

Contract Report

Joint Report

of the management board of

Celesio AG, Stuttgart,

and

the management of

Dragonfly GmbH & Co. KGaA, Frankfurt am Main,

pursuant to

Section 293a German Stock Corporation Act

Concerning the Domination and Profit and Loss Transfer Agreement

between

Celesio AG and Dragonfly GmbH & Co. KGaA

22 May 2014



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- Annex 2:** Domination and Profit and Loss Transfer Agreement between Celesio AG and Dragonfly GmbH & Co. KGaA together with the Comfort Letter from McKesson Corporation
- Annex 3:** Order by the Stuttgart Regional Court of 6 February 2014 on the appointment of Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft Kronenstraße 30, 70174 Stuttgart as expert auditor (Contract Auditor) within the meaning of section 293b (1) AktG
- Annex 4:** Expert opinion of KPMG AG Wirtschaftsprüfungsgesellschaft of 14 May 2014 on the calculation of the value of Celesio AG as of 15 July 2014
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The management board of Celesio AG ("**Celesio**" and together with the companies dependant on Celesio pursuant to section 17 German Stock Corporation Act (*Aktiengesetz*, "**Stock Corporation Act**"), "**Celesio Group**") and the management of Dragonfly GmbH & Co. KGaA ("**Dragonfly**") are jointly issuing the following report ("**Report**") pursuant to section 293a Stock Corporation Act concerning the domination and profit and loss transfer agreement (the "**Agreement**") between Dragonfly as the controlling company and Celesio as the controlled company (together the "**Parties**").

## A. INTRODUCTION

On 24 October 2013, Dragonfly, a 100% indirect subsidiary of McKesson Corporation, San Francisco, United States ("**McKesson**" and together with the companies dependant on McKesson pursuant to section 17 Stock Corporation Act, "**McKesson Group**") published its decision to launch a voluntary public takeover offer to all shareholders of Celesio ("**Celesio Shareholders**"). On the same day, Celesio, McKesson and Dragonfly entered into a business combination agreement ("**BCA**"). At the same time, McKesson and Dragonfly and the majority shareholder of Celesio, Franz Haniel & Cie. GmbH ("**Haniel**"), entered into an agreement relating to the purchase by Dragonfly of Haniel's shareholding in Celesio at that time, which amounted to approximately 50.01% of Celesio's share capital ("**Haniel Share Purchase Agreement**"). On 5 December 2013, Dragonfly published a voluntary public takeover offer to all shareholders of Celesio for the acquisition of their no-par-value registered shares of Celesio ("**Initial Takeover Offer**") and voluntary public offers for the acquisition of convertible bonds (*Wandelschuldverschreibungen*) which (i) were issued by Celesio Finance B.V. on 29 October 2009 in the aggregate amount of EUR 350.0 million with a due date of 29 October 2014 and which grant a conversion right into Celesio shares and have been guaranteed by Celesio (ISIN DE000A1AN5K5, "**2014 Bond**"), and (ii) were issued by Celesio Finance B.V. on 7 April 2011 in the aggregate amount of EUR 350.0 million with a due date of 7 April 2018, which also grant a conversion right into Celesio shares and have been guaranteed by Celesio (ISIN DE000A1GPH50, "**2018 Bond**", together with the 2014 Bond, "**Bonds**") ("**Bond Offers**"). Settlement of the Initial Takeover Offer, the Bond Offers and the Haniel Share Purchase Agreement were, inter alia, subject to the condition that a minimum acceptance threshold of 75% of all shares issued by Celesio on a fully diluted basis, i.e. including shares issued based on any approved contingent capitals for the conversion of Bonds into no-par-value registered ordinary voting shares in Celesio, would be met.

After this minimum acceptance threshold had not been met at the end of the regular acceptance period on 9 January 2014 and the Initial Takeover Offer therefore was not successful, Dragonfly on 23 January 2014, with the consent of Celesio and the approval of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**"), published its decision to launch another voluntary public takeover offer ("**Takeover Offer**") to the shareholders of Celesio. On 23 January 2014, McKesson and Dragonfly agreed with Haniel and Celesio on corresponding amendments to the Haniel Share Purchase Agreement and the BCA, respectively. Pursuant to the amended Haniel Share Purchase Agreement, which was settled on 6 February 2014, Dragonfly acquired from Haniel its shareholding in Celesio which was increased in the meantime of approximately 75.99% of the shares issued at that time ("**Haniel Shareholding**"). The Takeover Offer was published on 28 February 2014. The acceptance period ended at midnight



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(24:00) on 2 April 2014. The additional acceptance period commenced on 8 April 2014 and ended at midnight (24:00) on 22 April 2014. Up to the time of expiry of the additional acceptance period, the Takeover Offer was accepted for a total of 1,946,081 Celesio shares, which equates to 0.96% of the voting rights and share capital of Celesio. Contained therein are the shares from the conversion of 105 of the 2014 bonds and 139 of the 2018 bonds which McKesson International Holdings IV S.à r.l., Luxembourg, a McKesson Group company, had purchased in October 2013. In addition Dragonfly purchased 5,038 of the 2014 Bonds and 2,257 of the 2018 Bonds through various transactions.

Taking into account the Celesio shares acquired by companies of the McKesson Group by converting Bonds, as of the date of execution of this Report Dragonfly or alternatively McKesson hold an indirect participation of 75.92% of Celesio's current share capital, which is divided into 203,220,932 shares.

On 23 January 2014, McKesson and Dragonfly announced that they intend to enter into a domination and profit and loss transfer agreement with Dragonfly as controlling company and Celesio as controlled company. By resolution dated 30 January 2014, the management board of Celesio decided to enter into negotiations with McKesson and Dragonfly on such agreement.

In response to a joint request by the management board of Celesio and the management of Dragonfly, the District Court (*Landgericht*) Stuttgart by order dated 6 February 2014 selected and appointed Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Kronenstraße 30, 70174 Stuttgart, as joint contract auditor (the "**Contract Auditor**" or "**Ebner Stolz**") for the examination of the Agreement.

This Agreement which is subject to this Report was entered into on 22 May 2014. The Celesio supervisory board had previously approved entering into the Agreement in its meeting on 22 May 2014. At the time of adopting the resolution, the final draft of the Agreement, the final draft of this Report, the signed version of the expert opinion (the "**Valuation Report**") of KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich, (the "**Valuation Expert**" or "**KPMG**") dated 14 May 2014 and the signed version of the report by the Contract Auditor concerning the examination of the Agreement dated 16 May 2014 (the "**Audit Report**") were available to the supervisory board. McKesson has issued a comfort letter regarding the Agreement to Celesio on 20 May 2014, which was equally available to the supervisory board in its meeting of 22 May 2014.

By the Agreement Celesio subordinates its management to Dragonfly and undertakes to transfer all of its profits to Dragonfly. Dragonfly undertakes to compensate any loss incurred by Celesio and to grant an adequate recurring compensation (*Ausgleich*) and an adequate compensation payment (*Abfindung*) to the outside shareholders. Dragonfly's shareholders' meeting has approved the Agreement on 21 May 2014. The approving resolution of the general shareholders' meeting of Celesio shall be adopted at the general shareholders' meeting of Celesio on 15 July 2014. Pursuant to section 294 para. 2 Stock Corporation Act the Agreement will become effective upon its registration with the commercial register (*Handelsregister*) at Celesio's registered office.



**B. THE PARTIES**

**1 Celesio and Celesio Group**

**1.1 Overview**

Celesio is the management and holding company of Celesio Group, a leading international wholesaler and retailer of pharmaceutical products and provider of logistics and other services in the pharmaceutical and healthcare industries.

The Celesio Group is divided into two divisions, Consumer Solutions (pharmaceutical retail) and Pharmacy Solutions (pharmaceutical wholesale). With the Consumer Solutions segment Celesio operates in seven European countries, inter alia, with almost 2,200 retail pharmacies of its own. With the Pharmacy Solutions segment Celesio operates in ten European countries and Brazil and daily services from its 133 wholesale branches approximately 65,000 pharmacies and hospitals with medicines and medical products.

As of 31 December 2013, Celesio nationally and internationally held participations in approximately 360 companies and group-wide had approximately 38,900 employees.

In the fiscal year 2013, Celesio Group generated revenues of EUR 21,407.7 million and operating result (adjusted EBIT) of EUR 423.6 million. The largest proportion of the group revenues are generated in European markets.

**1.2 Corporate history and development**

Celesio's roots date back to the year 1835 when Franz Ludwig Gehe established in Dresden the chemist's and dye business Gehe & Comp. which was widened by a fabrication of chemical-pharmaceutical products in 1859.

From the year 1903, the business operated as a stock corporation under the company name Gehe & Co. AG, in 1904 the shares were admitted to trading on the Dresden stock exchange. Subsequently, the business administration, wholesale and pharmaceutical production at the foundation place in Dresden as well as the retail of chemist's and dye products across Germany were expanded.

In 1922, the first Stuttgart branch was established, followed by a Spanish subsidiary in 1934.

During the Second World War parts of the manufacturing plants and administration buildings were severely damaged or destroyed. After the division of Germany only the sites in the western zones, namely Sulzbach-Rosenberg, Kassel and Stuttgart remained in the company's possession and formed the basis for the recovery of the company. In 1948, the company's registered seat and head office were moved to Munich.

During the 1950s and 1960s, the company mainly expanded by establishing new sites and acquiring drug stores and trading enterprises in Germany.

In 1973, Haniel acquired the share majority and subsequently brought several pharmaceutical wholesale firms into the company.

In 1981, the head office was relocated from Munich to Stuttgart and the company's name was changed to GEHE Aktiengesellschaft. During the 1980s, the company expanded by the acquisition of a large number of subsidiaries.



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In the course of the German unification six new branches were established in the new German federal states, thereby increasing the total number of branches to 17.

In 1993, the pharmaceutical wholesale business was split out to become GEHE Pharma Handel GmbH, leaving GEHE AG as a holding company. The company further expanded and developed into a European company from the year 1991 and into an international group from the year 2009.

In 2003, the company's name was changed from GEHE AG into Celesio AG. The German subsidiary GEHE Pharma Handel GmbH continues to be named after the company's founder.

Today Celesio Group is one of the leading international trading and services companies in the pharmaceutical industry.

### 1.3 Legal form, registered office, fiscal year and corporate purpose

Celesio is a German stock corporation (*Aktiengesellschaft*) with its registered seat in Stuttgart, Germany, registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Stuttgart under number HRB 9517. Celesio's fiscal year is the calendar year. It is planned that Celesio's fiscal year will be changed to the effect that in future it will run from 1 April of each year until 31 March of the relevant following year. Said change is to be made with effect as of 1 April 2015. A corresponding resolution proposal is to be put forward to the Celesio shareholders at the same general shareholders' meeting at which the resolution on approval for the Agreement is also to be put forward.

The corporate purpose of Celesio comprises the manufacture and sale of all types of merchandise, particularly pharmaceutical products and any other objects necessary in the provision of health care. Celesio renders to the extent legally permissible any nature of services, particularly in the field of health care. In addition, a business objective of Celesio is to acquire and administer equity interests in companies, as well as to manage companies. The company is entitled to effect any and all transactions or other measures in connection with the above activities, as well as those which suitably facilitate such activities.

### 1.4 Share capital, shareholders and trading on the stock exchange

#### 1.4.1 Share capital

The share capital amounts to EUR 260,122,792.96, divided into 203,220,932 no-par-value registered ordinary voting shares ("**Celesio Shares**") with each share representing a proportionate amount of the share capital of EUR 1.28 per share.

#### 1.4.2 Authorised capital

##### (i) Authorised capital 2011

The management board is authorised, with the consent of the supervisory board, to increase the company's share capital on one or several occasions on or before 16 May 2016 by up to a total of EUR 65,318,400.00 by issuing new no-par-value registered shares against cash and/or non-cash contributions (Authorised Capital 2011). If the share capital is increased against cash contributions, the shareholders shall be granted pre-emptive subscription rights. Pursuant to section 186 para. 5 Stock Corporation Act, the new shares may also be purchased by banks, subject to the stipulation that they offer the shares to shareholders for subscription (indirect subscription right).



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The management board is authorised, with the consent of the supervisory board, to exclude shareholders' pre-emptive rights

- for fractional amounts;
- to the extent necessary in order to grant to the holders of bonds with conversion or option rights or conversion obligations issued by Celesio or subordinate Celesio Group companies pre-emptive rights to subscribe new shares to which they would be entitled upon the exercise of their conversion or option rights or upon satisfaction of a conversion obligation; and
- if the issue price of the new shares is not substantially lower than the quoted share price and if the shares issued without pre-emptive rights under section 186 para. 3 sentence 4 Stock Corporation Act represent no more than a total of 10% of the share capital neither at the date on which the authorisation enters into effect nor at the date it is exercised. The number of treasury shares sold shall count toward this limit if they are sold during the term of the authorization without shareholders' pre-emptive rights under section 186 para. 3 sentence 4 Stock Corporation Act. Furthermore, any shares that have been or will be issued in order to service bonds with conversion or option rights or a conversion obligation shall be counted towards this limit if the bonds were issued during the term of the authorization without pre-emptive rights in analogous application of section 186 para. 3 sentence 4 Stock Corporation Act.

In addition, the management board is authorised, with the consent of the supervisory board, to exclude shareholders' pre-emptive rights in the case of capital increases against non-cash contributions. The management board is further authorised, with the consent of the supervisory board, to stipulate the further details of the capital increase and its implementation, particularly with regard to share rights and the terms and conditions of the share issue.

### (ii) Authorised capital 2012

The management board is further authorised, with the consent of the supervisory board, to increase Celesio's share capital on one or several occasions on or before 15 May 2017 by up to a total of EUR 43,545,600.00 by issuing new no-par-value registered shares against cash contributions (Authorised Capital 2012). In the event of such an increase, the shareholders shall be granted pre-emptive subscription rights; however, the management board is authorised, with the consent of the supervisory board, to exclude shareholders' pre-emptive subscription rights for fractional amounts. Pursuant to section 186 para. 5 Stock Corporation Act, the new shares may also be purchased by banks, subject to the stipulation that they offer the shares to shareholders for subscription (indirect subscription right). The management board is also authorised, with the consent of the supervisory board, to stipulate the further details of the capital increase and its implementation, particularly with regard to share rights and the terms and conditions of the share issue.



1.4.3 Contingent capital

(i) Contingent capital 2009

The share capital of Celesio was contingently increased by up to EUR 21,772,800, divided into up to 17,010,000 no-par-value registered shares ("**Contingent Capital 2009**"). The contingent capital increase shall only be implemented to the extent that the holders of option or conversion rights or those obliged to exercise their option or implement the conversion in relation to options or convertible bonds which were issued or guaranteed by Celesio or a company in which Celesio either directly or indirectly holds a majority of votes and capital, on the basis of the authorisation resolved by the annual general meeting on 8 May 2009, exercise their option or conversion rights or, to the extent they are obliged to exercise their option or implement the conversion, actually fulfil their obligation to exercise such option or implement such conversion, and no cash compensation is granted or their claims are met by treasury shares or shares in another listed company.

The 2014 Bonds guaranteed on the basis of the above authorisation by Celesio were called-in pursuant to the notification of 11 April 2014 and the 20 2014 Bonds still outstanding on 12 May 2014 were then repaid on this day at their determined nominal amount (i.e. EUR 50,000 per 2014 Bond) plus interest incurred (i.e. EUR 1,001.71 per 2014 Bond).

At the time of signing of this Report, the Contingent Capital 2009 has been used to issue 16,110,932 new Celesio Shares upon the exercise of conversion rights under 6,980 2014 Bonds. As no further 2014 Bonds are outstanding, it is no longer possible to continue using the 2009 Contingent Capital still amounting to EUR 1,150,807.04 (i.e. 899,068 shares) by exercising conversion rights.

(ii) Contingent capital 2010

The share capital of Celesio was to be contingently increased by up to an additional EUR 21,772,800, divided into up to 17,010,000 no-par-value registered shares ("**Contingent Capital 2010**").

The contingent capital increase was only to be implemented to the extent that (i) the holders of option or conversion rights or those obliged to exercise their option or implement the conversion in relation to options or convertible bonds which were issued or guaranteed by Celesio or a company in which Celesio either directly or indirectly holds a majority of votes and capital, on the basis of the authorisation resolved by the annual general meeting on 6 May 2010, exercise their option or conversion rights or, to the extent they are obliged to exercise their option or implement the conversion, actually fulfil their obligation to exercise such option or implement such conversion and (ii) no cash compensation is granted or their claims are met by treasury shares or shares in another listed company.

Owing to conversion rights being exercised under 3,490 2018 Bonds, the Contingent Capital 2010 has been completely used to issue 17,010,000



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new Celesio Shares at the time of the signing of this Report. Hence, the Contingent Capital 2010 has been exhausted.

### (iii) Contingent capital 2013

The share capital of Celesio is conditionally increased by up to an additional EUR 21,772,800.00, divided in up to 17,010,000 no-par-value registered shares (Contingent Capital 2013). This conditional capital increase shall only be implemented to the extent that (i) the holders of option or conversion rights or those obliged to exercise their option or implement the conversion in relation to options or convertible bonds, which were issued or guaranteed by Celesio or a company in which Celesio either directly or indirectly holds a majority of votes and capital, on the basis of the authorisation resolved by the annual general meeting on 16 May 2013, exercise their option or conversion rights or, to the extent they are obliged to exercise their option or implement the conversion, actually fulfil their obligation to exercise such option or implement such conversion and (ii) no cash compensation is granted or their claims are met by treasury shares. The issue of new shares shall be implemented at an option or conversion price corresponding to the terms of the authorisation resolved by the annual general meeting on 16 May 2013. The new shares shall be entitled to participate in profits from the start of the fiscal year in which they are created as a result of the exercise of option or conversion rights or the implementation of option or conversion obligations. The management board is authorised, with the consent of the supervisory board, to determine the further details relating to the implementation of the conditional increase in capital.

### 1.4.4 Treasury shares

By resolution by the general shareholders' meeting on 16 May 2012, the management board has been authorised, with the consent of the supervisory board, to acquire treasury shares up to a total of 10% of the share capital existing at the date the resolution is adopted or – if this amount is less – the share capital existing at the date this authorisation is exercised. The shares acquired based on this authorisation – together with any other treasury shares of the Company which the Company had previously acquired and still owns or which are ascribed to it pursuant to sections 71d and 71e Stock Corporation Act – may at no time amount to more than 10% of the share capital. The management board is further authorised, with the consent of the supervisory board, to sell or to use otherwise any acquired treasury shares. The authorization to acquire, to sell or to use treasury shares may each be executed on one or several occasions, in whole or in part, pursuing one or several purposes and – to the extent permissible – also by subordinate group companies or third parties on behalf of Celesio or subordinate group companies. The further details of the acquisition of treasury shares as well as of their sale or other use are set out by the shareholders' resolution of 16 May 2012.

The authorization to buy back shares has not been used until the execution of this Report.



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### 1.4.5 Convertible Bonds

On the basis of the authorisations of the Celesio shareholders' meeting of 8 May 2009 and 6 May 2010, Celesio guaranteed the 2014 and 2018 Bonds issued by Celesio Finance B.V.

