFRS 7 EUR M	Carrying amount EUR M	Fair value 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 securitised debt instruments.

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

	2010 EUR M	2011 EUR M
Financial assets measured at fair value through profit or loss	2.6	0.0
Financial assets held for trading	-0.1	-8.7
Available-for-sale financial assets	4.5	8.0
Loans and receivables	-0.6	-13.0
Other financial liabilities	-131.0	-99.6
Financial liabilities held for trading	0.0	0.0
<b>Total</b>	<b>-124.6</b>	<b>-113.3</b>

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

Measurement losses of EUR 0.9m (previous year EUR 3.2m) were recorded in other comprehensive income upon the sale of available-for-sale financial assets in the reporting period. Losses of EUR 1.5m (previous year EUR 3.2m) 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 observable market data

Level 3: Valuation techniques in which all the relevant inputs are not based on observable market data

As of 31 December 2011 the following financial instruments were carried at fair value:

#### ASSETS MEASURED AT FAIR VALUE

Available-for-sale financial assets \_\_\_\_\_  
Financial assets measured at fair value through profit or loss \_\_\_\_\_  
Derivative financial instruments – designated as hedging instruments \_\_\_\_\_  
Derivative financial instruments – not designated as hedging instruments \_\_\_\_\_

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

Other non-current liabilities \_\_\_\_\_  
Derivative financial instruments – designated as hedging instruments \_\_\_\_\_  
Derivative financial instruments – not designated as hedging instruments \_\_\_\_\_  
Other liabilities \_\_\_\_\_

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

Level 3 financial instruments relate to liabilities from business combinations made after 1 January 2010 that were measured on the basis of earnings indicators as well as the assumptions and estimates of management.

31/12/2010				31/12/2011			
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
6.2	0.0	0.0	6.2	5.1	0.0	0.0	5.1
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.0
0.0	5.9	0.0	5.9	0.0	4.5	0.0	4.5

31/12/2010				31/12/2011			
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
0.0	0.0	2.3	2,3	0.0	0.0	5.0	5.0
0.0	63.1	0.0	63,1	0.0	51.8	0.0	51.8
0.0	3.9	0.0	3,9	0.0	5.8	0.0	5.8
0.0	0.0	3.4	3,4	0.0	0.0	0.5	0.5

Measurement of the financial instruments held as of 31 December 2011 at fair value gave rise to the following total gains and losses:

**Through profit and loss**

Available-for-sale financial assets

Financial assets measured at fair value through profit or loss

Derivative financial instruments designated as hedging instruments  
(assets and liabilities)

Derivative financial instruments – not designated as hedging instruments  
(assets and liabilities)

Other non-current liabilities

Other liabilities

**Recognised in other comprehensive income**

Available-for-sale financial assets

Derivative financial instruments – designated as hedging instruments  
(assets and liabilities)

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, other non-current liabilities and other liabilities measured at fair value through profit or loss, are reported under the financial result. Please refer to → *page 204* for a reconciliation of financial instruments to level 3.



2010				2011			
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
-0.9	0.0	0.0	-0,9	-0.5	0.0	0.0	-0.5
0.0	0.0	0.0	0,0	0.0	0.0	0.0	0.0
0.0	-25.3	0.0	-25,3	0.0	-13.7	0.0	-13.7
0.0	0.4	0.0	0,4	0.0	-6.8	0.0	-6.8
0.0	0.0	0.0	0,0	0.0	0.0	0.2	0.2
0.0	0.0	0.0	0,0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0,0	0.0	0.0	0.0	0.0
0.0	-4.1	0.0	-4,1	0.0	-11.9	0.0	-11.9

## (26) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

At the end of the reporting period the group had issued guarantees and warranties of EUR 242.7m (previous year EUR 293.1m).

The guarantees and warranties were mainly issued in the Celesio Wholesale business area, particularly in the UK where they amount to EUR 203.5m (previous year EUR 252.7m) and Austria where they amount to EUR 32.8m (previous year EUR 27.4m).