The terms and conditions of issue for the 2014 and 2018 Bonds stipulated a regular conversion price of EUR 22.49 and EUR 22.48 respectively for converting the bonds into Celesio Shares. It was stipulated that in the event of a change of control at Celesio, the conversion price shall be adjusted, pursuant to the terms and conditions of issue for the bonds, in line with a formula that shall be based on the time at which the change of control occurs in relation to the remaining term of the Bonds. As a consequence of a change of control each bond holder was able to demand (i) early redemption of some or all of its outstanding Bonds at par value in cash (plus accrued interest) with a notification period of at least 10 days within a certain period determined by Celesio and Celesio Finance B.V. to end within 40 to 60 days after the publication of a change of control (the end of this period the "**Control Record Date**"), or (ii) conversion of some or all of its outstanding Bonds into Celesio Shares at an adjusted conversion price on or before the Control Record Date.

On 28 January 2014, Celesio and Celesio Finance B.V. announced that a change of control pursuant to the terms and conditions of the Bonds had occurred as the shareholding of Haniel had exceeded 75% of the voting rights in Celesio and that, as a consequence of such change of control, holders of Bonds at their discretion were able to demand early redemption of their Bonds at par value in cash (plus accrued interest) by giving notice at the latest 10 days before the Control Record Date on 10 March 2014 or until and including the Control Record Date on 10 March 2014 were able to exercise conversion rights under their Bonds at adjusted conversion prices of EUR 21.66 for the 2014 Bonds and of EUR 19.05 for the 2018 Bonds, respectively.

On 6 February 2014, the Bidder acquired the Haniel Shareholding. By further change of control notices dated 12 February 2014 Celesio and Celesio Finance B.V. announced that, consequently, holders of Bonds at their discretion were able to demand early redemption of their Bonds at par value in cash (plus accrued interest) by giving notice at the latest 10 days before the new Control Record Date on 24 March 2014 or until and including the new Control Record Date on 24 March 2014 were able to exercise conversion rights under their Bonds at the previously adjusted conversion prices of EUR 21.66 for the 2014 Bonds and of EUR 19.05 for the 2018 Bonds, respectively.

Up to the new Control Record Date of 24 March 2014, 6,960 2014 Bonds have been converted at the adjusted conversion price of EUR 21.66 and Celesio has issued 16,066,471 new Celesio Shares upon exercise of the conversion rights under these 2014 Bonds.

Up to the new Control Record Date of 24 March 2014, 3,482 2018 Bonds have also been converted at the adjusted conversion price of EUR 19.05 and Celesio has issued 17,010,000 new Celesio Shares upon exercise of the conversion rights under these 2018 Bonds. To the extent that the Contingent Capital 2010 was no longer available for converted 2018 Bonds, the remaining conversion rights were settled in cash.



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On 11 April 2014, Celesio Finance B.V. announced that it exercises its right to call in all outstanding 2014 and 2018 Bonds pursuant to the terms and conditions of issue.

On 12 May 2014, the 20 2014 Bonds still outstanding on 12 May 2014 were then repaid at their determined nominal amount (i.e. EUR 50,000 per bond) plus interest incurred (i.e. EUR 1,001.71 per bond). Also on 12 May 2014, the 4 2018 Bonds still outstanding were then repaid at their determined nominal amount (i.e. EUR 100,000 per bond) plus interest incurred (i.e. EUR 239.73 per bond).

Accordingly, at the time of signing the present Report, there are no 2014 Bonds and no 2018 Bonds still outstanding.

### 1.4.6 Shareholders

At the date of the execution of this Report Dragonfly holds 154,277,886 Celesio Shares. This corresponds to a participation of 75.92% of the Celesio share capital which is divided into 203,220,932 shares (for further details please see Section B.3.9).

The remainder of 24.08% of Celesio Shares are held in free float.

### 1.4.7 Trading on the stock exchange

The Celesio Shares are traded on the regulated markets (*Regulierter Markt*) of the stock exchanges in Frankfurt, Berlin, Düsseldorf, Munich and Stuttgart and on the regulated unofficial market (*Freiverkehr*) of the stock exchanges in Hamburg and Hanover under ISIN DE000CLS1001, WKN CLS100 and ISIN DE000CLS1043, WKN CLS104. Celesio Shares are included in the MDAX stock index.

## 1.5 Management board and supervisory board of Celesio

### 1.5.1 Management board

Pursuant to section 4 para. 1 of the Articles of Association the management board, subject to precise determination by the supervisory board, consists of two or more persons.

The management board of Celesio is composed of the following persons:

- Dr. Marion Helmes  
Speaker of the management board and Chief Financial Officer (CFO)
- Stephan Borchert  
Member of the management board
- Martin Fisher  
Member of the management board

Dr. Marion Helmes has resigned from her office as member of the management board in agreement with the supervisory board with effect as of the end of 15 July 2014. Mr Martin Fisher has resigned from his office as member of the management board in agreement with the supervisory board with effect as of the end of 22 May 2014. In its meeting of 22 May 2014, the supervisory board has appointed Mr Marc Owen, to date president of McKesson Specialty Health and member of the



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McKesson Operating Team, and Mr Alain Vachon, to date Senior Vice President und Chief Financial Officer of McKesson U.S. Pharmaceutical, as new members of the management board with effect from 16 July 2014. Mr Marc Owen will be chairman of the management board and manage the Governance and the Operations function, Mr. Alain Vachon will manage the Finance function.

Pursuant to section 4 para. 3 of the Articles of Association Celesio is represented by two members of the management board or jointly by one member of the management board and an authorised signatory (*Prokurist*).

### 1.5.2 Supervisory board

Pursuant to section 5 para. 1 of the Articles of Association the supervisory board is composed in accordance with the applicable statutory provisions. Pursuant to section 96 para. 1 Stock Corporation Act in conjunction with section 7 para. 1 sentence 1 no. 1 German Co-Determination Act (*Mitbestimmungsgesetz*, “**Co-Determination Act**”) the supervisory board consists of twelve members, of whom six represent the shareholders and six represent the employees.

Shareholders’ representatives are:

- John H. Hammergren  
Chairman of the supervisory board
- Prof. Dr. Wilhelm Haarmann
- Paul C. Julian
- Pauline Lindwall
- W.M. Henning Rehder
- Patrick Schwarz-Schütte

The former supervisory board members Stephan Gemkow, Dr. Florian Funck and Hanspeter Spek have resigned from their offices with effect as of the end of 13 March 2014. By court order of 3 March 2014 the local court (*Amtsgericht*) of Stuttgart has appointed John H. Hammergren, Paul C. Julian and Prof. Dr. Wilhelm Haarmann as new members of the supervisory board with effect as of 14 March 2014. Mr John H. Hammergren was elected the new chairperson of the supervisory board by the supervisory board members.

Employees’ representatives are:

- Ihno Goldenstein  
Deputy Chairman of the supervisory board
- Klaus Borowicz
- Jörg Lauenroth-Mago
- Susan Naumann
- Ulrich Neumeister
- Gabriele Katharina Stall



## 1.6 Structure of the Celesio Group

### 1.6.1 Legal structure and significant participations

Celesio is the management and holding company of the Celesio Group which comprises approximately 360 subsidiaries and company participations worldwide. Celesio performs all typical administration and holding functions within Celesio Group and is in particular responsible for the strategic group development. Furthermore, the financing of working capital required by the operating companies is provided to a large extent via Celesio.

Celesio holds regional operating companies in the various countries in which Celesio Group operates. The major subsidiaries of Celesio as of the end of the fiscal year 2013 are listed in the following table:

<b>Company</b>	<b>Seat</b>
AAH Pharmaceuticals Limited	Coventry, Great Britain
GEHE Pharma Handel GmbH	Stuttgart, Germany
Herba Chemosan Apotheker-AG	Vienna, Austria
Lloyds Pharmacy Limited	Coventry, Great Britain
Norsk Medisinaldepot AS	Oslo, Norway
OCP Portugal, Produtos Farmacêuticos, S.A.	Maia, Portugal
OCP Répartition S.A.	Saint Ouen, France
Panpharma - Distribuidora Farmacêutica Ltda.	Goiânia, Brazil
Pharma Belgium S.A.	Brussels, Belgium
Tjellesen Max Jenne A/S	Rødovre, Denmark

A list of shareholdings of the Celesio Group as of 31 December 2013 pursuant to Section 313 para. 2 German Commercial Code is attached to this Report as **Annex 1**.

### 1.6.2 Management structure

As of 1 June 2012, the management and organizational structure of Celesio Group has been changed from a divisional structure based on business segments into a functional structure. It is divided into the following four functions:

- **Marketing and Sales**

The Marketing and Sales function develops and markets all product concepts and services offered by Celesio which are important for pharmacy customers meaning pharmaceutical service providers such as pharmacies, wholesalers and producers. Aside from consultancy and other services provided by pharmacies towards customers, this includes services facilitating the administration and delivering capacity of pharmacies. This applies to pharmacies owned by Celesio as well as to cooperation and partnership pharmacies as part of the European Pharmacy Network project. In addition, this division also covers the responsibility for real estate management.



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- Operations

The Operations function centralizes and develops all procurement and logistics activities as well as the quality management and IT which is the basis for the international business of Celesio. In this context Celesio's strategic priorities lie in supply chain optimization and top-in-class procurement, a program for the optimization of the procurement conditions.

- Finance

The Finance function centralizes global supporting services and processes. This includes corporate financing, accounting and tax, controlling and investor relations.

- Governance

The Governance function comprises all material management functions such as corporate development, legal, human resources, communication, internal auditing and external affairs.

In general, the management board jointly manages these functions. Pursuant to the internal allocation of responsibilities Dr. Marion Helmes manages the Finance and Governance functions, Stephan Borchert manages the Marketing and Sales function and Martin Fisher manages the Operations function. Below the management board, group directors manage the group functions within these functions which are shown in the following chart. The following chart reflects the management structure existing at the time of signing of this Report. Following the retirement of Mr Fisher from the management board, the Operations function will be temporarily managed by Dr. Helmes. Following the retirement of Dr. Helmes, Mr Owen will manage the Governance and the Operations function and Mr Vachon will manage the Finance function.



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<b>Governance</b> (Zentralfunktion)  Speaker of the Management Board (Vorstandssprecherin)  _____ Dr Marion Helmes	<b>Finance</b> (Finanzen)  Chief Financial Officer  _____ Dr Marion Helmes	<b>Operations</b> (Betrieb)  Chief Operating Officer  _____ Martin Fisher	<b>Marketing and Sales</b> (Marketing und Vertrieb)  Chief Marketing Officer  _____ Stephan Borchert
<b>Communications</b> (Kommunikation)	<b>Investor Relations</b> (Investor Relations)	<b>Procurement</b> (Einkauf)	<b>Marketing</b> (Marketing)
<b>Legal</b> (Recht)	<b>Finance and Treasury</b> (Unternehmensfinanzierung)	<b>Supply Chain Management</b> (Logistik)	<b>Sales</b> (Vertrieb)
<b>Audit</b> (Revision)	<b>Controlling</b> (Controlling)	<b>Quality Management</b> (Qualitätsmanagement)	<b>Real Estate Management</b> (Immobilienmanagement)
<b>Human Resources</b> (Personal)	<b>Accounting and Tax</b> (Rechnungswesen und Steuern)	<b>Information Technology</b> (Informationstechnologie)	
<b>Labour Relations Director</b> (Arbeitsdirektor)			
<b>Corporate Development/ Mergers and Acquisitions</b> (Unternehmensentwicklung/M&A)			
<b>External Affairs</b> (Außenbeziehungen)			

### 1.7 Business activities of the Celesio Group

Celesio Group is a leading international group of wholesalers and retailers of pharmaceutical products and provider of logistics and other services in the pharmaceutical and healthcare industries. Celesio Group engages in pharmaceutical wholesale and operates own retail pharmacies and maintains franchise-partnerships with owner-run pharmacies.

Celesio Group operates in 13 European countries and Brazil, in seven of which Celesio Group operates 2,180 own pharmacies (as at 31 March 2014).

The business activities of Celesio Group are divided into two divisions, Consumer Solutions primarily focusing on the end customer and pharmacies business and Pharmacy Solutions primarily focusing on the wholesale business.

#### 1.7.1 Consumer Solutions

Celesio Group's Consumer Solutions segment is aimed at patients and consumers and covers the entire logistics chain from purchasing merchandise through selling to end customers. This segment, which was previously operated under the name Patient and Consumer Solutions, has been known under its present name since the first quarter of 2013. Through more than 2,180 own retail and mail order pharmacies (as of 31 March 2014) this Celesio Group's business segment offers a wide range of non-prescription products and medical services aside from the traditional prescription pharmaceuticals. The portfolio of pharmaceutical services includes services such as blood pressure, cholesterol or diabetes testing as well as advice on medicines and is tailored to the demands prevailing in each country.

An important element of this business segment is the European Pharmacy Network (EPN) launched in 2012. This network integrates Celesio Group's own and part-



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nership pharmacies operating under the brand “Lloyd’s Pharmacy” and offering consultations and other services relating to health and wellbeing in the Celesio Group’s key business areas “Skin” and “Pain”.

In the fiscal year 2013, the Consumer Solutions segment generated revenues of EUR 3,411.9 million and an adjusted EBIT of EUR 206.9 million.

### 1.7.2 Pharmacy Solutions

Celesio Group’s Pharmacy Solutions segment focuses on the pharmaceutical wholesale business with external customers including partnership pharmacies, offering products and services to pharmacists. In this segment Celesio Group primarily procures the medicines and other medicinal products directly from the manufacturers and other suppliers which are delivered through Celesio Group’s regional wholesale branches to approximately 65,000 external pharmacy customers and partnership pharmacies every day. For this wholesale service Celesio Group receives a fee or specific margin, which on prescription pharmaceuticals in many countries is government-regulated. In this business segment Celesio Group offers logistic solutions which are increasingly tailored to specific needs, for example with regard to specialty medicines or optimised stock management of pharmacies and pursues an increasing integration of logistic processes throughout the supply chain (“end to end”).

In the fiscal year 2013, the Pharmacy Solutions segment generated revenues of EUR 17,996.0 million and an adjusted EBIT of EUR 307.3 million.

## 1.8 Development of the business and earnings situation of Celesio Group

### 1.8.1 Key numbers for the fiscal years 2011, 2012 and 2013

In the fiscal year 2012, Celesio initiated the disposal of operations which no longer belong to the key business of Celesio and which shall not be continued. The following chart therefore differs between continued and discontinued operations. The segment results are displayed on a consolidated basis. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as applied in the European Union. In addition, the rules of commercial law pursuant to Section 315a para. 1 German Commercial Code (*Handelsgesetzbuch*, “**Commercial Code**”) were also applied.

In million EUR	2011	2012	2013
<b>Earnings situation</b>			
Revenue from continued operations .....	22,152.9	22,270.8	21,407.7
Gross profit from continued operations (adjusted) ...	2,339.0	2,423.4	2,349.5
EBITDA from continued operations (adjusted) .....	554.9	579.6	548.6
EBIT from continued operations (adjusted) .....	429.8	444.8	423.6
Profit before tax from continued operations (adjusted) .....	319.9	333.1	285.7
Net profit from continued operations (adjusted) .....	200.6	214.2	186.4
Net loss from discontinued operations .....	-70.9	-258.6	-4.8
Net profit from continued and discontinued opera-	5.8	-149.0	166.4



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In million EUR	2011	2012	2013
tions .....			
<b>Cash flow</b>			
Net cash flow from operating activities .....	578.1	432.9	405.7
Net cash flow from investing activities .....	-165.8	-292.9	-58.2
Free cash flow .....	290.8	37.5	242.8
<b>Balance sheet</b>			
Balance sheet total .....	8,826.8	7,928.7	7,598.3
Non-current assets .....	3,633.8	3,179.9	3,037.8
Current assets .....	5,193.0	4,748.8	4,560.5
Liabilities .....	6,360.2	5,732.8	5,406.3
Equity .....	2,466.6	2,195.9	2,192.0
Equity ratio in % .....	27.9	27.7	28.8
<b>Employees</b>			
employees (31/12) .....	46,977	38,940	38,871
Full-time equivalents (31/12)	36,670	28,877	28,653
<b>Celesio Share</b>			
Total number of shares .....	170.1	170.1	170.1
Market capitalization (31/12) .....	2,082.0	2,218.9	3,912.3
Earnings per share (continued and discontinued operations, basic) .....	0.01	-0.92	0.94

### 1.8.2 Development of the business and earnings situation in fiscal year 2013

In the 2013 fiscal year, Celesio laid its focus on piloting the European Pharmacy Network (EPN) project (see Section B.1.7.1), amongst other things. After this project had been brought through to the pilot phase back in the last quarter of 2012 under the “Lloyds” brand name and initially implemented in December 2012 in four pilot pharmacies in Italy and Great Britain, it was then transferred to a total of over 100 pilot pharmacies in 2013. In addition, the Operational Excellence Program (OEP) was also progressed; this is a program, which was started in 2011, to increase Celesio’s efficiency and competitiveness, and which essentially involves group-wide pooling of procurement activities, the optimization of the international logistics network and the reduction of fixed costs.

In operational terms, business performance in the 2013 fiscal year was significantly impacted by a large degree of competitive pressure in Germany. In spite of the optimization measures being driven forward, the constant and intense price and discount competition overshadowed the earnings situation, meaning that its negative effects could not be fully compensated. This required the management board of Celesio to make an adjustment to the earnings forecast after the first half of the fiscal year. In addition, currency exchange rate effects put a heavier strain on revenue and earnings performance than expected. In the 2013 fiscal year, this was largely attributable to the Brazilian real and the British pound.



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In the Consumer Solutions segment, health policy measures, particularly in Great Britain and Ireland, and thus the associated cuts, placed a strain on the market in the 2013 fiscal year. On top of that, the practice of substituting originator products with cheaper generic drugs also continued. As a result, revenues for prescription-only products decreased. Equally, a trend emerged, especially in Great Britain, towards longer prescription cycles and thus larger packaging quantities. This resulted in less income from dispensing charges. In spite of the tense economic climate, operations in the Consumer Solutions segment performed well in the 2013 fiscal year. The revenues, adjusted for currency exchange rate and consolidation effects, showed an increase. While the earnings position could not escape the effects of continued spending cuts in many countries, cost reduction measures and an improved margin mix were able to partially compensate for that. Furthermore, earnings performance in Sweden, Italy and Belgium was positive.

In the 2013 fiscal year, performance in the Pharmacy Solutions segment was split into two contrasting tiers. The positive earnings performance in a number of countries, particularly in Great Britain, stood in contrast to the strains caused by the extremely competitive climate in Germany and by the negative currency exchange rate effects.

At EUR 21,407.7 million, the group revenues for the 2013 fiscal year were 3.9% below the figure from the previous year of EUR 22,270.8 million. The decrease in revenues is primarily attributable to both the deconsolidation of the Czech operations in November 2012 and of the Irish wholesale operations in May 2013, and to exchange rate effects. On top of that, the practice of substituting originator products with cheaper generic drugs also continued, which led to a drop in market performance, particularly in France. Adjusting for negative exchange rate effects, largely caused by the Brazilian real, but also by the British pound, revenues decreased by 1.6%. Additionally adjusting for changes in group composition and structure, revenues increased by 0.9% due to positive revenue performance primarily in Germany and to market share gains in a number of countries.