Provisions of EUR 3.3m (previous year EUR 4.9m) have been recognised for some of the warranties and guarantees at Celesio Wholesale. These have been included under other provisions.

As of 31 December 2010 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.

	31/12/2010 EUR M	31/12/2011 EUR M
<b>Rental agreements and operating leases</b>	<b>1,271.2</b>	<b>1,043.5</b>
Due within 1 year	158.3	130.4
Due within 2 to 5 years	466.8	360.0
Due in more than 5 years	646.1	553.1
<b>Purchase commitments for capital expenditures</b>	<b>21.0</b>	<b>25.2</b>
Property, plant and equipment	6.9	2.3
Intangible assets	11.5	16.8
Other assets	2.6	6.1
<b>Total</b>	<b>1,292.2</b>	<b>1,068.7</b>

Of the total obligations from rental agreements and leases, an amount of EUR 600.7m relates to the Wholesale and the Pharmacies business areas in the UK (previous year EUR 676.3m) and an amount of EUR 108.7m to retail pharmacies in Ireland (previous year EUR 121.6m). As of the reporting date, the future minimum lease payments expected from uncancellable operating leases comes to EUR 37.6m (previous year EUR 47.7m). Of this amount EUR 7.4m (previous year EUR 8.8m) is due within one year. Another EUR 21.3m (previous year EUR 26.6m) is due in between one and five years and EUR 8.9m (previous year EUR 12.3m) is due in more than five years. In addition, future rental income from sub-leases of property is expected to amount to EUR 22.6m (previous year EUR 62.4m). An amount of EUR 2.2m (EUR 2.2m) was received as income from contingent rent payments.

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 198.4m (previous year EUR 279.1m) over a period ending 31 March 2016. The decrease is attributable to the utilisation in the current year as well as a contractual amendment. The amount of the obligation can change depending on the services availed of under the agreement. In addition, there are other financial obligations of EUR 39.8m (previous year EUR 57.0m) from data and voice communication service agreements. They have a remaining term of five years.

Contingent liabilities of EUR 73.1m (previous year EUR 105.9m) were recognised for legal and tax risks associated with the business combination with Panpharma in 2009. Based on their maturity, these have been divided into current and non-current provisions. The contingent liabilities include income tax liabilities of EUR 4.4m (previous year EUR 6.1m). During the reporting period, these contingent liabilities fell by EUR 32.8m, mainly because legal and tax risks became 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 earnings indicators, namely pre-tax profits to EBITDA. This 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. Net operating assets comprise inventories, trade receivables and other assets as well as trade payables and certain other operating assets and liabilities. Other assets and liabilities mainly include provisions and other non-interest-bearing 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 58.4m (previous year EUR 37.3m) less the cash and cash equivalents assumed of EUR 25.5m (previous year 5.0m). This includes purchase payments for business combinations made in previous years. These amount to EUR 4.6m in total (previous year EUR 28.7m). The corresponding disclosures are contained in the notes on business combinations. Proceeds from the sale of subsidiaries of EUR 3.1m (previous year EUR -3.7m) correspond to the proceeds less the cash and cash equivalents transferred of EUR 0.1m (previous year 5.9m). The cash received from the sale of subsidiaries mainly relates to the disposal of pharmacies in the UK. Non-cash investments of EUR 7.1m 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. The line item change in ownership interests in subsidiaries without a loss of control reflects cash paid to increase the ownership interest or cash received as a result of reducing the ownership interest of subsidiaries that do not result in a loss of control. The proceeds from borrowing correspond to the proceeds from the placement of a new convertible bond with a volume of EUR 350m less the transaction costs of EUR 3.0m.

Since 1 January 2011, dividends received have been reported separately under cash flows from operating activities. This made it necessary to report the net result from associates accounted for using the equity method and other equity investments separately. For this reason, investment income and expense – previously included under other non-cash income and expenses – is no longer reported under this item. The previous-year figures were restated to match the current presentation.

The sale of the shares in ANZAG of EUR 34.7m in the previous year was recognised through reclassification from capital expenditure on non-current assets to proceeds from the disposal of non-current assets.