In the past fiscal year, Celesio again generated most of its group revenues in European markets. As in previous years, France accounted for the largest share of group revenues, with 29.1% (previous year: 28.9%). Great Britain made 21.2% (previous year: 20.6%) of the revenues, ahead of Germany, which weighed in with 19.5% (previous year: 18.1%).

### 1.8.3 Outlook

In spite of state regulation in a number of markets, which is already known, Celesio expects the Consumer Solutions segment to show operative earnings growth in 2014, compared to the past fiscal year. This will be primarily driven by the implementation of the new European Pharmacy Network under the brand "Lloyds". However, alongside that Celesio expects the euro to be stronger in the 2014 fiscal year, which, when converting the earnings generated in Great Britain, Norway and Sweden, will once again eat into a portion of the operative earnings growth. There is still a lack of clarity on the extent to which state regulation will put a strain on earnings.

In relation to the Pharmacy Solutions segment, the management board proceeds from the basis that there will be constant public spending cuts in the 2014 fiscal



year, which will have a negative impact on business performance in the Pharmacy Solutions segment. In addition, Celesio expects that the euro will be stronger in the 2014 fiscal year, which will then lead to negative effects on earnings when converting the earnings generated in Great Britain, Brazil, Norway and Denmark. Nevertheless, the management board is confident that a large part of these effects can be compensated for by continued optimization, particularly in the area of procurement. The largest source of uncertainty regarding the performance of this segment in 2014 will be the German business. Even though the intense price and discount competition continues to persist, Celesio is operating on the basis that rationality will return in the course of the year and this will lead to a significant slowdown of the discount war. The management board expects an earnings situation on the level of the previous year.

Overall, the management board of Celesio is conducting the business on the basis that revenues will slightly increase in the 2014 fiscal year at a percentage in the low single-digits and that Celesio will generate an adjusted EBIT that is slightly above that of the previous year.

### **1.9 Employees and employee representation**

#### **1.9.1 Employees**

As at 31 December 2013, Celesio Group had 38,871 employees worldwide, representing a figure of 28,653 full-time equivalents. Of these figures, 22,766 employees, representing a figure of 14,946 full-time equivalents, are apportioned to the Consumer Solutions segment, 15,787 employees, representing a figure of 13,432 full-time equivalents, are apportioned to Pharmacy Solutions and 318 employees, representing a figure of 275 full-time equivalents, are apportioned to Group Holding.

#### **1.9.2 Employee representation**

The supervisory board of Celesio consists of twelve members of whom six are elected by the employees pursuant to the provisions of the Co-Determination Act.

## **2 McKesson Corporation and the McKesson Group**

### **2.1 Overview**

McKesson delivers pharmaceuticals, medical supplies and healthcare information technology that make healthcare safer while reducing costs. It is currently ranked 14th on the Fortune 500 list of the largest US business enterprises. McKesson's business is structured in two segments<sup>1</sup>:

The McKesson Distribution Solutions segment distributes ethical and proprietary drugs and equipment and health and beauty care products throughout North America. This segment also includes the international pharmaceutical distribution and services business which reflects the results of operations from the acquisition of the majority holding in Celesio in February 2014. This segment provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, and practice management, technology, clinical support and

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<sup>1</sup> Unless otherwise indicated and with the exception of the financial numbers for the fiscal year 2013/2014 of McKesson shown under Section B.2.8., the description of the McKesson group under Section B.2. does not include the Celesio group which is described separately under Section B.1.



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business solutions to oncology and other specialty practices operating in the community setting. This segment also provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers through a network of distribution centres within the United States. In addition, this segment sells financial, operational and clinical solutions for pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services.

The McKesson Technology Solutions segment includes McKesson Health Solutions, which includes the InterQual® clinical criteria solution, claims payment solutions and network performance tools. This segment also delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment's customers include hospitals, physicians, homecare providers, retail pharmacies and payers primarily from North America.

McKesson Group's revenue for the fiscal year ended 31 March 2014 was approximately USD 137.6 billion and it had a net operating income of approximately USD 2.4 billion, with an annual profit from continuing operations before tax of approximately USD 2.1 billion.

The website of McKesson can be accessed at <http://www.mckesson.com>.

### **2.2 Corporate history and development**

John McKesson and Charles Olcott founded the company in 1833 in New York City to import and sell therapeutic drugs and chemicals wholesale. The company did a brisk business stocking the medicine chests aboard trade ships with pharmaceutical drugs imported from Europe as well as medicinal herbs, roots and spices from Pennsylvania Shaker colonies. In 1853, the company was renamed McKesson & Robbins, after an employee who became a partner in the firm, Daniel Robbins. By then, the company was distributing pharmaceutical products by covered wagon to 17 states and territories across America, from Vermont to California. In 1855, McKesson & Robbins became one of the first wholesale firms to manufacture drugs. The company's fluid extracts, tinctures, pills and tablets soon became known all over the world, and McKesson & Robbins won medals for its pioneering work.

In the early 1900s, McKesson & Robbins persuaded several well-established wholesalers to become its subsidiaries, forming a national drug wholesaling company and becoming the leading distributor of pharmaceutical drug products in the United States. This move also shifted the company's focus to distribution for other kinds of products beyond health care. During the 1960s, McKesson & Robbins continued its focus on distribution by merging with Foremost Dairies of San Francisco to form Foremost-McKesson Inc. The new company became the largest U.S. distributor of pharmaceutical drugs, alcoholic beverages and chemicals, the largest supplier of whey by-products, the largest producer of processed water, a leader in the fresh dairy products field and a multiregional distributor of hospital and laboratory supplies and equipment.

In the 1980s and 1990s, McKesson decided to focus more on health care and divested its unrelated businesses. The company acquired General Medical, the largest distributor of medical-surgical supplies. The company also acquired HBO & Company and operated for a time as McKesson HBOC, the world's largest health care services company. Today, McKesson delivers vital medicines, medical supplies and health care information technology solutions that touch the lives of patients in every health care setting. McKesson is com-



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mitted to creating a health care system that leads to lower costs, fewer mistakes, higher quality and better health for all.

### 2.3 Legal form, registered office, fiscal year and corporate purpose

McKesson Corporation is a stock corporation incorporated under the laws of the federal state of Delaware, United States, with its registered seat in San Francisco, California, United States, and is the ultimate holding company of a group of companies comprising McKesson and its subsidiaries within the meaning of section 15 et seq. Stock Corporation Act, which are active in the business of pharmaceutical wholesale, medical supplies and healthcare information technology.

McKesson's fiscal year begins on 1 April and ends on 31 March.

The corporate purpose of McKesson is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the state of Delaware, United States.

### 2.4 Capital, shareholders and trading on the stock exchange

#### 2.4.1 Share Capital

On 31 March 2014, McKesson's outstanding registered share par value amounted to USD 2,304,349.90 and was divided into 230,434,990 common stock outstanding ("**McKesson Shares**").

#### 2.4.2 Shareholders and Treasury Shares

On 31 March 2014, McKesson held 150,374,510 treasury shares. The outstanding McKesson Shares are held in free float.

#### 2.4.3 Trading on the stock exchange

The McKesson Shares are listed on the New York Stock Exchange under ISIN US58155Q1031 and with the ticker symbol MCK. As of 31 March 2014, the market capitalization of McKesson was approximately USD 40.7 billion.

### 2.5 Corporate bodies

#### 2.5.1 The Board of Directors of McKesson:

Pursuant to article 3 section 1 of the amended and restated by-laws of McKesson Corporation, as amended on 31 July 2013 ("**McKesson By-laws**") the property, affairs and business of McKesson are managed under the direction of its Board of Directors, except such as are by law or by McKesson's Certificate of Incorporation or by the McKesson By-Laws expressly conferred upon or reserved to the McKesson shareholders. Pursuant to article 3 section 2 para. (a) of the McKesson By-laws the number of directors shall be at least 3 and no more than 15. The exact number directors is to be fixed by resolution of the Board of Directors. The members of the Board of Directors are elected by the McKesson shareholders (article 2 section 10 para. (a) of the McKesson By-laws).

At the time of signing of this Report the McKesson Board of Directors consists of the following 10 members:

- John H. Hammergren, Chairman of the Board, President and Chief Executive Officer



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- Andy D. Bryant, Non-executive Director
- Wayne A. Budd, Non-executive Director
- Alton F. Irby III, Non-executive Director
- M. Christine Jacobs, Non-executive Director
- Marie L. Knowles, Non-executive Director
- David M. Lawrence, M.D., Non-executive Director
- Edward A. Mueller, Non-executive Director
- Jane E. Shaw, Ph.D., Non-executive Director
- N. Anthony Coles, M.D., Non-executive Director

### 2.5.2 The Executive Committee of McKesson

Pursuant to article 3 section 11 para. (a) of the McKesson By-laws the Board of Directors may by resolution passed by a majority of a quorum of the Board, appoint an Executive Committee of not less than three members. The Executive Committee, to the extent permitted by law, shall have and may exercise when the Board of Directors is not in session all powers of the Board of Directors in the management of the business and affairs of McKesson. The members of the Executive Committee are the Executive Directors of McKesson.

At the time of signing of this Report the McKesson Executive Committee consists of the following 8 members:

- John H. Hammergren, Chairman of the Board, President and Chief Executive Officer
- James Beer, Executive Vice President and Chief Financial Officer
- Patrick J. Blake, Executive Vice President and Group President
- Jorge L. Figueredo, Executive Vice President, Human Resources
- Paul C. Julian, Executive Vice President and Group President
- Laureen E. Seeger, Executive Vice President, General Counsel and Chief Compliance Officer
- Randall N. Spratt, Executive Vice President, Chief Technology Officer and Chief Information Officer
- Brian S. Tyler, Executive Vice President, Corporate Strategy and Business Development

## 2.6 Structure of the McKesson Group

### 2.6.1 Operative and legal structure

In addition to its participation in Celesio, McKesson, in its function as the parent company of the McKesson Group, indirectly and directly holds participations in over 230 wholly owned subsidiaries. The majority of these companies is incorporated in the United States.



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The McKesson Group is organized into two segments: Distribution Solutions and Technology Solutions. The activities of McKesson Group's Distribution Solutions segment includes the delivery of pharmaceuticals and medical-surgical supplies to retail pharmacies and institutional providers. The activities of McKesson Group's Technology Solutions segment includes the provision of software, services and consulting to hospitals, physicians, homecare providers, retail pharmacies and payers.

### 2.6.2 Significant participations

McKesson fully consolidated a total of 249 participations in the United States and other countries, excluding Celesio and Celesio's subsidiaries, in its consolidated financial statements as of 31 March 2014. Aside from this, reference is made to the list of shareholdings of McKesson as of 31 March 2014 contained in the financial report of McKesson for the fiscal year 2013/2014.

## 2.7 Business activities of the McKesson Group

The McKesson Group is made up of many businesses, all serving the health care industry. They fall into one of two primary categories: distribution solutions or technology solutions.

### 2.7.1 Distribution Solutions

McKesson Distribution Solutions consists of the following businesses: U.S. Pharmaceutical Distribution, McKesson Specialty Health, McKesson Canada, McKesson Pharmacy Systems and Automation as well as Medical-Surgical Distribution and Services.

#### (i) U.S. Pharmaceutical Distribution

McKesson U.S. Pharmaceutical Distribution supplies pharmaceuticals and other healthcare-related products to customers throughout the United States in three primary customer channels: (1) retail national account, including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers; (2) independent retail pharmacies; and (3) institutional healthcare providers, including hospitals, health systems, integrated delivery networks, clinics and alternate site providers. This business sources materials and products from a wide-array of different suppliers, including the production of certain generic pharmaceutical drugs produced through a contract-manufacturing program.

McKesson U.S. Pharmaceutical Distribution operates and serves thousands of customer locations through a network of 29 distribution centres, serving all 50 U.S. states and Puerto Rico. To enhance safety and reliability and to provide best product availability for customers, McKesson uses the electronic order processing system Acumax® Plus, an award-winning technology that integrates and tracks all internal inventory-related functions. To maximise distribution efficiency and effectiveness McKesson follows a process optimization strategy referred to as Six Sigma methodology and continues to work with its customers on solutions to help achieve greater consistency and accuracy.



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### (ii) McKesson Specialty Health

McKesson Specialty Health provides solutions for oncology and other specialty practices operating in communities across the U.S., as well as for pharmaceutical and biotech suppliers who manufacture specialty drugs (i.e., in particular drugs indicated for diseases requiring complex treatment regimens and dictating special handling, storage and delivery requirements) and vaccines, payers and hospitals.

McKesson provides direct-to-physician specialty distribution services, ensuring supply chain safety and delivery of specialty drugs in manufacturer recommended conditions. McKesson offers the iKnowMed<sup>SM</sup> and iKnowMed Generation 2 Electronic Health Record, Lynx<sup>®</sup> integrated technologies, and other practice management tools, all of which strive to assist community practices in improving efficiencies in workflow with technology, resulting in better patient care. McKesson works with manufacturers across all phases of the product development and commercialization lifecycle, including clinical research, to optimize delivery of complex medication to patients. Through custom distribution and safety programs, McKesson helps to support appropriate product utilization, as well as the development and management of Risk Evaluation Mitigation Strategies, reimbursement, healthcare informatics and patient access programs, and to enable manufacturers to deliver cost effective patient access to needed therapies.

### (iii) McKesson Canada

McKesson Canada is one of the largest pharmaceutical distributors in Canada. Through its network of 16 distribution centres, McKesson Canada provides logistics and distribution to more than 800 manufacturers – delivering their products to retail pharmacies, hospitals, long-term care centres, clinics and institutions throughout Canada. Beyond pharmaceutical distribution, logistics and order fulfilment, McKesson Canada also provides automation solutions to its retail and hospital customers, dispensing millions of doses each year. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for patients.

### (iv) McKesson Pharmacy Systems and Automation

McKesson Pharmacy Systems and Automation supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. To provide its customers with a pharmacy management system that best suits the particular needs of their business operation, McKesson offers a range of pharmacy management products which allow large retail chain, hospital outpatient pharmacies as well as small and independent pharmacies to meet the high demand for prescriptions while maximizing profits and optimizing operations.



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### (v) Medical-Surgical Distribution and Services

McKesson Medical-Surgical Distribution and Services is a provider of medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians' offices, surgery centres, extended care facilities, homecare and occupational health sites through a network of distribution centres within the U.S. Through a variety of products and services geared towards the supply chain, McKesson is focused on helping its customers to operate more efficiently while providing one of the industry's most extensive product offerings, including McKesson's own private label line.

### 2.7.2 Technology Solutions

McKesson Technology Solutions provides a comprehensive portfolio of software and services to help healthcare organizations improve quality and patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. This segment also includes the InterQual® clinical criteria solution, claims payment processing solutions and network performance tools. The Technology Solutions segment markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payers. This segment consists of the following businesses: McKesson Health Solutions, Connected Care and Analytics, Imaging and Workflow Solutions, Business Performance Services and Enterprise Information Solutions.

#### (i) McKesson Health Solutions

McKesson Health Solutions provides services and software products designed to manage the cost and quality of care for payers, providers, hospitals and government organizations. Solutions include the InterQual® Criteria for clinical decision support and utilization management; claims payment solutions to facilitate accurate and efficient medical claim payments; business intelligence tools for measuring, reporting and improving clinical and financial performance; network management tools to enable health plans to transform the performance of their networks; and RelayHealth® financial solutions to facilitate communication between healthcare providers and patients, and to aggregate data for claims management and trend analysis, and optimize revenue cycle management processes.

#### (ii) Connected Care and Analytics

McKesson Connected Care and Analytics provides health information exchange solutions that streamline clinical and administrative communication between patients, providers, payers, pharmacies, manufacturers, government entities and financial institutions. McKesson provides disease management programs to improve the health status and health outcomes of patients with chronic conditions, nurse advice services to provide health information and recommend appropriate levels of care, and clinical and analytical software to support utilization, case and disease management workflows and a comprehensive solution for homecare. McKesson also provides performance management solutions to enhance an organization's ability to plan and optimize quality care delivery, as well as enterprise visibility and



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performance analytics to enable providers to manage capacity, outcomes, productivity and patient flow.

(iii) Imaging and Workflow Solutions

McKesson Imaging and Workflow Solutions offers medical imaging and information management systems for healthcare enterprises, including a picture archiving communications system, a radiology information system and a comprehensive cardiovascular information system. The enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

(iv) Business Performance Services

McKesson Business Performance Services offers full and partial revenue cycle outsourcing, remote hosting and business office administration to help providers focus their resources on delivering healthcare while managing their revenue cycle operations and information technology through a comprehensive suite of managed services. McKesson also provides a complete solution for physician practices of all sizes that includes software, revenue cycle outsourcing and connectivity services and offers a full suite of physician and hospital consulting services.

(v) Enterprise Information Solutions

McKesson Enterprise Information Solutions provides hospitals and health systems with comprehensive clinical and financial information systems designed to improve the safety and quality of patient care and to improve clinical, financial and operational performance. McKesson offers management, billing and claim processing solutions to help organizations to forecast financial responsibility for constituents before and during care, allowing providers to efficiently collect their reimbursements, as well as workflow management solutions and a supply chain management solution. A wide array of services is available, including consultancy services, technical and education services relating to all products in the Technology Solutions segment, as well as infrastructure and hosting services.

### 2.8 Development of the business and earnings situation of McKesson Group

During the fiscal year ended on 31 March 2014, McKesson Group generated revenues amounting to USD 137.6 billion, an operating income of USD 2.4 billion and an annual profit from continuing operations before tax of USD 2.1 billion.

The following table provides an overview of the main financial numbers for the fiscal years ended on 31 March 2012, 2013 and 2014 of McKesson. The information for the fiscal years 2011/2012, 2012/2013 and 2013/2014 has been taken from the audited consolidated financial statements of McKesson for the respective fiscal years ended 31 March 2012, 2013 (both as recast to reflect discontinued operations) and 2014. These consolidated financial statements were prepared in accordance with the U.S. Generally Accepted Accounting Principles ("**U.S. GAAP**").



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Aside from this, reference is made to the information on the development of the business and the earnings situation described in the published annual reports of McKesson for the fiscal years 2011/2012, 2012/2013 and 2013/2014.

Unless stated otherwise, the values have been rounded in accordance with commercial principles.