# Notes to the group segment reporting

Segmentation mirrors the internal reporting structure of Celesio and has changed in comparison to the previous year. As a consequence of the realignment and reorganisation of our pharmacy business adopted by management resolution in 2010 to match the logic of the brand, the internal reporting structure of the Patient and Consumer Solutions division was adjusted accordingly from 1 January 2011. The European-wide DocMorris business is managed by a central unit.

Celesio's internal reporting structure is based on the subdivision of the Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions divisions into several business areas each. These business areas constitute the reporting 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. Therefore, these subtotals are also disclosed in the segment reporting.

- The Patient and Consumer Solutions division covers the entire logistics chain, from purchasing merchandise through to selling to consumers. We report the »Pharmacies« business area and »Other business areas« under the Patient and Consumer Solutions division. In the Pharmacies business area, a distinction is made between the operating segments DocMorris and Lloydspharmacy which are combined for segment reporting. These each consist of the retail pharmacies and mailorder pharmacies. DocMorris additionally includes brand partnerships. We disclose our investment in Brocacef Holding N.V. in the Netherlands as an associate under »Other business areas«. The division also contains all discontinued activities as of year-end 2011 including their start-up expenses.
- The Pharmacy Solutions division, which has retained the same structure as in the previous year, offers solutions tailored to the pharmacy market. Its focus is on the wholesale business with external customers, which is a separate segment. The operating segments were combined at country level in the Wholesale business area. The Other business areas segment of the Pharmacy Solutions division includes Rudolf Spiegel Versand for pharmacy and laboratory equipment and Inten, the property developer for pharmacies.
- The service offering of the Manufacturer Solutions division is geared towards the pharmaceutical industry. Upon conversion to the new reporting structure as of 1 January 2011, the business areas of the Manufacturer Solutions division were renamed »Logistics Solutions«, »Marketing Solutions« and »Efficient Care Pharma«. The »Logistics Solutions« business

area, which includes Movianto, offers pharmaceutical logistics and related services such as storage, transport and packaging and represents a separate reporting segment. The »Marketing Solutions« business area, which includes Pharmexx, offers innovative marketing and sales solutions and likewise constitutes a separate reporting segment. In the »Efficient Care Pharma« business area, Evolution Homecare coordinates the supply of pharmaceuticals to patients at home. This business area also included the joint venture Medco Celesio until the third quarter of 2011. It had been intended to offer cross-sector solutions to improve the quality of healthcare provided to patients over the long term and reduce the financial burden on payers in the health care market in Europe. Celesio sold its 50% share in the joint venture founded in 2010 to Medco Health Solutions, Inc. in September 2011. Its earnings are included in the »Efficient Care Pharma« business area.

The Others segment is primarily used to report the activities of the group's parent, Celesio AG, and other companies not directly allocable to operating activities. Celesio AG holds investments in the major operating national companies and national holdings. In addition, the operating entities of the Celesio Group are primarily financed via Celesio AG and Celesio Finance B.V., Netherlands (Amsterdam). Moreover, Celesio AG bundles essential group functions, primarily in the fields of accounting, controlling, treasury and IT. Since 1 January 2011 Alliance Apotheken Management GmbH and Apotheke DocMorris Holding GmbH, two units which were previously reported under the Retail Pharmacies segment, have been reported under Others. In addition, DocMorris Pharma GmbH has also been reported under »Others« since 1 January 2011. This was previously reported in the »Mail-order Pharmacies« segment. The previous-year figures were restated accordingly. There were no material effects. Intercompany transactions are measured at market prices.

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

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

The DocMorris brand is no longer allocable across segments as a result of the new reporting structure in the Patient and Consumer Solutions division effective as of 1 January 2011. The DocMorris brand is included under Pharmacies for segment reporting.

Capital expenditures include non-cash additions to non-current assets.

The same accounting standards as for the Celesio Group have been used in segment reporting.

There are no customers individually accounting for more than 10% of revenue.

With regard to the information on countries, segment revenue is allocated to the country in which the revenue is generated and the segment assets to the country in which the asset is located.