### 2.8.1 Key numbers for the fiscal years 2011/2012, 2012/2013 and 2013/2014

<b>McKesson in USD million</b>	<b>2011/2012*</b>	<b>2012/2013*</b>	<b>2013/2014</b>
Revenue .....	122,321	122,069	137,609
Gross profit .....	6,402	6,848	8,309
Operating income.....	2,124	2,325	2,367
Working Capital .....	1,917	1,813	3,072
Profit from continuing operations before tax .....	1,893	1,928	2,096
Operating cash flow .....	2,950	2,483	3,136
Net income.....	1,403	1,338	1,263
Free cash flow.....	2,552	2,098	2,721
EBITDA.....	2,790	2,689	3,169
Dividends declared.....	202	192	214
Cash dividends paid.....	195	194	214
Total dividend per share in USD.....	0.80	0.80	0.92
Total assets .....	33,093	34,786	51,759
Total equity .....	6,831	7,070	8,522
Debt to capital ratio .....	36.8%	40.8%	55.7%
Net debt .....	831	2,417	6,526
McKesson Employees (as of 31 March) .....	37,700	43,500	42,800

\* As recast (unaudited)

### 2.8.2 Development of the business in fiscal year 2012/2013 and 2013/2014

#### (i) Earnings

<b>McKesson in USD million</b>	<b>2012/2013*</b>	<b>2013/2014</b>	<b>Changes</b>
Revenue.....	122,069	137,609	13%
EBITDA .....	2,689	3,169	18%
Profit from continuing operations before tax...	1,928	2,096	9%
Net income .....	1,338	1,263	(6)%

\* As recast (unaudited)



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### (ii) Financial position

#### (a) Assets (main line items)

<b>McKesson in USD million</b>	<b>31 Mar 2012</b>	<b>31 Mar 2013</b>	<b>31 Mar 2014</b>
Goodwill .....	5,032	6,405	9,927
Other intangible assets .....	1,750	2,270	5,022
Property, plant and equipment .....	1,043	1,321	2,222
Equity investments .....	189	34	203
<b>Total assets .....</b>	<b>33,093</b>	<b>34,786</b>	<b>51,759</b>

#### (b) Equity and liabilities (main line items)

<b>McKesson in USD million</b>	<b>31 Mar 2012</b>	<b>31 Mar 2013</b>	<b>31 Mar 2014</b>
Total equity .....	6,831	7,070	8,522
Current liabilities .....	21,686	21,357	29,501
Long-term debt .....	3,072	4,521	8,949
<b>Total equity and liabilities .....</b>	<b>33,093</b>	<b>34,786</b>	<b>51,759</b>

The consolidated total assets have been increased as of 31 March 2014 in comparison with 31 March 2013 by approximately 49%.

### 2.8.3 Key numbers by segments

The business segments of McKesson Group are primarily conducted on a product basis. On this basis, selected financial numbers are presented below. McKesson Group operates in two main segments: The McKesson Distribution Solutions segment, which distributes ethical and proprietary drugs, medical-surgical supplies and equipment and health and beauty care products throughout North America, and the McKesson Technology Solutions segment, which delivers enterprise-wide clinical, patient care, financial, supply chain and strategic management software solutions.

#### (i) McKesson Distribution Solutions

<b>In USD million</b>	<b>2012/2013*</b>	<b>2013/2014</b>	<b>Changes</b>
Revenue .....	119,046	134,426	13%
EBITDA .....	2,532	2,975	17%

\* As recast (unaudited)

#### (ii) McKesson Technology Solutions

<b>In USD million</b>	<b>2012/2013*</b>	<b>2013/2014</b>	<b>Changes</b>
Revenue .....	3,023	3,183	5%
EBITDA .....	452	523	16%

\* As recast (unaudited)



### 2.9 Employees

On 31 March 2014, McKesson Group, excluding Celesio and Celesio's subsidiaries, employed approximately 42,800 persons compared to 43,500 and 37,700 employees on 31 March 2013 and 31 March 2012. The vast majority of McKesson's employees was located in the United States.

## 3 Dragonfly

### 3.1 Overview

Dragonfly is an indirect subsidiary of McKesson. The registered share capital of Dragonfly is EUR 95,775.00 and is divided into 95,775 ordinary registered shares without par-value (*Stammaktien*).

### 3.2 Legal form, registered office, fiscal year and corporate purpose

Dragonfly is a partnership limited by shares (*Kommanditgesellschaft auf Aktien*) having its registered seat in Frankfurt am Main, Germany, registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Frankfurt am Main under HRB 97726.

Dragonfly's fiscal year is the calendar year. It is planned that Dragonfly's fiscal year will – corresponding to the planned change of Celesio's fiscal year – be changed to the effect that in future it will run from 1 April of each year until 31 March of the relevant following year. Said change is to be made with effect as of 1 April 2015.

The business objective of Dragonfly is the administration of own assets as well as acquisition and holding of participations. Dragonfly is entitled to enter into any and all business transactions and to take any and all measures that are deemed necessary or useful to further facilitate the corporate objective of Dragonfly and may, in particular, participate in other undertakings of the same or a related nature, take over the management and/or the representation of such undertakings, transfer company divisions, including major company divisions, to undertakings in which Dragonfly holds at least a majority of the voting capital and/or a controlling interest, and establish branch offices in Germany and abroad.

### 3.3 Limited partner's capital contribution and general partner

Cougar I UK Limited, a limited liability company established under the laws of England with corporate seat in London, London, United Kingdom, is Dragonfly's sole limited shareholder (*Kommanditaktionär*) and holds all 95,775 ordinary registered shares without par-value (*Stammaktien*). The sole general partner of Dragonfly is Dragonfly Verwaltungs GmbH, a limited liability company (*Gesellschaft mit beschränkter Haftung*) with registered seat in Frankfurt am Main, Germany, registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Frankfurt under HRB 97497.

### 3.4 Corporate bodies and representation

#### 3.4.1 Managing Directors

Pursuant to Article 6 para. 1 sentence 1 of the articles of association of Dragonfly ("**Dragonfly Articles of Association**"), Dragonfly shall be represented by the general partner of Dragonfly Verwaltungs GmbH, who, pursuant to Article 6 para. 2 sentence 1 of the Dragonfly Articles of Association shall also be responsible for the management of Dragonfly. At the time of signing of this Report, the managing directors of Dragonfly Verwaltungs GmbH are the following individuals:



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- Roger Wade Estey
- Willie C. Bogan

Pursuant to Section 7 para. 1 sentence 1 and 2 of the articles of association of Dragonfly Verwaltungs GmbH ("**Dragonfly Verwaltungs GmbH Articles of Association**"), Dragonfly Verwaltungs GmbH is represented by its managing director in case only one is appointed and if at least two managing directors are appointed, either by two managing directors jointly or one managing director jointly with a holder of registered signing authority (*Prokurist*). Pursuant to Section 7 para. 2 sentence 2 of the Dragonfly Verwaltungs GmbH Articles of Association, the shareholders' meeting may determine that certain managing directors are authorised to solely represent Dragonfly Verwaltungs GmbH. The shareholders' meeting of Dragonfly Verwaltungs GmbH has made use of this authority with regard to the managing directors Roger Wade Estey and Willie C. Bogan.

### 3.4.2 Supervisory board

Pursuant to sections 278 para. 2 Stock Corporation Act, 96 para. 1 Stock Corporation Act, Section 7 para. 1 of the Dragonfly Articles of Association, the supervisory board of Dragonfly is composed of three members, all of which are elected by the shareholders of Dragonfly. At the time of signing of this Report, the supervisory board of Dragonfly is composed of the following members:

- Paul A. Smith  
Chairman
- Anne Shuford  
Vice-Chairman
- Cynthia L. Misko

### 3.5 Business activities and participations

Prior to 24 October 2013, Dragonfly had not taken up any business activity which went beyond the management of the company's own assets. On 24 October 2013, Dragonfly announced its decision to make the Initial Takeover Offer and the Bond Offer and had taken all necessary and useful measures in relation thereto. With the initial share offer document and bond offers document, both dated 4 December 2013, Dragonfly has published the Initial Takeover Offer and the Bond Offers. Following the end of the regular acceptance period on 9 January 2014, Dragonfly had access to approx. 72.3% of the Celesio Shares on a fully diluted basis and therefore the offer condition of a participation in Celesio of at least 75% on a fully diluted basis was not met. As a consequence the Initial Takeover Offer and the Bond Offers were not consummated.

Since the closing of the Haniel Share Purchase Agreement on 6 February 2014, Dragonfly carries out the tasks of an intermediate holding company in the McKesson Group.

Dragonfly has converted 5,038 2014 Bonds and 2,257 2018 Bonds into a total of 23,073,300 Celesio Shares. In addition, on 28 February 2014 Dragonfly launched the Takeover Offer, which was settled on 30 April 2014. At the time of signing of this Report, Dragonfly holds 154,277,886 Celesio Shares, corresponding to a shareholding of 75.92% of the share capital of Celesio which is divided into 203.220.932 shares and the same quantity of voting rights therein.



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At the time of signing this Report, Dragonfly also holds all shares in A.L.I. Technologies (Deutschland) GmbH with its registered office in Haar, Germany and registered in the commercial register (*Handelsregister*) at the Local Court (*Amtsgericht*) of Munich under the commercial register number HRB 191788.

### 3.6 Earnings situation and financial position of Dragonfly

The following tables provide an overview of the financial situation of Dragonfly as of 31 December 2013 (i.e. before settlement of the amended Haniel Share Purchase Agreement and the Takeover Offer). The information has been taken from the annual financial statements of Dragonfly. These annual financial statements were prepared in accordance with the provisions in the Commercial Code for small corporations using the simplifications stipulated in section 288 Commercial Code.

#### 3.6.1 Assets

<b>Dragonfly (in EUR)</b>	<b>31 Dec 2013</b>
Cash and cash equivalents .....	50,000.00
Deficit not covered by equity .....	202,258.00
<b>Total assets .....</b>	<b>252,258.00</b>

#### 3.6.2 Equity and liabilities

<b>Dragonfly (in EUR)</b>	<b>31 Dec 2013</b>
Shareholders' capital .....	50,000.00
Loss of the year .....	252,258.00
<b>Subtotal .....</b>	<b>(202,258.00)</b>
Transfer to the asset side of the balance sheet .....	202,258.00
Other accruals .....	252,258.00
Other liabilities .....	
<b>Total equity and liabilities .....</b>	<b>252,258.00</b>

In the meantime the deficit as of 31 December 2013 has been balanced and Dragonfly has been furnished with significant equity contributions. With regards to the financial funding of Dragonfly reference is made to Section B.3.8 and the comfort letter which is attached to this Report together with the Agreement as **Annex 2**.

After the Agreement becomes effective, Dragonfly will primarily generate revenues and earnings from the transfer of profits of Celesio.

### 3.7 Employees and employee representation

Dragonfly does not have any employees. No employee representation exists.

### 3.8 Financial funding of Dragonfly for fulfilment of its obligations under the domination and profit and loss transfer agreement

Prior to entering into the Agreement, the management board of Celesio and the management of Dragonfly examined whether Dragonfly would be able to fulfil its payment obligations under the Agreement. Based on the current economic, financial and contractual situation at Dragonfly, the management board of Celesio and the management of Dragonfly



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have concluded that Dragonfly will be able to fulfil its obligations resulting under the Agreement.

The management board of Celesio and the management of Dragonfly have based this conclusion on the following aspects:

For the future payment obligations of Dragonfly after the obligation to transfer profit under the Agreement takes effect (see on this point, Section D.1.2), the profit of Celesio will be available, whereas Dragonfly will be required under section 302 Stock Corporation Act to compensate for any annual loss of Celesio arising during the term of the contract. There are no indications for any threatening loss situation at Celesio in its current fiscal year. Celesio generated an annual profit of EUR 166.4 million in fiscal year ended on 31 December 2013.

Furthermore, without joining the Agreement as a contracting party, McKesson has issued a comfort letter to Celesio which is attached together with the Agreement to this Report as **Annex 2**.

McKesson undertakes in the comfort letter to ensure that Dragonfly is financed in such a manner that Dragonfly will always be able to fulfil all its liabilities under or in connection with the Agreement completely and in a timely manner. This in particular applies to the obligation to compensate for any annual loss according to section 302 Stock Corporation Act. In addition, McKesson undertakes without limitation and irrevocably vis-à-vis the outside shareholders of Celesio, in case Dragonfly is not able to fulfil all its liabilities under or in connection with the Agreement completely and in a timely manner and McKesson does not comply with its aforesaid obligation to equip Dragonfly, that McKesson fulfils all of Dragonfly's obligations towards them arising from or in connection with the Agreement, in particular regarding the recurring compensation (*Ausgleich*) and the compensation (*Abfindung*) completely and in time. To this extent the outside shareholders of Celesio have an own claim according to section 328 para. 1 German Civil Code (*Bürgerliches Gesetzbuch, BGB*) directed at payment to Dragonfly (see Section D.1.7).

### 3.9 Takeover Offer and additional purchases by Dragonfly

The Initial Takeover Offer and Bond Offers published on 5 December 2013 did not meet the offer conditions and, therefore, were not consummated. Following BaFin's approval on 23 January 2014 pursuant to section 26 para. 2 German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz, "Takeover Act"*) for Dragonfly to issue another Takeover Offer prior to expiration of the one-year blocking period, Dragonfly published its intention to make the Takeover Offer to the Celesio Shareholders on 23 January 2014.

#### 3.9.1 Takeover Offer and additional purchases of shares

On 28 February 2014, Dragonfly published its Takeover Offer to the Celesio Shareholders for the acquisition of their Celesio Shares for an offer price of EUR 23.50 per Celesio Share. The Takeover Offer was not subject to any offer conditions.

In their reasoned statement as of 13 March 2014 management board and supervisory board of Celesio have stated that, on an overall view, they deem the consideration offered by the bidder to be fair and reasonable. The acceptance period (section 16 para. 1 sentence 1 Takeover Act) for the Takeover Offer ended on 2 April 2014 at midnight (24:00). The additional acceptance period (section 16 para. 2



sentence 1 Takeover Act) commenced on 8 April 2014 and ended on 22 April 2014 at midnight (24:00). Prior to the expiration of the additional acceptance period the Takeover Offer had been accepted for a total of 1,946,081 Celesio Shares, which corresponds to 0.96% of the voting rights and the share capital of Celesio.

In relation to those 972,040 Celesio Shares, corresponding to 0.48% of the voting rights in and the share capital of Celesio, for which McKesson International Holdings IV S.à r.l. has accepted the Takeover Offer, Dragonfly entered into an agreement on post-formation (*Nachgründungsvertrag*) with McKesson International Holdings IV S.à r.l. on 21 March 2014 pursuant to which Dragonfly and McKesson International Holdings IV S.à r.l. agreed that McKesson International Holdings IV S.à r.l. accepts the Takeover Offer for the 972,040 Celesio Shares held by it and sells these Celesio Shares to Dragonfly in accordance with the provisions of the tender offer document dated 28 February 2014. The shareholders' meeting of Dragonfly has approved this agreement on post-formation by resolution dated 7 May 2014. The agreement on post-formation has been registered in the commercial register of the local court of Frankfurt am Main on 16 May 2014 and the sale and transfer of the 972,040 Celesio Shares to Dragonfly has thereby finally become effective.

Together with voting rights from Celesio Shares previously held by companies of the McKesson Group, at the time of signing of this Report McKesson indirectly holds Celesio Shares amounting to 75.92% of Celesio's registered capital which is divided into 203,220,932 shares or 154,277,886 Celesio Shares, of which Dragonfly holds 75.92% or 154,277,886 Celesio Shares.

### **3.9.2 Possible purchases outside of the cash buyout offer**

Dragonfly reserves the right to purchase at any time additional Celesio Shares and Bonds directly or indirectly on or off the stock exchange outside of the offer for compensation provided for in clause 5 of the Agreement to the extent legally permitted.

## **C. REASONS FOR ENTERING INTO THE DOMINATION AND PROFIT AND LOSS TRANSFER AGREEMENT**

### **1 Economic and legal reasons**

#### **1.1 Aiming to create an integrated health care company**

The Agreement is essential to create an integrated health care group as it will enable closer cooperation between Celesio and McKesson. The instruction right under the Agreement will allow the top management of the McKesson group to prevail vis-à-vis Celesio by establishing a single management in the group interest, and to create consistent organizational structures and strategies. This in turn is a key requirement for the planned collaboration between McKesson and Celesio, in particular in the areas of procurement and distribution, the planned integration of IT systems and a methodical exchange of know-how and business secrets.

Both companies anticipate synergies primarily through joint global procurement opportunities and certain tax reductions. The companies believe that only a small part of these syn-



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ergies and reductions may be realized through the structure of a *de facto* group. Rather, the conclusion of a domination and profit and loss transfer agreement is critical because the joint global procurement opportunities in particular cannot be realized only through economies of scale.

In order to achieve the procurement synergies, McKesson and Celesio must behave as a single unit and must demonstrate to pharmaceutical manufacturers that various aspects of the two businesses are integrated. As a result, an extensive, long-term integration of the management and organization structures and a complete integration of the relevant information technologies of McKesson and Celesio are necessary. Only such integration would enable each company also to access and/or use highly confidential and proprietary data of the other company. Neither party would grant such level of access to confidential data without a domination and profit and loss transfer agreement in place. Moreover, the integration measures require material financial investments that both companies only desire to expend with the long-term legal coverage of a domination and profit and loss transfer agreement.

In the current situation also the legal restrictions of a *de facto* group (see for further details section C.1.2) contravene the realization of these synergies. The intended alignment of the management and organization structure, the access to confidential purchase, sale, and customer data and respective strategies due to integration of the infrastructures and information technologies, and the control over joint contracting by McKesson which is also necessary to achieve the synergies all impact the innermost core parts of Celesio's business. From a stand-alone perspective, certain integration measures would prove to be disadvantageous or risky for Celesio. For certain integration measures possible disadvantages cannot be valued with sufficient reliability and such measures then must not be implemented in a *de facto* group. Furthermore, these integration measures would interfere in the management board's operational control in accordance with section 76 German Stock Corporation Act and would not be permissible without the legal protection created by a domination and profit and loss transfer agreement. In order to give the planned integration the reliable legal basis, Dragonfly and McKesson had already announced their intention to pursue the conclusion of a domination and profit and loss transfer agreement on 23 January 2014.

### 1.2 Limits and restrictions on cooperation in the current *de facto* corporate group

Due to the majority participation of Dragonfly, a *de facto* corporate group exists between Celesio and Dragonfly at the present time. This also applies indirectly with regard to the relationship of Celesio to McKesson because McKesson holds an indirect participation of 100% of the shares in Dragonfly. In this *de facto* corporate group, Dragonfly and McKesson can exercise factual controlling influence over Celesio. However, the Management Board of Celesio continues to be under an obligation to manage the company on its own responsibility in accordance with section 76 para. 1 Stock Corporation Act. The Management Board must examine in each individual case all measures or transactions taken or omitted on the initiative or in the interest of Dragonfly or one of its affiliated companies in the McKesson Group with regard to whether it has adverse effects for Celesio. If such transactions or measures are adverse, they may only be implemented if the adverse effect linked to the relevant transaction or measure is compensated. The compensation for the adverse effect must either actually occur by the end of the fiscal year in which the adverse effect is incurred, i.e. in a short period of time, or the compensation must occur by granting a corresponding legal claim (section 311 para. 2 Stock Corporation Act). Due to this legal situation all measures and transactions of Celesio taken or omitted on the initiative or in



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the interest of Dragonfly or any of Dragonfly's affiliated companies in the McKesson Group must be examined in the individual case with regard to their exact effects on Celesio and any harm incurred and with regard to the duty to compensate.

Furthermore, all measures and transactions in a *de facto* corporate group which are taken on the initiative or in the interest of the controlling company or one of its affiliates must be documented in detail. Such measures and transactions must especially be reported on annually in a so-called control report (*Abhängigkeitsbericht*) by the management board of the controlled company and the adverse effects must be quantified (section 312 Stock Corporation Act). The control report must be examined both by the supervisory board as well as by the auditor of the controlled company (sections 313, 314 Stock Corporation Act).

These principles applicable to the *de facto* corporate group lead to a substantial expenditure of time and resources, especially on the side of the factually controlled company. Both the Management Board as well as other departments in Celesio (e.g. the legal department, the accounting and tax department or the corporate finance department) must be involved in every measure and every transaction of Celesio taken or omitted on the initiative or in the interest of Dragonfly or any of its affiliated companies in the McKesson Group, regardless of whether the respective transaction is with Dragonfly or with a third party, in order to assure compliance with the rules applicable to a *de facto* corporate group. This not only ties up resources at Celesio as the controlled company, but also leads to substantial delays in the intended cooperation between the Celesio Group and the rest of the McKesson Group. As a result, the fast and efficient implementation of management decisions that are in the common interest is impeded.