RECONCILIATION OF SEGMENT REVENUE	2010 EUR M	2011 EUR M
Revenue of the reportable segments	23,353.5	23,105.6
Consolidation	-75.9	-79.2
Group revenue	23,277.6	23,026.4

RECONCILIATION OF SEGMENT EARNINGS	2010 EUR M	2011 EUR M
EBITDA of the reportable segments	699.2	514.8
EBITDA of the group	699.2	514.8
Impairment losses on intangible assets and property, plant and equipment	-133.0	-143.4
Impairment losses recorded on intangible assets and property, plant and equipment	-0.6	-134.6
EBIT	565.6	236.8
Interest expense	-148.6	-157.3
Interest income	10.1	8.6
Other financial result	-17.8	15.9
Profit before tax	409.3	104.0



# RECONCILIATION OF SEGMENT ASSETS

31/12/2010 31/12/2011  
EUR M EUR M

Segment assets of the reportable segments <sup>1)</sup>	4,606.5	— 4,399.0
Consolidation <sup>1)</sup>	-4.4	— -2.5
Segment assets of the group	4,602.1	— 4,396.5
+ Interest-bearing other financial assets	50.3	— 57.9
+ Non-current and current income tax receivables	32.0	— 31.4
+ Deferred tax assets	121.3	— 124.9
+ Other assets	3.8	— 34.0
+ Cash and cash equivalents	200.8	— 448.3
- Other current provisions	162.0	— 176.2
- Trade payables	2,514.6	— 2,799.4
- Sundry liabilities	715.8	— 725.7
<b>Total assets</b>	<b>8,402.7</b>	<b>— 8,794.3</b>

1) Previous-year figures adjusted to reflect new reporting structure.

Related party transactions

Related parties as defined by IAS 24 (Related Party Disclosures) are legal entities and natural persons who can exercise significant influence or control over Celesio AG and its subsidiaries or, alternatively, are subject to the control or significant influence of Celesio AG or its subsidiaries. In particular, related parties include the majority shareholder, Franz Haniel & Cie., Duisburg, and its subsidiaries and associates, as well as the joint ventures, associates and members of the boards of Celesio AG. The previous-year figures were restated to reflect the new disclosure requirements of IAS 24.

All transactions with related parties are conducted at arm’s length.

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

Trade relationships (deliveries of merchandise) existed or exist with joint ventures and associates.

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

	Franz Haniel & Cie. GmbH, Duisburg	
	2010 EUR M	2011 EUR M
Loans and receivables	4.5	0.0
Liabilities	1.5	0.0
Income	0.0	0.2
Expenses	0.6	0.4

The disclosure of remuneration of key management personnel in accordance with IAS 24 requires the disclosure of the remuneration of the Management Board and Supervisory Board.

The active members of the Management Board and Supervisory Board received the following remuneration in the reporting period and in the comparative period:

	2010 EUR K	2011 EUR K
Short-term benefits	8,126	4,974
Service cost	785	1,047
Termination benefits	/	16,867
Long-term benefits	163	-248
Share-based payment	82	-37
<b>Total</b>	<b>9,156</b>	<b>22,603</b>

Pursuant to Sec. 314 (1) No. 6 a) Sentence 1 HGB, the total remuneration of the Management Board came to EUR 4,968k in the 2011 fiscal year (previous year EUR 7,513k). This breaks down into EUR 2,756k for the basic component including additional benefits (previous year EUR 1,884k), EUR 1,727k for the portion of bonuses payable immediately (single year variable component; previous year EUR 5,394k) and EUR 485k for the value of the 2011 tranche of the performance cash scheme and the value of retained bonuses on the date of issue (multiple-year variable component; previous year EUR 235k). Of the bonuses, an amount of EUR 968k was guaranteed.