In addition, the quantification and compensation of any adverse effect to the controlled company results in great difficulties in *de facto* corporate groups. Such difficulties arise regularly in the context of transactions and measures which go beyond the mere exchange of performance and consideration (e.g. purchasing goods or rendering services) or for which a market price cannot be determined. Such measures can, for example, involve the exchange of know-how and business information. In practice, it is difficult in these situations, if not often impossible, to quantify and compensate any adverse effects or corresponding benefits of the controlled company. The consequence is that such measures are not possible with sufficient legal certainty in a *de facto* corporate group and can only be carried out with a substantial effort for the examination and documentation thereof or may have to be avoided completely.

The implementation of extensive cooperation and an intensive exchange of information, however, is necessary in order to realize the intended benefits from further cooperation in the activities of Celesio and the rest of the McKesson Group described in Section C.1.1. These benefits can only be inadequately realized without entering into a domination and profit and loss transfer agreement.

### **1.3** Creation of a contractual corporate group by concluding the domination and profit and loss transfer agreement

These difficulties existing in a *de facto* corporate group are avoided if a domination and profit and loss transfer agreement is in place because this creates a contractual basis for the intended close cooperation. In a contractual corporate group, the provisions about specific compensation for adverse transactions and measures initiated by the controlling company or one of its affiliated enterprises or taken or omitted in their interest do not apply. The controlling party to the contract especially has the right, under the part of the Agreement



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relating to domination, to directly issue instructions to the management board of the controlled company to take measures or engage in transactions in the interest of the controlling party to the contract or one of its affiliated companies. This is true even if such measures or transactions might be adverse for the controlled company when viewed on a stand-alone basis (section 308 Stock Corporation Act), the adverse effects cannot be compensated within the same fiscal year and/or an exact quantification of the adverse effect is not possible. This makes it possible to use resources more efficiently and also to implement those measures for cooperation for which the quantification of any adverse effect and any corresponding benefit is not possible with legal certainty. Measures by management can accordingly be focused towards the common interest of the affiliated enterprises without great effort being required to control every measure and its effects on the controlled company. In addition, the expense for preparing and auditing the control report is avoided because such a report does not have to be prepared in a contractual corporate group.

The Agreement enables Dragonfly and McKesson to better control the intended cooperation with the Celesio Group in the common interest of the entire corporate group. The Agreement will also facilitate the unrestricted exchange of information with regard to best practice policies between Celesio and the rest of the McKesson Group.

Entering into the Agreement accordingly is the appropriate legal means to implement the intended comprehensive cooperation of the involved companies and is also used by other companies in comparable cases and is specifically intended by the law to be used for this purpose.

As a result of the combination of the domination agreement with a profit and loss transfer agreement, Dragonfly also obtains a claim for transfer of profit against Celesio starting on 1 January 2015 provided that the Agreement will be registered by 31 December 2015 or in case of an abbreviated fiscal year (*Rumpfgeschäftsjahr*) of Celesio running from 1 January 2015 until 31 March 2015 by 31 March 2015. Celesio receives in exchange a claim for assumption of losses under the Agreement which begins at the point in time when solely the domination part of the Agreement takes effect in the event that an annual loss of Celesio arises during the term of the contract. Contrary to the situation in a merely *de facto* corporate group, after entering into the Agreement Celesio is no longer forced to rely on individual compensation for potentially adverse impact suffered as a result of the exercise of influence and instead receives by force of law a claim for full compensation of losses from Dragonfly regardless of the issue of the exercise of influence or other factors (see section 302 Stock Corporation Act).

The interests of Celesio are also protected after entering into the Agreement by the fact that the right to issue instructions does not exist without any limitation (see also below on this point, Section D.1.1). Celesio especially may not be deprived of the ability to continue to exist as a result of adverse instructions because the statutory provisions are based on the assumption of a continuing existence of the controlled company, also for the time after any termination of the Agreement. Adverse instructions are also impermissible and do not trigger any duty to comply with them if they obviously do not serve the interests of the controlling company or any companies affiliated with the controlling company or the controlled company.

The Agreement establishes special protective mechanisms for outside Celesio Shareholders which are not available in a *de facto* corporate group. They receive a claim against Dragonfly for an adequate Guaranteed Dividend and an adequate annual Recurring Compensation Payment (see Section D.1.4 for further detail) or they can transfer their shares to



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Dragonfly and cease to be shareholders in Celesio in exchange for payment of an adequate Compensation if they want to dispose of their Celesio Shares in light of the Agreement (see on this point, the explanations in Section D.1.5).

These claims of the outside Celesio Shareholders are secured indirectly by the duties of McKesson resulting from the Agreement with Dragonfly. Additional security results from the Letter of Comfort which McKesson has issued to Celesio (see on this point, Section D.1.7).

### 1.4 Conclusion

Celesio and Dragonfly are of the opinion that close cooperation among the involved companies after the Agreement takes effect will help them to strengthen their competitive positions in the present healthcare sectors and help achieve synergies.

Overall, it is apparent that the creation of a contractual corporate group by means of the Agreement expands and reinforces the possibilities for cooperation. Cost savings, namely, by eliminating the duties for examination and documentation in the context of the current *de facto* corporate group, and greater flexibility and more rapid and efficient decision making processes are additional consequences.

## 2 Tax reasons

Entering into a profit and loss transfer agreement within the meaning of section 291 Stock Corporation Act enables the establishment of a consolidated tax group for purposes of corporate income tax and trade tax (consolidated tax group for purposes of income tax) between Dragonfly (as the parent company) and Celesio (as the subordinate company).

The consolidated tax group for purposes of income tax also requires that the parent company has a participation from the beginning of its fiscal year without interruption in such an extent that it has the majority of the voting rights under the shares in the subordinate company (section 14 para. 1 sentence 1 no. 1 sentence 1 German Corporation Tax Act (*Körperschaftsteuergesetz*, "**Corporation Tax Act**")) and that the participation is attributable to a domestic permanent establishment of the parent company in the group without interruption for the entire duration of the consolidated tax group (section 14 para. 1 sentence 1 no. 2 sentence 2 Corporation Tax Act). The validity of the consolidated tax group for purposes of income tax also requires that the profit and loss transfer agreement is entered into for a period of at least five full years (60 months) (section 14 para. 1 sentence 1 no. 3 sentence 1 Corporation Tax Act) and is actually implemented during the entire term of its validity.

The consolidated tax group for purposes of income tax will exist starting on 1 January 2015 if the Agreement is registered in the commercial register of Celesio by 31 December 2015 or in case of an abbreviated fiscal year of Celesio running from 1 January 2015 until 31 March 2015 by 31 March 2015. If the Agreement is only registered at a subsequent point in time, the consolidated tax group for purposes of income tax will only be established as of the beginning of that fiscal year in which the registration takes place.

The consolidation does not eliminate the general tax obligations of Celesio. Celesio must determine its taxable profit under the general provisions separately from Dragonfly as in the past. For purposes of corporate income tax, the income of Celesio will be separately and uniformly determined with binding effect for Dragonfly and Celesio. As a consequence of the creation of the consolidated tax group for purposes of income tax, however, the taxable income of Celesio – taking into account certain restrictions in the law – will be attribut-



ed to Dragonfly and will be taxed at the level of Dragonfly starting in that fiscal year in which the tax consolidation first exists. However, Celesio must still pay taxes on currently 20/17 of the Recurring Compensation Payments rendered to the outside Celesio Shareholders as own income of Celesio (section 16 Corporation Tax Act).

The establishment of the consolidated tax group for purposes of income tax has a positive liquidity effect for Dragonfly because transfers of profit of Celesio to Dragonfly in the context of the consolidated tax group are not subject to withholding tax on investment income plus the solidarity surcharge contrary to distributions of profit. If no profit and loss transfer agreement were entered into and the profit were distributed in the form of dividends, a crediting or reimbursement of the withholding tax on investment income plus the solidarity surcharge would generally only result in the context of the assessment of corporate income tax after filing the tax declaration for the tax period in which the dividend was received. Furthermore, in the context of the consolidated tax group a transfer of profit under commercial law, contrary to distribution of a dividend, does not result in a deemed 5% prohibition on deducting operating expenses under section 8b para. 5 Corporation Tax Act.

The above tax effects do not apply for excess transfers which have their basis in the time prior to the consolidated tax group (section 14 para. 3 Corporation Tax Act).

### 3 Alternatives

The management of Dragonfly and the Management Board of Celesio have examined alternatives to entering into a domination and profit and loss transfer agreement. They have concluded that none of the examined alternatives has the same capacity for achieving the above described goals. In particular, the following other possibilities have been examined in the light of this:

#### 3.1 Entering into an isolated domination agreement or an isolated profit and loss transfer agreement

Entering into an isolated domination agreement is legally permissible. However, without entering into a profit and loss transfer agreement a consolidated tax group for corporate income tax and trade tax purposes (*ertragsteuerliche Organschaft*) cannot be established. Further, an isolated domination agreement does not allow the transfer of profits.

The intended tax benefits as well as the liquidity advantage resulting from the transfer of profits would accordingly not be achievable with just a domination agreement.

Entering into an isolated profit and loss transfer agreement only would also be legally permissible. However, this would not be a sufficient legal basis for the intended comprehensive cooperation between Celesio and the McKesson Group. As has been described, close cooperation in a legally safe manner is only possible if the existing *de facto* corporate group is placed on a contractual basis by means of a domination agreement in addition to a profit and loss transfer agreement (see Section C.1.1-1.4). An optimized structure of the corporate group in terms of the tax situation and the control structures can only be achieved when both elements are combined.

For this reason the Parties have decided to enter into a domination and profit- and loss transfer agreement. This kind of agreement appropriately takes into account the interests of outside Celesio Shareholders by way of recurring compensation payment and compensation and is a proven approach many times over.



### 3.2 Entering into a domination and profit and loss transfer agreement with McKesson

Entering into a domination and profit and loss transfer agreement between McKesson and Celesio was not an option because this would not establish a consolidated tax group for corporate income tax and trade tax purposes (*ertragsteuerliche Organschaft*). McKesson does not hold any Celesio Shares. Entering into a domination and profit and loss transfer agreement between Celesio and McKesson would therefore not have the intended income tax benefits.

### 3.3 Exclusion of the minority shareholders (squeeze-out)

Excluding the minority shareholders of Celesio pursuant to sections 327a et seq. Stock Corporation Act (so-called squeeze-out under Stock Corporation Act, *aktienrechtlicher Squeeze-out*) would not be possible at the present time because the participation of Dragonfly in Celesio does not reach the required statutory level of at least 95% of the share capital (so-called squeeze-out pursuant to the Stock Corporation Act, *aktienrechtlicher Squeeze-out*). The same applies to the so-called squeeze-out pursuant to the Takeover Act (*übernahmerechtlicher Squeeze-out*) pursuant to sections 39a et seq. Takeover Act.

This applies similarly to an exclusion of minority shareholders pursuant to section 62 para. 5 German Transformation Act (*Umwandlungsgesetz*, “**UmwG**”) in connection with sections 327a et seq. Stock Corporation Act after a merger (so-called squeeze-out pursuant to the Transformation Act, *umwandlungsrechtlicher Squeeze-out*) which would require a participation of 90% of the share capital.

To the extent that Celesio owns real estate in Germany or directly or indirectly holds participations of more than 95% of a company, which itself owns real estate in Germany, a squeeze-out would trigger real estate transfer tax.

Furthermore, the legal restrictions described in Section C.1.2 resulting from a *de facto* corporate group would also exist in the case of a 100% shareholding of Dragonfly in Celesio without the Agreement as long as Celesio has the legal form of a stock corporation (or a European Company (*Societas Europaea*)). A consolidated tax group for purposes of corporate income tax and trade tax purposes could also not be established without entering into a profit and loss transfer agreement.

### 3.4 Absorption or merger

Integration into a corporate group by way of absorption (sections 319 et seq. Stock Corporation Act) (*Eingliederung*) is precluded in the present case. Dragonfly does not have the level of shareholding of at least 95% of the share capital in Celesio as required for an absorption (section 320 para. 1 sentence 1 Stock Corporation Act). Moreover, the integration would require that both participants are German stock corporations (*Aktiengesellschaft*). Celesio's integration would therefore not be permissible without Dragonfly's transformation into a German stock corporation.

A merger of Dragonfly into Celesio (so-called “downstream merger”) is also precluded as an alternative structure, just as a merger of Celesio into Dragonfly (so called “upstream merger”) is precluded.

A downstream merger of Dragonfly into Celesio is an inappropriate alternative because Dragonfly would cease to exist as a separate legal entity. Such a measure would also not change the requirement for a domination and profit and loss transfer agreement in order to implement the desired integration of Celesio into the McKesson Group. Celesio would then



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have to enter into a domination and profit and loss transfer agreement with Cougar I UK Limited. This would lead to a cross-border domination and profit and loss transfer agreement, which does not have the advantageous tax effects of the desired consolidated tax group described in Section C.2.

An upstream merger is also not an appropriate alternative. In this situation, the outside Celesio Shareholders would obtain a participation in Dragonfly. Since a listing on the stock exchange is not intended for the shares in Dragonfly, this would result in the loss of the listing of the Celesio Shares on the stock exchange, which would adversely affect the ability to trade the Celesio Shares.

Under the same prerequisites as in a squeeze-out an upstream merger would also trigger real estate transfer tax.

### 3.5 Change of legal form

A transformation of Celesio into a different corporate form or a partnership is also not an appropriate alternative because the corporate constitution of Celesio as a stock corporation shall be maintained.

A change in corporate form would not help to establish the desired consolidated tax group (see Section C.2). Furthermore, even a transformation into a partnership limited by shares (*Kommanditgesellschaft auf Aktien*) would not affect the applicability of the rules on the *de facto* corporate group and, accordingly, would not change the disadvantages existing compared to a situation with a domination and profit and loss transfer agreement (see Sections C.1.2 and C.1.3). After a transformation into a limited liability company (*Gesellschaft mit beschränkter Haftung*) or a partnership (*Personengesellschaft*), instructions in the interest of the corporate group would still have to be examined in the individual case with regard to whether they have an adverse impact on Celesio as described in Section C.1.2. The fiduciary duty of the controlling company existing as a result of membership would also have to be observed in the relationship to a limited liability company or a partnership so that the implementation of adverse measures would be problematic.

Furthermore, a change of the legal form would involve additional expenses and delay and, in the event of a change of legal form to a limited liability company or partnership, would result in the loss of Celesio's stock market listing, which would adversely affect the tradability of the Celesio shares. A legal obligation to change the legal form in connection with entering into a domination and profit and loss transfer agreement does not exist.

### 3.6 Conclusion

In light of the above, only entering into a domination and profit and loss transfer agreement will provide a sufficient legal basis for the intended integration of Celesio into the McKesson Group. The restrictions of a *de facto* corporate group can only be overcome (see Section C.1) and the status of a consolidated tax group for purposes of corporate income tax and trade tax can only be established (see Section C.2) by entering into a domination and profit and loss transfer agreement.



**D. DOMINATION AND PROFIT AND LOSS TRANSFER AGREEMENT**

The individual provisions of the Agreement are explained below.

**1 Explanation of the content of the contract**

**1.1 Management control (clause 1 of the Agreement)**

Clause 1 of the Agreement contains the constitutive provision for a domination agreement under which Celesio, as the controlled company, submits the management of its company to Dragonfly as the controlling company. Dragonfly is accordingly entitled to issue instructions to the management board of Celesio with regard to the management of the company (clause 1 para. 1 of the Agreement). Notwithstanding this right to issue instructions, Celesio will continue to be a legally independent company with its own corporate bodies. The management board of Celesio accordingly continues to be responsible for the management and the representation of the company. To the extent no instructions have been issued, the management board of Celesio is entitled to and must manage the company on its own responsibility.

The scope of the right of management control and the right to issue instructions is governed primarily by section 308 Stock Corporation Act. The management board of Celesio is required to comply with permissible instructions of Dragonfly (clause 1 para. 2 sentence 1 of the Agreement). Pursuant to section 308 para. 1 sentence 2 Stock Corporation Act, instructions which are disadvantageous for Celesio can also be issued if they serve the interests of Dragonfly or the companies affiliated with Dragonfly and Celesio in the corporate group. The management board of Celesio is not entitled to refuse to comply with an instruction unless the instruction obviously does not serve these interests. The management board does not have to follow any impermissible instructions, e.g. instructions which would violate statutory provisions or provisions in the articles of association of Celesio. Instructions which endanger the existence of Celesio are impermissible in any event. A controlled company is also not required to comply with instructions if and as long as the controlling company does not fulfil its obligations under the domination and profit and loss transfer agreement, in particular the obligations to assume losses and to pay the recurring compensation (*Ausgleich*) as well as the compensation (*Abfindung*) to the outside shareholders (sections 304, 305 Stock Corporation Act) or to the extent that the controlling company will most likely not be able to comply with these obligations (with regard to the right of the controlled company to terminate see Section D.1.6.4). Furthermore, instructions to amend, maintain or terminate the Agreement can also not be issued pursuant to section 299 Stock Corporation Act (clause 1 para. 2 sentence 2 of the Agreement).

The right of management control and the right to issue instructions only exists towards the management board but not towards the supervisory board, the general shareholders' meeting or employees of Celesio and also not towards the corporate bodies or employees of any subsidiary of Celesio. If the Celesio management board is instructed to engage in a transaction which requires the consent of the supervisory board and if the supervisory board does not consent or if the consent is not issued within a reasonable period of time, the consent of the supervisory board can be substituted in accordance with section 308 para. 3 Stock Corporation Act by repeating the instruction. The participation rights of the general shareholders' meeting of Celesio are not affected by the Agreement.

Any instruction must be issued in text form within the meaning of section 126b German Civil Code (*Bürgerliches Gesetzbuch*, "**BGB**"), e.g. by telefax or email (clause 1 para. 3 of



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the Agreement), or, if the instructions are issued orally, they shall be confirmed in text form without undue delay.

Pursuant to section 294 para. 2 Stock Corporation Act, clause 6 para. 2 of the Agreement, the right of Dragonfly to issue instructions and the corresponding duty of Celesio to comply with clause 1 of the Agreement exist only after the point in time when the Agreement has become effective as a result of its registration in the commercial register of Celesio (see Section D.1.6.2(i)).

### 1.2 Transfer of profits (clause 2 of the Agreement)

Clause 2 of the Agreement contains the constitutive provision for a profit and loss transfer agreement under which Celesio is required to transfer its entire profit to Dragonfly during the term of the Agreement (clause 2 para. 1 sentence 1 of the Agreement). With regard to the scope of the profit to be transferred – subject to an establishment or a dissolution of reserves under clause 2 para. 2 of the Agreement – clause 2 para. 1 sentence 2 of the Agreement refers to the statutory provision in section 301 Stock Corporation Act in its respectively valid version. Based on the current version of section 301 Stock Corporation Act, that profit must be transferred which would arise as annual profit if no profit transfer arrangements were in place, as reduced by any loss carry forward from the previous year and by the amount which must be allocated to the statutory reserve pursuant to section 300 Stock Corporation Act and the amount which is blocked from distribution under section 268 para. 8 Commercial Code. The amount which must be allocated to the statutory reserve is assessed in accordance with section 300 no. 1 Stock Corporation Act and depends on the amount of the share capital and the annual profit and the amount already allocated to the statutory reserve. At the present time, the statutory reserve of Celesio has been established in the full amount. The allocation of additional amounts under section 300 no. 1 Stock Corporation Act is not required when the statutory reserve has been fully established.