	Subsidiaries of Franz Haniel & Cie. GmbH		Joint ventures and associates of Franz Haniel & Cie. GmbH		Joint ventures and associates of Celesio AG	
	2010 EUR M	2011 EUR M	2010 EUR M	2011 EUR M	2010 EUR M	2011 EUR M
	4.3	0.5	0.0	0.0	0.1	1.0
	2.5	0.1	0.2	0.2	0.0	1.7
	0.2	0.0	0.0	0.0	12.1	23.5
	0.3	0.3	1.2	1.5	0.0	0.0

No advances, loans or similar benefits were granted to members of the Management Board or Supervisory Board in the reporting period or in the previous year.

Former members of the Management Board and their surviving dependents received remuneration of EUR 17,245 in the reporting period (previous year EUR 294k). Celesio has set up pension provisions of EUR 12,898k (previous year EUR 6,251k) for this group of persons. These figures include the benefits paid to Dr Oesterle, Dr Holzherr and Dr Lonsert in connection with terminating their service agreements.

Remuneration for serving on Celesio AG's Supervisory Board came to EUR 491k in the past fiscal year (previous year EUR 848k) including attendance fees. The entire amount comprised short-term benefits.

No remuneration was paid to members of the Supervisory Board for services rendered individually. Otherwise, no transactions requiring disclosure were conducted with members of the Supervisory Board or Management Board as persons in key positions or any other entities in whose management or supervisory board any such persons are represented. This also applies to close family members of these persons.

The main features of the compensation structure of the Management Board and the remuneration paid to members of the Management Board and the Supervisory Board in the fiscal year are described in the remuneration report, which is a component of the management report.

## 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 1.4m (previous year EUR 1.2m). Of this amount, EUR 0.8m (previous year EUR 0.7m) is for the audit of the financial statements, EUR 0.2m for other attest services (previous year EUR 0.2m), EUR 0.2m for tax advisory services (previous year EUR 0.1m) and EUR 0.2m (previous year EUR 0.2m) for other services.

## 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:

- AVG Apotheken-Beratungsgesellschaft mbH, Stuttgart
- Admenta Deutschland GmbH, Stuttgart
- Apotheke DocMorris Holding GmbH, Stuttgart
- Celesio Manufacturer Solutions Deutschland Vertriebsgesellschaft mbH, Stuttgart
- Celesio Manufacturer Solutions Europe Distributors GmbH, Stuttgart
- DocMorris International Retail GmbH, Stuttgart
- DocMorris Kooperationen GmbH, Stuttgart
- DocMorris Pharma GmbH, Aachen
- GEHE Pharma Handel GmbH, Stuttgart
- CEHE 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
- x-pharm GmbH, Hirschberg
- Rudolf Spiegel GmbH, Grafschaft-Gelsdorf

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

## Notices from shareholders

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. To the knowledge of Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 54.6% (previous year 54.6%) at the end of the reporting period.

In the course of the reporting period the investment companies, Baillie Gifford & Co, Edinburgh, and BlackRock, Inc., New York, reduced their shareholdings to below 3% of the shares outstanding.

## 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 20 December 2011 and published this permanently on their website at [www.celesio.com](http://www.celesio.com).

## Proposal of the Management Board for the appropriation of profits

The profit available for distribution of Celesio AG amounts to EUR 85,952,000 (previous year EUR 85,050,000). The Management Board proposes distributing EUR 42,525,000 of the profit available for distribution as a dividend for the 2011 fiscal year and carrying forward EUR 43,427,000 to new account. On the basis of this proposal for the appropriation of profits, the dividend for a no-par share will be EUR 0.25 (previous year an ordinary dividend of EUR 0.50).

**STUTTGART, 22 FEBRUARY 2012**

**THE MANAGEMENT BOARD**

## Members of the Management Board

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



## Members of the Supervisory Board

Name	Occupation	Membership in other Supervisory Boards and comparable bodies
Prof Dr Jürgen Kluge (Chairman)	Chairman of the Management Board of Franz Haniel & Cie. GmbH	<ul style="list-style-type: none"> <li>• Metro AG, Chairman of the Supervisory Board (until 17 November 2011)</li> <li>• TAKKT AG, Deputy Chairman of the Supervisory Board</li> <li>• SMS GmbH, Member of the Supervisory Board</li> </ul>
Ihno Goldenstein (Deputy Chairman)	<p>Employee, goods-in department, GEHE Pharma Handel GmbH</p> <p>Chairman of the General Works Council, GEHE Pharma Handel GmbH</p> <p>Chairman of the European Works Council of Celesio AG</p>	/
Klaus Borowicz	Head of Hamburg branch of GEHE Pharma Handel GmbH	/
Prof Dr med. Julius Michael Curtius	Cardiologist in private practice	/
Dr Hubertus Erlen	Member of supervisory and advisory boards	<ul style="list-style-type: none"> <li>• Bayer Schering Pharma AG, Deputy Chairman of the Supervisory Board</li> <li>• Schaeffler GmbH, Member of the Supervisory Board</li> </ul>
Dirk-Uwe Kerrmann	<p>Commercial employee of GEHE Pharma Handel GmbH</p> <p>Head of inventory, Weiterstadt branch of GEHE Pharma Handel GmbH</p> <p>Chairman of the Works Council of GEHE Pharma Handel GmbH</p>	/

## Members of the Supervisory Board

Name	Occupation	Membership in other Supervisory Boards and comparable bodies
Jörg Lauenroth-Mago	Trade Union Secretary responsible for the trade division in Saxony, Saxony-Anhalt and Thuringia, ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	<ul style="list-style-type: none"> <li>• GEHE Pharma Handel GmbH, Member of the Supervisory Board</li> </ul>
Susan Naumann	Trade Union Secretary responsible for the legal and accounting division in Hamburg, ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	<ul style="list-style-type: none"> <li>• GEHE Pharma Handel GmbH, Member of the Supervisory Board</li> </ul>
Ulrich Neumeister	Logistics employee of GEHE Pharma Handel GmbH	/
w.m. Henning Rehder	CFO der SEN Group, Munich	/
Hanspeter Spek	Member of the Management Board of Sanofi-aventis s.A., Paris	<ul style="list-style-type: none"> <li>• Hoechst GmbH, Chairman of the Supervisory Board</li> <li>• Sanofi-Aventis Deutschland GmbH, Chairman of the Supervisory Board</li> <li>• Sanofi-Aventis SpA, Italy, Member of the Board of Directors</li> <li>• Sanofi-Aventis Nichi-Iko K.K., Japan, Chairman &amp; Director</li> <li>• Sanofi-aventis K.K., Japan, Director</li> <li>• Sanofi SA (Sanofi AG), Switzerland, Member of the Board of Directors</li> <li>• Sanofi-Aventis (Suisse) SA, Switzerland, Member of the Board of Directors</li> </ul>
Prof Dr Klaus Trützschler	Member of the Management Board of Franz Haniel & Cie. GmbH	<ul style="list-style-type: none"> <li>• Bilfinger Berger AG, Member of the Supervisory Board</li> <li>• TAKKT AG, Chairman of the Supervisory Board</li> <li>• Wuppermann AG, Chairman of the Supervisory Board</li> <li>• Zwiesel Kristallglas AG, Chairman of the Supervisory Board</li> <li>• Wilh. Werhahn KG, Member of the Administrative Board</li> <li>• Sartorius AG, Member of the Supervisory Board</li> </ul>

## 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.

STUTT GART, 22 FEBRUARY 2012



**MARKUS PINGER**  
CHAIRMAN OF THE  
MANAGEMENT BOARD



**DR MARION HELMES**  
CHIEF FINANCIAL OFFICER,  
MEMBER OF THE MANAGEMENT BOARD



**STEPHAN BORCHERT**  
MEMBER OF THE MANAGEMENT BOARD



**WOLFGANG MÄHR**  
MEMBER OF THE MANAGEMENT BOARD

## 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 2011. 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, 24 FEBRUARY 2012