The block on distribution pursuant to section 268 para. 8 sentence 1 Commercial Code applies if intangible assets created by the company itself are capitalized as fixed assets in the balance sheet (section 248 para. 2 sentence 1 Commercial Code). In this event, profits can only be distributed to the extent that freely available reserves plus a profit carry forward and minus any loss carry forward after the distribution correspond at least to the total capitalized amounts as internally generated intangible assets minus the deferred tax liabilities established for this purpose. If deferred tax assets are capitalized in the balance sheet (section 274 para. 1 sentence 2 Commercial Code), the reserves available after the distribution of profits plus a profit carry forward and minus any loss carry forward must at least correspond to the deferred tax assets minus the deferred tax liabilities (section 268 para. 8 sentence 2 Commercial Code). In the case of assets which cannot be accessed by any creditor and which serve exclusively to fulfil pension obligations or comparable long-term due obligations (section 246 para. 2 sentence 2 Commercial Code), the reserves available after the distribution of profits plus a profit carry forward and minus any loss carry forward pursuant to Section 268 para. 8 sentence 3 Commercial Code must at least correspond to the difference between the total of the present value (*Zeitwerte*) for these assets shown in the balance sheet minus the deferred tax liabilities established therefore and the procurement costs of these assets. The term “freely available reserves” includes both profit reserves as well as specific capital reserves. Profit reserves which can be distributed without any statutory provisions or provisions in the articles of association limiting such distribution as well as the freely available capital reserve under Section 272 para. 2 no. 4 Commercial



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Code must be taken into account accordingly when determining the maximum amount that can be distributed.

The amount to be transferred as profit according to clause 2 para. 1 of the Agreement is reduced pursuant to clause 2 para. 2 sentence 1 of the Agreement if and to the extent Celesio, with the written approval of Dragonfly, allocates amounts from the annual profit arising without the profit transfer to other profit reserves (section 272 para. 3 sentence 2 Commercial Code. With regards to the consolidated tax group for income tax purposes (see Section D.1.6.4), the allocation to these other profit reserves is only recognized to the extent that there is economic justification for this under a reasonable commercial assessment (section 14 para. 1 sentence 1 no. 4 Corporation Tax Act). Clause 2 para. 2 sentence 1 of the Agreement takes this standard into account. According to clause 2 para. 2 sentence 2 of the Agreement, Dragonfly can demand that other profit reserves established during the term of the Agreement (section 272 para. 3 sentence 2 Commercial Code) are dissolved again and transferred as profit (section 301 sentence 2 Stock Corporation Act) or are used to offset any annual loss (section 302 para. 1 Stock Corporation Act).

Furthermore, clause 2 para. 2 sentence 3 of the Agreement stipulates that other reserves or a profit carry forward resulting from the time prior to the beginning of the Agreement cannot be transferred as profit or used to offset any annual loss. The term "other reserves" includes all reserves according to section 272 Commercial Code with the exception of other profit reserves that have been established during the term of the Agreement. Therefore, the statutory reserve, reserves in accordance with the articles of association as well as the capital reserves are excluded from contractual transfer regardless of when they were established. Likewise, other profit reserves within the meaning of section 272 para. 3 sentence 2 Commercial Code that have been established in the time prior to the beginning of the Agreement are excluded from transfer. This provision corresponds to the requirements of section 301 Stock Corporation Act and the decisions of the highest courts on the use of reserves in the context of a domination and profit and loss transfer agreement.

The obligation to transfer profit applies for the first time for the profit generated in the fiscal year in which the Agreement becomes effective pursuant to clause 6 para. 2 of the Agreement (clause 2 para. 3 of the Agreement), however for the profit of the fiscal year beginning on 1 January 2015 at the earliest. The Agreement will take effect upon registration in the commercial register at the registered office of Celesio after approval by the general meeting of Celesio and the general shareholders' meeting of Dragonfly (section 294 para. 2 Stock Corporation Act, clause 6 para. 1 sentence 2 of the Agreement). Hence, if registration occurs by 31 December 2015 or in case of an abbreviated fiscal year of Celesio running from 1 January 2015 until 31 March 2015 by 31 March 2015, the obligation to transfer profit applies for the first time for the entire profit generated in the fiscal year that begins on 1 January 2015.

The claim of Dragonfly for a transfer of profit is due upon expiration of the last day of a fiscal year of Celesio for which the respective claim exists (clause 2 para. 3 sentence 2 of the Agreement). Interest in the amount of 5% p.a. is owed for the period of time between the due date and actually fulfilling the claim for transfer of profit (clause 2 para. 3 sentence 2 of the Agreement). This corresponds to the amount of the statutory rate of interest that applies between commercial parties (section 352 para. 1 sentence 1 Commercial Code).



### 1.3 Assumption of losses (clause 3 of the Agreement)

Clause 3 para. 1 of the Agreement stipulates the obligation of Dragonfly to assume the losses of Celesio pursuant to section 302 Stock Corporation Act in its respectively valid version. Pursuant to section 302 para. 1 Stock Corporation Act in its currently valid version, this means that Dragonfly must compensate for every annual loss that would arise otherwise during the term of the Agreement i.e. that would arise if no obligation to cover the loss was in existence. The obligation to compensate for losses does not exist to the extent that the annual loss is offset by amounts being withdrawn from the other profit reserves (section 272 para. 3 sentence 2 Commercial Code) which have been allocated to the profit reserves during the term of the Agreement.

The obligation to compensate for losses assures that the accounted equity capital of Celesio existing at the time the Agreement becomes effective is not reduced during the term of the Agreement. This obligation to assume losses serves to secure the financial interests of Celesio, its shareholders and its creditors during the existence of the Agreement.

Pursuant to clause 3 para. 2 of the Agreement, the obligation to assume losses applies for the first time for the entire fiscal year in which the Agreement has become effective upon registration in the commercial register at the registered office of Celesio (see on this point clause 6 para. 2 of the Agreement). If the Agreement is registered by 31 December 2014, the obligation therefore exists for any potential loss in the fiscal year 2014. The obligation to assume losses is due in each case upon expiration of the last day of a fiscal year of Celesio. Interest in the amount of 5% p.a. is owed for the period between the due date and actually fulfilling the claim to compensate for losses (clause 3 para. 2 sentence 2 in conjunction with clause 2 para. 3 sentence 2 of the Agreement). This provision corresponds to the statutory interest rate applicable between commercial parties (section 352 para. 1 sentence 1 Commercial Code).

### 1.4 Recurring compensation (clause 4 of the Agreement)

As soon as the Agreement becomes effective, a duty is then triggered under section 304 para. 1 Stock Corporation Act to grant adequate recurring compensation to the outside Celesio Shareholders. In order to fulfil this duty, Dragonfly makes an undertaking to the outside shareholders that it will make payment of a guaranteed dividend (the "**Guaranteed Dividend**") or make a recurring compensation payment (the "**Recurring Compensation Payment**", together the "**Recurring Compensation**"). For the period of domination (i.e. Celesio's obligation to subordinate its management to Dragonfly, as the controlling company, in accordance with clause 1 of the Agreement) that is without an obligation to transfer profit, i.e. for the 2014 fiscal year if the Agreement is registered in 2014, this duty to grant adequate Recurring Compensation shall take the form of an obligation to pay the Guaranteed Dividend (see 1.4.1 below in this regard). For the fiscal years in which the obligation to transfer profit also exists alongside the domination arrangement, this duty to grant adequate Recurring Compensation shall take the form of an obligation to grant the Recurring Compensation Payment which then supplants the obligation to make payment of the Guaranteed Dividend (see 1.4.2 below in this regard).

#### 1.4.1 Guaranteed Dividend (clause 4 para. 1 of the Agreement)

After Celesio's obligation under clause 1 of the Agreement takes effect, i.e. to subordinate its management to Dragonfly, as the controlling company, the actions of Celesio's corporate bodies shall not only be in keeping with the interests of the company, but shall also be compliant with instructions issued by Dragonfly, even if



this should prove to be disadvantageous to Celesio. By way of compensation for the obligation to subordinate the management of its company to Dragonfly, as the controlling company, and to act in compliance with the instructions issued by Dragonfly, in clause 4 para. 1 of the Agreement Dragonfly undertakes to make payment of an adequate Guaranteed Dividend to the outside Celesio Shareholders. In this respect, Dragonfly thus makes a guarantee to the outside Celesio Shareholders concerning the 2014 fiscal year, that Dragonfly will make payment of a certain annual share in the profits. Said Guaranteed Dividend shall be granted if the Agreement becomes effective in the year 2014. To the extent that the dividend paid by Celesio per Celesio share for the 2014 fiscal year (including any potential payments on account) falls short of the Guaranteed Dividend, then Dragonfly shall pay the corresponding differential amount per Celesio share to each outside Celesio Shareholder. The payment of any potential differential amount that may be necessary falls due and payable on the first banking day following Celesio's ordinary general shareholders' meeting for the 2014 fiscal year.

### 1.4.2 Recurring Compensation Payment (clause 4 para. 2 of the Agreement)

After the obligation to transfer profit becomes effective pursuant to clause 2 of the Agreement, i.e. for the first time for the fiscal year of Celesio beginning on 1 January 2015 or any subsequent fiscal year in which the Agreement is registered in the commercial register of Celesio, Celesio will generally no longer show any balance sheet profit. The right of the shareholders of Celesio to decide about the use of any balance sheet profit generally ceases to exist as of that point in time. As compensation for the loss of the claim for a dividend, clause 4 para. 2 of the Agreement provides for an obligation on the part of Dragonfly to grant an adequate Recurring Compensation Payment to the outside shareholders of Celesio. This Recurring Compensation Payment exists as of the fiscal year of Celesio for which the claim of Dragonfly under clause 2 of the Agreement for the transfer of profit takes effect and is in place for the duration of the Agreement. The Recurring Compensation Payment is due on the first banking day after the ordinary general shareholders' meeting of Celesio for the previous fiscal year, but at the latest eight months after expiration of that fiscal year of Celesio.

### 1.4.3 Type of recurring compensation

- (i) Legal basis
- (a) A domination and profit and loss transfer agreement must provide for an adequate recurring compensation for the outside shareholders of the controlled company, in this case Celesio (section 304 para. 1 sentence 1 Stock Corporation Act). If there is solely a domination agreement, then this domination agreement must guarantee an adequate guaranteed dividend to outside shareholders (section 304 para. 1 sentence 2 Stock Corporation Act). Both the guaranteed dividend and the recurring compensation payment must consist of a recurring payment of money to the outside shareholders for each share (section 304 para. 1 sentence 1 and 2 Stock Corporation Act). The Stock Corporation Act differentiates between two types of recurring compensation (see sub-Sections (a) and (b) below).



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### (a) Fixed recurring compensation

The annually recurring payment of a fixed amount of money can be warranted as recurring compensation in any event. If the domination and profit and loss transfer agreement provides for a fixed recurring compensation, the guaranteed dividend and the recurring compensation payment must correspond to the amount which could – according to the earnings position of the controlled company to date and its future prospects for earnings, taking into account reasonable depreciation and adjustments in value but without establishing other profit reserves – most likely be allocated to the individual share as an average share in the profits, i.e. as profit able to be distributed under commercial law (section 304 para. 2 sentence 1 Stock Corporation Act).

### (b) Variable recurring compensation

If the other contracting party, i.e. the controlling company, is a stock corporation or a partnership limited by shares, a variable recurring compensation which is based on the profit of the other contracting party can alternatively be promised as a guaranteed dividend or recurring compensation payment. In that case, the variable recurring compensation must correspond to the amount which accrues to shares of the controlling company as a share in the profit based on the establishment of a reasonable conversion ratio (section 304 para. 2 sentence 2 and 3 Stock Corporation Act).

Even if a variable recurring compensation would be legally possible in general, the domination and profit and loss transfer agreement does not have to provide for a fixed recurring compensation and an additional variable recurring compensation in the alternative. The contracting parties can rather decide in favour of one or the other type of recurring compensation in this situation.

### (ii) Reasons for determining a fixed Recurring Compensation

The Agreement between Dragonfly and Celesio provides for a fixed annual Recurring Compensation. The reasons for this are primarily as follows:

Dragonfly as the controlling company is a partnership limited by shares and therefore, in principle, the payment of a variable recurring compensation based on the profit of Dragonfly could have been provided for. However, in this case, a fixed recurring compensation has been provided for as such a variable compensation based on the profit of Dragonfly would not be suitable to ensure the outside Celesio Shareholders' right to receive adequate compensation. As the participation in Celesio is by far Dragonfly's most valuable current asset, the Celesio Shareholders would thus economically receive a compensation that is based on Celesio's profit only. Dragonfly could in fact exercise its management control over Celesio on the basis of the Agreement in a way that reduces profits of Celesio. This would in consequence also lead to a lower compensation for the outside Celesio Shareholders.



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A variable recurring compensation based on the profit of McKesson as the head of the corporate group is not explicitly permitted legally. It is uncertain whether such a variable recurring compensation would be permitted from a legal perspective. Furthermore, what contradicts a variable recurring compensation also in this respect is the fact that similar to Dragonfly, the outside shareholders of Celesio would also not have any influence on the decision on the utilisation of profits, which is taken by the shareholders of McKesson. In addition, the determination of a variable recurring compensation based on the profit of McKesson would have required a valuation of McKesson and all of its affiliated companies. This would have caused significant additional efforts in the preparation of the Agreement. Furthermore, currency risks would arise due to the currency fluctuations of US dollars and Euros, as McKesson is a company based in the United States.

### 1.4.4 Determination of the Recurring Compensation as gross payment, amount of the Recurring Compensation

Pursuant to clause 4 of the Agreement, Dragonfly guarantees to the outside shareholders of Celesio a Guaranteed Dividend for the 2014 fiscal year, in the event the Agreement takes effect in the 2014 fiscal year, and an annual Recurring Compensation Payment for the subsequent fiscal years in which the Agreement is effective. The amount as well as the determination of the adequate Guaranteed Dividend and the adequate Recurring Compensation Payment are explained and substantiated in more detail in the following and in Section E.2.

#### (i) Amount of the Recurring Compensation

Clause 4 para. 1 of the Agreement provides for a Guaranteed Dividend in the amount of EUR 0.83 per Celesio share for the 2014 fiscal year (corresponding to an amount of EUR 0.83 before current corporate income tax and the solidarity surcharge), in the event the Agreement already takes effect in the 2014 fiscal year. If the dividend distributed by Celesio to outside Celesio Shareholders for the 2014 fiscal year falls short of the amount set for the Guaranteed Dividend, then Dragonfly shall pay the outside Celesio Shareholders the corresponding differential amount between the actual dividend distributed for the 2014 fiscal year and the amount promised as a Guaranteed Dividend.

Furthermore, clause 4 para. 2 of the Agreement provides that, from the time the obligation to transfer profit takes effect pursuant to clause 2 of the Agreement, thus for the first time for the Celesio fiscal year beginning on 1 January 2015 or starting with the subsequent fiscal year in which the Agreement becomes effective, payment of an annual Recurring Compensation Payment in the amount of EUR 0.83 (corresponding to an amount of EUR 0.83 before current corporate income tax and the solidarity surcharge) per Celesio Share shall be made. This amount will be due in full annually because no balance sheet profit will be shown any longer after the obligation to transfer profit has become effective, and the right of the Celesio Shareholders to decide about the use of the balance sheet profit will no longer exist.



(ii) Adjustment mechanism for the Recurring Compensation

When determining the Recurring Compensation, the contracting parties took into account the case law of the Federal Supreme Court of Justice (*Bundesgerichtshof*, “**BGH**”) (order of 21 July 2003, case no. II ZB 17/01 – “Ytong”). The BGH decided in this order that the outside shareholders must be granted a recurring compensation for purposes of section 304 para. 1 sentence 1, para. 2 sentence 1 and 2 Stock Corporation Act that corresponds to the gross share in the profit per share which will most likely be able to be distributed when viewed at the starting point and from which the burden of corporate income tax in the respective statutory amount must be deducted. This shall ensure that a decrease in the corporate income tax rate compared to the rate at the time of the effective date of the valuation will not lead to an unjustified benefit of the other contracting party (the controlling company) at the expense of the outside shareholders. On the other hand, the situation under which the provision on the recurring compensation leads to an unjustified benefit for the outside shareholders at the expense of the other contracting party (the controlling company) in the case of an increase in tax is also supposed to be avoided. These principles are also applicable accordingly to the solidarity surcharge levied as a surtax on the corporate income tax.

Based on the case law of the BGH described above, the fixed Recurring Compensation in the form of either the Guaranteed Dividend or the Recurring Compensation Payment, must be determined as a share in the gross profit per Ceesio Share, of which the corporate income tax and the solidarity surcharge must be deducted at the respective rates that are applicable for the fiscal year for which a Recurring Compensation is paid. This ensures that any change in the corporate income tax rate or the solidarity surcharge will result in a corresponding adjustment of the net Recurring Compensation.

According to the Valuation Report by KPMG, the relevant portion of the recurring compensation (*Ausgleich*) that - for the purposes of the case law laid down by the German Federal Court of Justice (*BGH*) - results from Ceesio profits which are subject to German corporate income tax, is to be calculated as follows:



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EUR 4 Mio.                      Portion of the equity value resulting from profits which are subject to German corporate income tax

divided by:

EUR 4,556 Mio.                Market equity value

multiplied by:

EUR 0.83                      Gross recurring compensation per share

equals:

EUR 0.000728                Portion of the gross sum of EUR 0.83 resulting from profits which are subject to German corporate income tax.

Due to the fact that, when rounded to the nearest full cent in accordance with commercial practice, the recurring compensation only results in profits which are not subject to any German corporate income tax, said recurring compensation is not to be reduced by any amount of German corporate income tax or solidarity surcharge. This means that the guaranteed dividend and recurring compensation payment remain at an amount of EUR 0.83 per Celesio share for a full fiscal year.

The provision made in clause 4 para. 3 of the Agreement accordingly clarifies that no deduction is to be carried out in this respect.

### 1.4.5 Other explanations on clause 4 of the Agreement

The Guaranteed Dividend shall be granted for Celesio's full 2014 fiscal year if the Agreement becomes effective in the year 2014 (clause 4 para. 4 sentence 1 of the Agreement). The Guaranteed Dividend shall only be applicable to the 2014 fiscal year.

The Recurring Compensation Payment is granted for the first time for the full fiscal year of Celesio for which the obligation to transfer profit under clause 2 of the Agreement becomes effective (clause 4 para. 4 sentence 2 of the Agreement). Pursuant to clause 2 para. 3 of the Agreement, this only becomes the case for the first time in relation to the entire profit from the Celesio fiscal year beginning on 1 January 2015 or in relation to the subsequent fiscal year of Celesio in which the Agreement becomes effective. If the Agreement becomes effective by 31 December 2015 or in case of an abbreviated fiscal year of Celesio running from 1 January 2015 until 31 March 2015 by 31 March 2015, there shall be an obligation for the 2015 fiscal year to transfer profit from 1 January 2015 onwards. If the Agreement only becomes effective in a year subsequent to that, then the obligation to transfer profit shall only apply from said subsequent fiscal year onwards.