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft



PROF. DR. PFITZER  
GERMAN PUBLIC AUDITOR



MATISCHOK  
GERMAN PUBLIC AUDITOR

# 7-year summary of the Celesio Group

2005

2006

## Earnings development

Revenue	EUR M	20,491.1	21,569.1
Gross profit	EUR M	2,235.5	2,431.6
adjusted	EUR M	2,235.5	2,431.6
EBITDA	EUR M	745.9	803.7
adjusted	EUR M	745.9	803.7
EBIT	EUR M	648.2	685.8
adjusted	EUR M	648.2	685.8
Profit before tax	EUR M	554.5	590.1
adjusted	EUR M	554.5	590.1
Net profit/loss	EUR M	<sup>7)</sup> 386.0	425.6
adjusted	EUR M	<sup>7)</sup> 386.0	425.6
Earnings per share (basic)	EUR	<sup>7)</sup> 2.24	2.49
adjusted	EUR	<sup>7)</sup> 2.24	2.49

## Financial position

Net cash flow from operating activities <sup>8)</sup>	EUR M	460.7	733.1
Net cash flow from investing activities	EUR M	-499.5	-325.2

## Assets position<sup>9)</sup>

Total assets	EUR M	7,511.7	7,926.5
Equity	EUR M	2,284.2	2,628.1
Equity ratio	%	30.4	33.2
Gearing		0.90	0.72
Net financial debt	EUR M	2,060.8	1,886.3
Non-current assets	EUR M	3,225.1	3,446.8
Current assets	EUR M	4,286.6	4,479.7
Non-current liabilities	EUR M	2,110.0	1,962.8
Current liabilities	EUR M	3,117.5	3,335.6
Capital expenditures and investments <sup>10)</sup>	EUR M	579.2	350.9

## The share

Closing share price (Xetra) <sup>11)</sup>	EUR	36.33	40.64
Dividend per share <sup>11)</sup>	EUR	<sup>6)</sup> 0.70	0.75
Dividend yield <sup>13)</sup>	%	1.9	1.8

Employees (full-time equivalents) <sup>9)</sup>	26,090	26,832
Employees (headcount) <sup>9)</sup>	35,407	36,442
Retail pharmacies <sup>9)</sup>	2,045	2,100
Wholesale branches <sup>9)</sup>	138	135

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

2) Adjusted for non-recurring effects (including tax effect) primarily in connection with the Operational Excellence Program.

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

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

5) Additionally adjusted for special effects in the financial result (including tax effect).

6) This includes a special dividend of EUR 0.03.

7) Adjusted for trade tax reimbursements.