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Once the transfer of profit pursuant to clause 2 of the Agreement becomes effective, the outside Celesio Shareholders have no claim for a dividend unless a balance sheet profit exists resulting from reserves or a profit carry forward from the time prior to the beginning of the Agreement and the general shareholders' meeting resolves a distribution of such balance sheet profit.

If the Agreement ends during the course of a fiscal year of Celesio or if a Recurring Compensation must be paid for a partial fiscal year that lasts for less than twelve months, the Recurring Compensation for this fiscal year is reduced proportionately according to time (clause 4 para. 4 sentence 3 of the Agreement). This takes into account the circumstance that the fixed amount of the Recurring Compensation is assessed on the basis of a period of twelve months, i.e. a full fiscal year.

Clause 4 para. 1 sentence 3 of the Agreement governs the maturity of the Guaranteed Dividend. The Guaranteed Dividend to be paid by Dragonfly is due on the respective first bank working day following the ordinary general shareholders' meeting of Celesio for the respective previous fiscal year.

Clause 4 para. 3 sentence 3 of the Agreement furthermore sets out the maturity of the Recurring Compensation Payment. The Recurring Compensation Payment to be paid by Dragonfly is due on the respective first bank working day following the ordinary general shareholders' meeting of Celesio for the respective previous fiscal year; however, this shall be no later than eight months following the end of the relevant fiscal year.

Clause 4 para. 5 sentence 1 of the Agreement governs the adjustment of the Recurring Compensation in the case of a capital increase from the reserves. If new Celesio shares are issued on the occasion of a capital increase from the reserves, the Recurring Compensation per Celesio share is reduced to such an extent that the total amount of the Recurring Compensation remains the same. The change in the number of Celesio Shares held by an outside Celesio Shareholder resulting from a capital increase using corporate funds therefore does not affect the total amount of the Recurring Compensation to which this Celesio Shareholder is entitled. This is appropriate because a capital increase using corporate funds, i.e. the conversion of profit or certain capital reserves into share capital, does not influence the value and the earning power of the company, and because the new Celesio Shares resulting from the capital increase using corporate funds are issued to the Celesio Shareholders without consideration. This also corresponds to the statutory provision in section 216 para. 3 Stock Corporation Act under which the economic content of contractual relationships of the company to third parties is not affected by a capital increase using corporate funds. If no new Celesio Shares are issued in the context of the capital increase using corporate funds, an adjustment of the Recurring Compensation is not required.

If the share capital of Celesio is increased by issuing new Celesio Shares against cash contributions or contributions in kind with a subscription right being granted to the outside Celesio Shareholders, the claim of the outside Celesio Shareholders to the Recurring Compensation also extends to the newly created Celesio Shares resulting from the capital increase. Clause 4 para. 5 sentence 2 of the Agreement ensures that not only the claims to Recurring Compensation Payments of the previous outside Celesio Shareholders remain the same but that also new outside



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Celesio Shareholders are treated equally in the case of such increases in the share capital of Celesio.

Clause 4 para. 6 of the Agreement serves to protect the non-discriminatory treatment of all outside Celesio Shareholders. If a Celesio Shareholder claims that the offered Recurring Compensation is set too low, the Celesio Shareholder can request from the court in appraisal proceedings (*Spruchverfahren*) pursuant to sections 1 et seq. German Act on Appraisal Proceedings (*Spruchverfahrensgesetz*, "**Appraisal Proceedings Act**") that the court determine the adequate Guaranteed Dividend or the adequate Recurring Compensation Payment. The provision in clause 4 para. 6 sentence 1 of the Agreement grants to all outside Celesio Shareholders a claim for an increase of the Recurring Compensation if appraisal proceedings take place and if the court sets a higher Recurring Compensation in an order which can no longer be appealed (*rechtskräftig*). The same applies pursuant to clause 4 para. 6 sentence 2 of the Agreement if Dragonfly commits itself against an outside Celesio Shareholder in a court settlement (*gerichtlicher Vergleich*) to pay a higher Guaranteed Dividend or a higher Recurring Compensation Payment in order to avoid or to end a proceeding according to sections 1 et. seq. of the Appraisal Proceedings Act. These claims also exist for those Celesio Shareholders who have accepted the Compensation offer under clause 5 of the Agreement in the meantime. Furthermore, these claims also exist irrespective of whether the Celesio Shareholder was involved in any appraisal proceedings (see section 13 sentence 2 Appraisal Proceedings Act).

### 1.5 Compensation (clause 5 of the Agreement)

#### 1.5.1 Type of compensation

In addition to the obligation to grant the Recurring Compensation (*Ausgleich*) in the form of the Guaranteed Dividend (*Garantiedividende*) or the Recurring Compensation Payment (*Ausgleichszahlung*) pursuant to section 304 Stock Corporation Act, the Agreement must contain an obligation of Dragonfly to purchase the shares of an outside Celesio Shareholder upon his request in exchange for an adequate Compensation (*Abfindung*) (the "**Compensation**") determined in the Agreement (section 305 para. 1 Stock Corporation Act). In accordance with section 305 para. 1 Stock Corporation Act, Dragonfly offers a cash compensation in the amount of EUR 22.99 per Celesio Share to the outside Celesio Shareholders who would like to divest their Celesio shareholding on the occasion of entering into the Agreement (clause 5 para. 1 of the Agreement).

With view to the type of compensation, the Stock Corporation Act distinguishes among three categories:

##### (i) Compensation in shares of the other contracting party

If the other contracting party (Dragonfly) is an independent and not majority-owned stock corporation of partnership limited by shares with its seat in a member state of the European Union or in another state that is a party to the Treaty on the European Economic Area, the Agreement must provide for the granting of own shares of such company as compensation (section 305 para. 2 sentence 1 Stock Corporation Act).



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- (ii) Choice between cash compensation and compensation in shares of the company holding a controlling or a majority interest in the other contractual party

If the other contractual party (Dragonfly) is a controlled or majority-owned stock corporation or partnership limited by shares and the controlling company is a stock corporation or partnership limited by shares in a member state of the European Union or in another state that is a party to the Treaty on the European Economic Area, the Agreement has to provide for either the granting of shares in the controlling a majority-holding company or for a cash compensation (section 305 para. 2 no. 2 Stock Corporation Act). In this case, the Agreement does not have to provide for both types of compensation. The contractual parties can rather choose one type of compensation.

- (iii) Cash compensation

In all other cases, the Agreement needs to provide for a cash compensation (section 305, para. 2 no. 3 Stock Corporation Act).

### 1.5.2 Amount of the Compensation

The Agreement stipulates that Dragonfly is obliged to purchase the Celesio Shares of an outside Celesio Shareholder upon his request in exchange for an adequate Compensation (section 305 para. 2 no. 3 Stock Corporation Act). Each outside Celesio Shareholder who wants to make use of the compensation offer receives a Compensation within the meaning of section 305 para. 2 no. 3 Stock Corporation Act in the amount of EUR 22.99 per Celesio Share (clause 5 para. 1 of the Agreement). The amount as well as the determination of the adequate Compensation are explained and substantiated in more detail in Section E.3.

### 1.5.3 Reasons for granting a cash compensation

In particular, the following reasons were of importance for the granting of a cash compensation:

Dragonfly as a wholly-owned indirect subsidiary of McKesson is a controlled company within the meaning of the Stock Corporation Act (sections 16 et. seq. Stock Corporation Act), so that the Agreement does not have to provide for a compensation in shares of Dragonfly pursuant to section 305 para. 2 no. 1 Stock Corporation Act. As explained in Section D.1.5.1(i) above, this mandatory provision only applies to stock corporations or partnerships limited by shares that are not controlled and not owned by a majority shareholder.

Furthermore, the parties to the Agreement also do not have the option pursuant to section 305 para. 2 no. 2 Stock Corporation Act to provide for a compensation in shares of the company holding the controlling or majority interest in the other contractual party, i.e. in this case McKesson as the head of the McKesson group. As described in Section D.1.5.1(ii) above, this option only exists if the controlling company has its seat in a member state of the European Union or in another state that is a party to the Treaty on the European Economic Area. This does not apply to McKesson with its seat in the United States of America. Therefore, pursuant to section 305 para. 2 no. 3 Stock Corporation Act, a cash compensation is to be granted.



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For the aforementioned reasons, the management board of Celesio and the management of Dragonfly have decided to offer to the outside Celesio Shareholders a cash compensation in the Agreement.

### 1.5.4 Other explanations on clause 5 of the Agreement

The obligation of Dragonfly to purchase the Celesio Shares in exchange for the Compensation is limited by time according to clause 5 para. 2 of the Agreement. The deadline ends two months after the date on which the registration of the existence of the Agreement in the commercial register at the registered office of Celesio is publicly announced pursuant to section 10 Commercial Code. The time limit on the offer for the Compensation is common and is permitted under the Stock Corporation Act. The provision of a two month deadline (clause 5 para. 2 sentence 2 of the Agreement) corresponds to the statutory provision in section 305 para. 4 sentence 2 Stock Corporation Act.

Under section 4 para. 1 Appraisal Proceedings Act, outside Celesio Shareholders can file a request for a court decision about the Compensation to be granted within three months after the date on which the registration of the existence of the Agreement in the commercial register at the registered office of Celesio has been publicly announced pursuant to section 10 Commercial Code. Section 305 para. 4 sentence 3 Stock Corporation Act stipulates that in case of an application to the court to determine the Recurring Compensation or the Compensation, the deadline for accepting the offer to transfer the shares to the controlling company against payment of the Compensation ends at the earliest two months after the date on which the decision about the most recently decided request of a shareholder has been published in the Federal Gazette (*Bundesanzeiger*). Clause 5 para. 2 sentence 3 of the Agreement clarifies, that this statutory provision applies without any restriction. If appraisal proceedings are initiated, the deadline for accepting the Compensation offer accordingly ends two months after the date on which the decision about the most recently decided request of a Celesio Shareholder has been published in the Federal Gazette.

The declaration of the outside Celesio Shareholders that they want to accept the offer for the Compensation from Dragonfly must be received within the deadline that is determined as explained above. After expiration of the deadline, an acceptance of the offer for the Compensation is no longer possible.

The outside Celesio Shareholders can decide to leave the company after registration of the existence of the Agreement in the commercial register and receive the offered Compensation or they can instead decide to remain a shareholder of Celesio and receive the Guaranteed Dividend and/or the Recurring Compensation Payment offered in clause 4 of the Agreement.

Clause 5 para. 3 of the Agreement takes into account the principles already explained above with regard to clause 4 para. 5 of the Agreement in the event of an increase of the share capital using corporate funds or for contributions. Reference is made to the corresponding explanations in Section D.1.4.5 above.

Pursuant to clause 5 para. 4 of the Agreement, accepting the offer for the Compensation is free of costs for the outside Celesio Shareholders. This ensures that the outside Celesio Shareholders are not burdened with fees, commissions or other processing fees of the banks and that they receive the Compensation without any



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reduction. Taxes which accrue on any capital gain of an outside Celesio Shareholder are not affected by this. The respective outside Celesio Shareholder must bear these taxes himself. Reference is made to Section D.4.4 with regard to the tax effects for the outside Celesio Shareholders.

Clause 5 para. 5 of the Agreement, in turn, serves the purpose of protecting and treating all outside Celesio Shareholders equally. The provision grants to all outside Celesio Shareholders a claim for an additional payment to the Compensation in the event of any appraisal proceedings pursuant to sections 1 et seq. Appraisal Proceedings Act if the court sets forth a higher Compensation in an order which can no longer be appealed (*rechtskräftig*) or in the event of Dragonfly committing itself in a court settlement (*gerichtlicher Vergleich*) against an outside Celesio Shareholder to pay a higher Compensation payment to avoid or end a proceeding according to sections 1 et. seq. Appraisal Proceedings Act. This claim also exists if the outside Celesio Shareholder has already received the Compensation without regard to whether the outside Celesio Shareholder participated in any appraisal proceedings.

The Agreement can be terminated by both parties to it in accordance with clause 6 paras. 3 and 4 of the Agreement. If termination is effected at a time when the deadline for accepting the offer of Compensation pursuant to clause 5 para. 2 of the Agreement has already expired, then every outside shareholder of Celesio is afforded the right, pursuant to clause 5 para. 6 of the Agreement, to sell their Celesio shares held at the time of termination to Dragonfly for an amount of EUR 22.99. This amount corresponds to the amount laid down for the Compensation in clause 5 para. 1 of the Agreement. If the Compensation amount is increased by means of a ruling in appraisal proceedings that can no longer be appealed (*rechtskräftig*) or by a court settlement designed to avoid or to end any appraisal proceedings, then the outside Celesio Shareholders are entitled to exercise their right of sale at the relevant increased amount.

This right of sale seeks to provide additional protection to outside Celesio Shareholders who initially decide not to accept the offer of Compensation from Dragonfly, but to remain Celesio shareholders and receive the Recurring Compensation. There is no statutory obligation to make such a renewed offer of Compensation in the event that a domination and profit and loss transfer agreement is terminated.

This renewed right of sale is only available for a limited period. It can be exercised up to two months following the date on which registration of the Agreement's termination in the commercial register of Celesio has been publicly announced pursuant to section 10 German Commercial Code. The sale of Celesio shares pursuant to clause 5 para. 6 of the Agreement shall be free of charge for the outside Celesio Shareholders, which follows from a corresponding application of clause 5 para. 4 of the Agreement. The corresponding application of clause 5 para. 3 of the Agreement takes account of potential increases in Celesio's share capital from the reserves or for contributions (see above D.1.4.5). The aforementioned right of sale is applicable in the event of both a termination by Dragonfly and a termination by Celesio. It is to be noted in this context that the right to give regular notice of termination is excluded during the fixed term laid down for the Agreement under clause 6 para. 3 of the Agreement (see D.1.6.4 below).



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No provision is made for the accrual of interest on the amount payable under clause 5 para. 6 of the Agreement under a corresponding application of section 305 para. 3 sentence 3 Stock Corporation Act.

### 1.6 Effectiveness and term (clause 6 of the Agreement)

#### 1.6.1 Effectiveness

In accordance with the statutory requirements for approval under section 293 Stock Corporation Act, clause 6 para. 1 of the Agreement stipulates that the Agreement requires the consent of the general shareholders' meeting of Dragonfly as well as of the general shareholders' meeting of Celesio in order to be valid. The shareholders' meeting of Dragonfly has approved the Agreement on 21 May 2014. The general shareholders' meeting of Celesio is supposed to vote on the consent to the Agreement on 15 July 2014.

Furthermore, due to the statutory provision in section 294 para. 2 Stock Corporation Act, the Agreement only becomes effective upon its registration in the commercial register at the registered office of Celesio (clause 6 para. 2 of the Agreement).

#### 1.6.2 Beginning of the Agreement

- (i) Coming into effect of the right of management control and the right to issue instructions under clause 1 of the Agreement

The right of management control and the right to issue instructions under clause 1 of the Agreement applies as of the point in time the Agreement comes into effect.

- (ii) Coming into effect of the obligation to transfer profit under clause 2 of the Agreement

The obligation to transfer profit applies for the first time for the entire profit generated in the Celesio fiscal year beginning on 1 January 2015 or the subsequent Celesio fiscal year in which the Agreement becomes effective. If the Agreement takes effect in the 2014 fiscal year by reason of its registration in the commercial register of Celesio, then Dragonfly's right of management control and right to issue instructions pursuant to clause 1 of the Agreement shall apply from the time of said registration; however, the obligation to transfer profit shall only apply for the fiscal year beginning on 1 January 2015.

If the Agreement only takes effect by 31 December 2015 – or in case of an abbreviated fiscal year of Celesio running from 1 January 2015 until 31 March 2015 by 31 March 2015 – or later, then the obligation to transfer profit shall accordingly apply from the beginning of the fiscal year beginning on 1 January 2015 or from the beginning of the subsequent fiscal year in which the Agreement takes effect.

- (iii) Coming into effect of the obligation to compensate losses under clause 3 of the Agreement

Pursuant to clause 3 para. 2 of the Agreement, the obligation to compensate losses will apply for the first time for the full fiscal year of Celesio dur-



ing which the Agreement takes effect. If – as is usually the case – the registration of the Agreement in the commercial register of Celesio does not coincide with the beginning of the fiscal year, the Agreement therefore has retroactive effect with regard to the loss compensation obligation for that part of the fiscal year that has lapsed already at the time of registration in the commercial register.

### 1.6.3 Duration of the Agreement / minimum term

Pursuant to clause 6 para. 3 sentence 1 of the Agreement, the Agreement is concluded for an indefinite period of time. According to clause 6 para. 3 sentence 3 of the Agreement, the Agreement has a fixed minimum term of five successive full time years as of the beginning of the Celesio fiscal year in which the obligation to transfer profit under clause 2 of the Agreement becomes effective. In the event that the obligation to transfer profit under clause 2 of the Agreement begins (if applicable, retroactively) on 1 January 2015, the contractual minimum term would last accordingly until 31 December 2019. This fixed minimum term of the Agreement of five full time years is required according to section 14 para. 1 sentence 1 no. 3 Corporation Tax Act to establish a consolidated tax group for purposes of corporate income tax and trade tax between Dragonfly and Celesio. During the fixed minimum term set forth in clause 6 para. 3 of the Agreement, the right to give regular notice of termination is excluded.

### 1.6.4 Termination of the Agreement

During the fixed minimum term set forth in clause 6 para. 3 of the Agreement, i.e. of five successive full time years as of the beginning of the fiscal year in which the obligation to transfer profit under clause 2 of the Agreement becomes effective, the right to give regular notice of termination is excluded. Accordingly, the Agreement can be terminated for the first time by giving six months' notice as of the end of the minimum term (if said end of the minimum term falls at the end of a fiscal year) and, subsequently, by regular notice of termination in accordance with this notice period in each case as of the end of a fiscal year (clause 6 para. 3 sentence 3 of the Agreement). The notice of termination must be given in writing (clause 6 para. 5 of the Agreement).

In accordance with clause 6 para. 4 of the Agreement, the provisions on the minimum term do not affect the right of the contracting parties to terminate the Agreement for good cause (*aus wichtigem Grund*) without having to comply with a notice period. Good cause for termination generally exists under civil law if a continuation of the contractual relationship can no longer be expected of the party giving notice of termination after weighing all circumstances. For example, a deterioration in the financial or earning position of the controlled company Celesio can entitle the controlling company Dragonfly to give notice of termination if the risks for the controlling company are no longer acceptable and the controlling company is not responsible for this situation. Celesio as controlled company can, for example, give notice of termination if Dragonfly as controlling company will most likely not be able to fulfil its obligations existing under the Agreement (assumption of losses, Recurring Compensation (*Ausgleich*) and Compensation (*Abfindung*)).

Pursuant to clause 6 para. 4 sentence 1 of the Agreement, both parties are entitled to give notice of termination for good cause (*aus wichtigem Grund*). Just cause



within the meaning of clause 6 para. 4 sentence 2 in particular exists, if good cause for termination within the meaning of tax law (*wichtiger Grund im steuerlichen Sinn*) exists. Clause 6 para. 4 sentence 2 of the Agreement ensures that, in case Dragonfly issues a termination for good cause that does not impair the tax treatment, it is also entitled to terminate the contract for good cause from a corporate law perspective.