	2007	2008	2009	2010	2011
22,349.5 — <sup>11)</sup> 21,166.6 — 21,497.2 — 23,277.6 — <b>23,026.4</b>					
2,523.7 — 2,410.5 — 2,507.2 — 2,838.1 — <b>2,749.9</b>					
2,523.7 — 2,410.5 — 2,507.2 — 2,838.1 — <sup>2)</sup> <b>2,753.9</b>					
842.5 — 657.3 — 627.6 — 699.2 — <b>514.8</b>					
842.5 — 657.3 — 627.6 — 699.2 — <sup>2)</sup> <b>578.3</b>					
727.7 — 256.2 — 237.6 — 565.6 — <b>236.8</b>					
727.7 — <sup>3)</sup> 543.2 — <sup>3)</sup> 511.9 — 565.6 — <sup>2)</sup> <sup>3)</sup> <b>434.9</b>					
608.8 — 125.2 — <sup>4)</sup> 119.5 — 409.3 — <b>104.0</b>					
608.8 — <sup>3)</sup> 412.2 — <sup>3)</sup> <sup>5)</sup> 403.6 — <sup>5)</sup> 454.0 — <sup>2)</sup> <sup>3)</sup> <sup>5)</sup> <b>323.3</b>					
435.4 — -18.5 — <sup>4)</sup> 6.5 — 265.0 — <b>6.1</b>					
435.4 — <sup>3)</sup> 268.5 — <sup>3)</sup> <sup>5)</sup> 282.4 — <sup>5)</sup> 309.1 — <sup>2)</sup> <sup>3)</sup> <sup>5)</sup> <b>204.5</b>					
2.53 — -0.12 — <sup>4)</sup> 0.02 — 1.52 — <b>0.01</b>					
2.53 — <sup>3)</sup> 1.56 — <sup>3)</sup> <sup>5)</sup> 1.64 — <sup>5)</sup> 1.78 — <sup>2)</sup> <sup>3)</sup> <sup>5)</sup> <b>1.18</b>					
170.7 — 536.4 — 578.2 — 652.3 — <b>559.3</b>					
-528.0 — -265.2 — -203.1 — -124.0 — <b>-200.4</b>					
8,343.2 — 7,523.3 — <sup>4)</sup> 8,075.6 — 8,402.7 — <b>8,794.3</b>					
2,819.6 — 2,269.6 — <sup>4)</sup> 2,352.1 — 2,601.1 — <b>2,577.8</b>					
33.8 — 30.2 — 29.1 — 31.0 — <b>29.3</b>					
0.84 — 0.97 — 0.87 — 0.66 — <b>0.63</b>					
2,345.7 — 2,205.2 — 2,040.4 — 1,722.5 — <b>1,618.7</b>					
3,867.0 — 3,287.1 — <sup>4)</sup> 3,443.1 — 3,450.8 — <b>3,601.3</b>					
4,476.2 — 4,236.2 — 4,632.5 — 4,951.9 — <b>5,193.0</b>					
2,325.0 — 2,257.5 — <sup>4)</sup> 2,432.9 — 2,292.6 — <b>2,232.1</b>					
3,198.6 — 2,996.2 — <sup>4)</sup> 3,290.6 — 3,509.0 — <b>3,984.4</b>					
679.7 — 265.1 — 381.5 — 198.8 — <b>272.7</b>					
42.50 — 19.40 — 17.70 — 18.60 — <b>12.24</b>					
0.77 — 0.48 — 0.50 — 0.50 — <sup>12)</sup> <b>0.25</b>					
1.8 — 2.5 — 2.8 — 2.7 — <b>2.0</b>					
27,748 — 28,354 — 35,408 — 36,441 — <b>36,670</b>					
37,516 — 37,746 — 46,095 — 46,826 — <b>46,977</b>					
2,273 — 2,337 — 2,296 — 2,277 — <b>2,281</b>					
123 — 120 — 137 — 133 — <b>141</b>					

8) Since 2008, interest paid and received is allocated to cash flow from financing activities.

9) Closing figures as of 31 December.

10) Since the 2010 fiscal year, investments and capital expenditures do not include additions to non-current financial assets or loans.

11) Adjusted for the 1:2 share split carried out on 24 July 2006.

12) Proposed by the Management Board and Supervisory Board to the 2012 annual general meeting.

13) Related to the closing share price (Xetra).

# 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 2012

(Excerpt)

## Analyst and investor conference

27 MARCH 2012

## Interim report, 1st quarter of 2012

14 MAY 2012

## Annual general meeting 2012

16 MAY 2012

## Interim report, 1st half year of 2012

14 AUGUST 2012

## Interim report, 1st to 3rd quarter of 2012

14 NOVEMBER 2012

## Annual report 2012

26 MARCH 2013

Subject to amendment. Other dates and updates can be found at [celesio.com](http://celesio.com) under Investor Relations/Financial calendar.

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## IMPRINT

**Design and layout:** Strichpunkt GmbH, Stuttgart / [www.strichpunkt-design.de](http://www.strichpunkt-design.de)  
**Photography:** Celesio / Dirk Bruniecki, Munich / Getty Images / Jason Andrews, London  
**Print:** Eberl Print GmbH, Immenstadt / [www.eberl.de](http://www.eberl.de)



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As a leading international trading company and provider of logistics and services in the pharmaceutical and healthcare sector, Celesio takes a proactive and preventative approach to ensuring that patients receive the products and support that they require for optimum care.

With 47,000 employees in 27 countries and a turnover of EUR 23bn in 2011, our high-performing supply chain proves its worth day in, day out. Every day, we serve over 2 million customers – at 2,200 pharmacies of our own and 4,500 participants in our brand partnership schemes. With more than 140 wholesale branches, we supply around 65,000 pharmacies and hospitals with up to 130,000 pharmaceutical products each day.