The provision contained in clause 6 para. 4 sentence 2 of the Agreement must be seen in light of applicable tax law. Entering into a profit and loss transfer agreement is necessary in order to be able to establish the indented status of a consolidated tax group between Dragonfly and Celesio for purposes of corporate income tax and trade tax. The prerequisite for this status of a consolidated tax group for purposes of corporate income tax and trade tax, in addition to the minimum term of the contract under section 14 para. 1 sentence 1 no. 3 Corporation Tax Act is, among others, that Celesio as the controlled company is financially integrated into Dragonfly as the controlling company in such a manner that the controlling company has the majority of the voting rights in the controlled company. Furthermore, the profit and loss transfer agreement must be entered into for a minimum term of five years and must actually be performed during its term. Termination of the profit and loss transfer agreement prior to the expiration of the minimum term pursuant to section 14 para. 1 sentence 1 no. 3 Corporation Tax Act generally leads to the non-recognition of the status of a consolidated tax group for tax purposes from the very beginning. Only a termination for good cause does not affect the status of a consolidated tax group for fiscal years that have already been completed, even if the termination occurs within the minimum term of the profit and loss transfer agreement established under tax law, to the extent that the good cause is recognized for tax purposes.

The disposal or the contribution of the participation can generally constitute good cause within the meaning of section 14 para. 1 no. 3 Corporation Tax Act for early termination of a domination and profit and loss transfer agreement by the controlling company which does not affect the recognition of the status of a consolidated tax group for the past. This applies accordingly in case of a merger, spin-off or liquidation of one of the two contracting parties. Clause 6 para. 4 sentence 2 of the Agreement is supposed to allow for a termination for good cause under corporate law in case one of the instances of termination for good cause recognized under tax law is given.

The background for this abstract provision is as follows: Pursuant to current rulings of the German tax courts the recognition for tax purposes of certain good causes, which have in practice been deemed unproblematic, always require an assessment of the specific case at hand. For example, a group internal sale or contribution of the participation in the subordinate company (Celesio) to another McKesson Group company may not automatically qualify as a good cause recognized for tax purposes.

This formal approach of the recognition of profit and loss transfer agreements poses some risk that the Agreement and the consequential tax group for purposes of corporate income tax and trade tax would altogether be invalid if the Agreement provides for an explicit list of good causes, and such causes are not recognized for tax purposes and do not leave room for an assessment of the specific case at



hand, as required by the German tax courts. As a result, the Parties abstained from listing specific good causes for the extraordinary termination of the Agreement.

In case of a termination of the Agreement, the statutory provision of section 303 Stock Corporation Act also applies: If a domination agreement or a profit and loss transfer agreement ends, the controlling company (Dragonfly) must provide security to the creditors of the controlled company (Celesio) if they make a corresponding request for this purpose to the controlling company within six months after the publication of the registration. However, this obligation under section 303 para. 1 and 2 Stock Corporation Act exists only with regard to those creditors whose claims were established before the registration of the termination of a domination or a profit and loss transfer agreement in the commercial register has been publicly announced pursuant to section 10 Commercial Code, and only to the benefit of those creditors which, in case of insolvency proceedings, would not have a right for preferred satisfaction from an insolvency estate which is established and publicly monitored for the protection of such preferred creditors under statutory law. The controlling company can issue a surety for the claim instead of posting security, whereby section 349 Commercial Code concerning the exclusion of the defence of requiring that a complaint first be filed against the primary obligor does not apply in this situation (section 303 para. 3 Stock Corporation Act).

### 1.7 Comfort letter (clause 7 of the Agreement)

Clause 7 of the Agreement contains the notice that McKesson, without acceding to the Agreement, has issued a comfort letter towards Celesio by separate declaration. This declaration is attached to the Report together with the Agreement as **Annex 2**.

In the comfort letter McKesson has granted an unlimited and irrevocable commitment to procure that Dragonfly is funded in a way that it is able to fully comply with its obligations under and in connection with the Agreement at all times and in a timely manner. In particular, this applies to the obligation to compensate losses pursuant to section 302 Stock Corporation Act. Furthermore, McKesson irrevocably guarantees to the outside Celesio Shareholders that Dragonfly will completely and timely fulfil all obligations existing towards them that arise out of or in connection with the Agreement, in particular to make payment of the Guaranteed Dividend, the Recurring Compensation Payment (*Ausgleichszahlung*) and of the Compensation (*Abfindung*); this also applies to potential increases of the Recurring Compensation (*Ausgleich*) and the Compensation (*Abfindung*) that occur due to a potential appraisal proceeding pursuant to the Appraisal Proceedings Act. In this regard, the outside Celesio Shareholders have a direct claim for payment against Dragonfly according to section 328 para. 1 Civil Code. This claim and a corresponding liability of McKesson towards the outside Celesio Shareholders are limited to the scenario that Dragonfly cannot fulfil its obligations out of or in connection with the Agreement towards the outside Celesio Shareholders in full and on time and that McKesson does not comply with its aforementioned funding obligation. The outside Celesio Shareholders therefore enjoy additional protection that goes beyond the statutory requirements.

The enforcement of the claims arising out of or in connection with the comfort letter is ensured from a procedural perspective as McKesson has submitted itself to the jurisdiction of German courts and to the local competence of the courts in Stuttgart with regard to disputes and claims arising out of or in connection with the comfort letter. In addition, McKesson has recognized the enforceability of decisions of German courts which can no longer be appealed (*rechtskräftig*) in this context. Dragonfly has been appointed as the



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person authorised to receive documents (*Zustellungsbevollmächtigter*) concerning the enforcement of claims arising out of or in connection with the comfort letter.

### 1.8 Severability clause (clause 8 of the contract)

Clause 8 of the Agreement (severability clause) shall secure the survival of the main content of the Agreement if individual contractual provisions turn out to be completely or partially invalid, unenforceable or if there are gaps, contrary to the parties' expectations. This is a provision typically contained in domination and profit and loss transfer agreements.

## 2 **Payment of the Recurring Compensation and the Compensation (technical processing by the banks)**

Dragonfly will mandate Deutsche Bank AG, Frankfurt am Main as the central processor for the technical handling of the payment of the Compensation under clause 5 of the Agreement. The outside Celesio Shareholders who want to make use of the offer for the Compensation must instruct their securities account bank to make available their Celesio Shares to the central processor via the collective custody system for the purpose of receiving the Compensation. Simultaneously with (*Zug um Zug*) proper transfer of the Celesio Shares, the Compensation will then be paid out. The processing of the Compensation is free of any commissions and fees for the outside Celesio Shareholders (see Section D.1.5.4). The Compensation will be offered to all outside Celesio Shareholders. Details about the processing will be announced without undue delay after registration of the Agreement in the commercial register.

Payment of the Recurring Compensation meaning the Guaranteed Dividend or the Recurring Compensation Payment under clause 4 of the Agreement will be processed in the same manner as dividend payments.

## 3 **Legal Effects on outside Celesio Shareholders**

### 3.1 Effects under corporate law

Implementation of the Agreement affects the government position and proprietary rights arising from the share ownership of outside Celesio Shareholders.

Under the Agreement Dragonfly has the right to issue instructions to the management board of Celesio with regard to the management of Celesio and the management of Celesio may exclusively serve Dragonfly's or McKesson Group's interests. Pursuant to the Agreement Dragonfly may issue disadvantageous instructions if these instructions serve the interest of McKesson Group. Such disadvantageous instructions can have substantial negative effects on the financial situation and earnings position of Celesio despite Dragonfly's obligation to assume the losses and may also continue to have effect after the Agreement has been terminated.

The outside Celesio Shareholders will be adversely affected in their control rights and possibly in their financial rights as a result of the right of management control of Dragonfly and the right to issue instructions to Celesio agreed upon in the Agreement. In exchange for these adverse effects, the outside Celesio Shareholders are compensated, with respect to the fiscal year in which only the right of management control and the right to issue instructions pursuant to clause 1 of the Agreement becomes effective, but not, however, the obligation to transfer profit pursuant to clause 2 of the Agreement, i.e. for Celesio's 2014 fiscal



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year in the event the Agreement takes effect in the course of the 2014 fiscal year by reason of its registration in the commercial register, by Dragonfly's obligation to pay a Guaranteed Dividend, and with respect to the fiscal years for which the obligation to transfer profit pursuant to clause 2 of the Agreement exists, by the obligation to grant the Recurring Compensation Payment (see Section D.1.4). In addition, they may accept the offer of a Compensation (see Section D.1.5) and sell their Celesio Shares to Dragonfly.

From the time the contractually stipulated obligation to transfer profit takes effect pursuant to clause 2 of the Agreement, i.e. at the earliest from the fiscal year beginning on 1 January 2015 if the Agreement is entered in the commercial register of Celesio by the end of the fiscal year beginning on 1 January 2015 or in the relevant subsequent fiscal year if the registration is only effected in a subsequent fiscal year (see the explanations in Section D.1.2 above), Celesio will not show any annual profit and, aside from any earnings resulting from the dissolution of reserves which are not subject to the transfer of profit or a balance sheet profit resulting from any profit carry forward from the time before the Agreement, also no balance sheet profit. This means that from the time the obligation to transfer profit takes effect the outside Celesio Shareholders will generally not receive any dividends during the term of the Agreement. Their right to resolve upon the appropriation of the balance sheet profit generally does not apply any longer.

In order to protect the interests of outside shareholders, there is a claim against Dragonfly for a Guaranteed Dividend and an annual Recurring Compensation Payment under section 304 Stock Corporation Act. The annual Recurring Compensation Payment to be paid in accordance with clause 4 of the Agreement will be paid to the outside Celesio Shareholders without undue delay after the due date established in clause 4 para. 3 of the Agreement. The technical processing of the payment will be through the respective securities account banks just as in the case of a dividend payment (see Section D.2).

Alternatively to receiving the Guaranteed Dividend or the Recurring Compensation Payment (*Ausgleichszahlung*), outside Celesio Shareholders may accept the offer for the Compensation (*Abfindung*) pursuant to section 305 Stock Corporation Act and exit the company against payment of the Compensation set out in clause 5 para. 1 of the Agreement. For details on the Guaranteed Dividend, the Recurring Compensation Payment (*Ausgleichszahlung*) and the Compensation (*Abfindung*) see the explanations on clauses 4 and 5 of the Agreement in Sections D.1.4 and D.1.5 above.

The outside Celesio Shareholders do not lose the right to the Compensation (*Abfindung*) as a result of the fact that they have already received the payments of the Recurring Compensation (*Ausgleich*) in the form of the Guaranteed Dividend or Recurring Compensation Payment (*Ausgleichszahlung*). If the offer for the Compensation (*Abfindung*) is only accepted after Recurring Compensation (*Ausgleich*) has been paid, which may be the case especially if the offer for the Compensation (*Abfindung*) is accepted during or after conclusion of appraisal proceedings (see section 305 para. 4 sentence 3 Stock Corporation Act and clause 5 para. 2 of the Agreement), payments of the Recurring Compensation (*Ausgleich*) in the form of the Guaranteed Dividend or Recurring Compensation Payment (*Ausgleichszahlung*) which have already been received will be credited against the claim for interest on the Compensation under section 305 para. 3 sentence 3 Stock Corporation Act. This crediting will be in accordance with reference periods, typically fiscal years, whereby the outside Celesio Shareholder entitled to the Compensation (*Abfindung*) is entitled to the corresponding difference between the Recurring Compensation (*Ausgleich*) and the interest on the Compensation (*Abfindung*) for the respective reference period if the Recurring



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Compensation (*Ausgleich*) received is lower than the interest on the Compensation (*Abfindung*) and also if the interest for the Compensation (*Abfindung*) in the reference period falls short of the higher Recurring Compensation (*Ausgleich*). The crediting of the Recurring Compensation (*Ausgleich*) with the interest on the Compensation (*Abfindung*) to be paid only occurs with regard to the Recurring Compensation (*Ausgleich*) which relates to the period of time after registration of the Agreement in the commercial register. Recurring Compensation (*Ausgleich*) which has already been received will not be credited against the payment of the Compensation (*Abfindung*) itself. This corresponds to the statutory provisions, taking into account the case law of the BGH (judgment dated 16 September 2002, case no. II ZR 284/01 – “Rütgers”; judgment dated 2 June 2003 case no. II ZR 85/02; judgment dated 10 December 2007, case no. II ZR 199/06).

Upon effectiveness of the Agreement Dragonfly's obligation to purchase the Celesio Shares of the outside Celesio Shareholders in exchange for payment of the Compensation set out in clause 5 para. 1 of the Agreement comes into existence. As of that point in time, the outside Celesio Shareholders can make use of their right to transfer their Celesio Shares to Dragonfly in exchange for payment of the Compensation set out in the Agreement by declaration to Dragonfly or to their respective securities account bank. Those Celesio Shareholders who do not make use of their right to transfer their Celesio Shares to Dragonfly continue to be Celesio Shareholders and annually receive Recurring Compensation in the form of the Guaranteed Dividend or Recurring Compensation Payment.

Immediately after registration of the Agreement the details on the compensation procedure will be published in the Federal Gazette (*Bundesanzeiger*) and will be communicated to the outside Celesio Shareholders via the respective securities account banks. The processing of the transfer of the shares to Dragonfly as a result of accepting the offer for Compensation will be free of charge for the shareholders (clause 5 para. 4 of the Agreement).

Dragonfly's obligation to assume the shares of outside Celesio Shareholders in exchange for payment of the Compensation is limited in time pursuant to clause 5 para. 2 of the Agreement. The outside Celesio Shareholders' declaration to accept the offer for the Compensation must be received within such time limit (see the explanations in Section D.1.5.4 above on details of the time limitation of Dragonfly's obligation). After expiry of the time-limit set out in clause 5 para. 2 of the Agreement the offer for the Compensation can no longer be accepted.

In case the period for acceptance of the offer for Compensation (*Abfindung*) is extended upon appraisal proceedings pursuant to section 305 para. 4 sentence 3 Stock Corporation Act and outside Celesio Shareholders accept the offer for Compensation (*Abfindung*) after having received the Guaranteed Dividend or Recurring Compensation Payments (*Ausgleichszahlungen*) pursuant to clause 4 of the Agreement, the payments received will be credited against the claim for interest on the Compensation (*Abfindung*) under section 305 para. 3 sentence 3 Stock Corporation Act (see the Section above) .

Aside from this, the entering into the Agreement has no legal effects on the shareholdings of the outside shareholders. In particular entering into the Agreement or its registration in the commercial register does not affect the voting rights and other participation rights linked to their shares.

The stock exchange listing of the Celesio Shares will not be affected by the registration of the Agreement in the commercial register. However, it cannot be excluded that a large portion of the outside Celesio Shareholders will accept the offer for Compensation and that



the number of the Celesio shares held in free float will decrease further. This can have the consequence that the resulting reduction of the liquidity of Celesio Shares may lead to greater fluctuations in the price of the Celesio stock than in the past.

The number of the Celesio Shares held in free float will decrease to the extent the offer for the Compensation under the Agreement is accepted. As a result, Celesio might no longer fulfil the respective criteria for remaining in stock exchange indices currently including the Celesio Shares. This applies especially for the Celesio stock remaining in the MDAX, an index calculated by Deutsche Börse AG which consists of 50 of the companies traded on the Frankfurt Stock Exchange. A removal from a stock exchange index can have the consequence, among others, that institutional investors which reflect the relevant index in their portfolio will dispose of Celesio Shares and refrain from any future purchases of Celesio Shares. An increased offer of Celesio Shares combined with a lower demand for Celesio Shares can adversely influence the stock exchange price for the Celesio Shares.

### 3.2 Protection of outside shareholders

Protection of the interests of the outside Celesio Shareholders in connection with entering into the Agreement is, as described below, secured by granting a Guaranteed Dividend, a Recurring Compensation Payment (*Ausgleichszahlung*) and a Compensation (*Abfindung*), the adequateness of which is examined by the court appointed auditor (see Section D.3.2.2). Should outside Celesio Shareholders be of the opinion that the Guaranteed Dividend or the Recurring Compensation Payment (*Ausgleichszahlung*) and/or the Compensation (*Abfindung*) set out in the Agreement are not adequate, they can have the adequateness examined in appraisal proceedings.

#### 3.2.1 Recurring Compensation (*Ausgleich*) and Compensation (*Abfindung*)

The statutory provisions on the grant of Recurring Compensation (*Ausgleich*) and on Compensation (*Abfindung*) and their implementation in the Agreement in the form of the Guaranteed Dividend, the Recurring Compensation Payment (*Ausgleichszahlung*) and the Compensation (*Abfindung*) all take account of the interests of the outside Celesio Shareholders.

With respect to the restriction of their control rights caused by the right of management control and the right to issue instructions coming into effect pursuant to clause 1 of the Agreement, the outside Celesio Shareholders shall receive full economic compensation for the loss of their dividend claims by the following means: for the 2014 fiscal year, if the Agreement takes effect in the 2014 fiscal year, by means of Dragonfly's obligation to pay a Guaranteed Dividend pursuant to clause 4 para. 1 of the Agreement in conjunction with section 304 Stock Corporation Act.

For subsequent fiscal years for which Celesio is also under an obligation to transfer profit pursuant to clause 2 of the Agreement, the outside Celesio Shareholders shall receive full economic compensation for the loss of their dividend claims by means of Dragonfly's obligation to pay an annually Recurring Compensation Payment pursuant to clause 4 para. 2 of the Agreement in conjunction with section 304 Stock Corporation Act.

Based on the Valuation Report by KPMG the parties agreed on a fixed Guaranteed Dividend and a fixed annually Recurring Compensation Payment of gross EUR 0.83. Thereof are to be deducted German corporate income tax plus German solidarity surcharge or any other levied taxes that are replacing or amending these



taxes or are levied by way of withholding, at the rate applicable in the relevant fiscal year, whereby this deduction is to be effected only on any portion of the gross sum resulting from profits which are subject to German corporate income tax.

According to the Valuation Report by KPMG, the relevant portion of the Recurring Compensation (*Ausgleich*) that - for the purposes of the case law laid down by the German Federal Court of Justice (*BGH*) - results from Celesio profits which are subject to German corporate income tax, is to be calculated as set out above (see the calculation under section 1.4.4(ii)). Due to the fact that, when rounded to the nearest full cent in accordance with commercial practice, the Recurring Compensation only results in profits which are not subject to any German corporate income tax, said Recurring Compensation is not to be reduced by any amount of German corporate income tax or solidarity surcharge. This means that the Guaranteed Dividend and Recurring Compensation Payment remain at an amount of EUR 0.83 per Celesio share for a full fiscal year. (for the legal basis of the Guaranteed Dividend and the Recurring Compensation Payment see Section D.1.4.3(i)) and for the calculation of the Guaranteed Dividend and the Recurring Compensation Payment see Section D.1.4.4(i)).

Alternatively, after the Agreement has been registered, outside Celesio Shareholders may transfer their Celesio Shares to Dragonfly in exchange for payment of an adequate Compensation, i.e. to exercise Dragonfly's offer for Compensation pursuant to section 305 Stock Corporation Act. For determination of the Compensation in an amount of EUR 22.99 per Celesio Share set out in clause 5 para. 1 of the Agreement the circumstances with regards to Celesio existing at the time of adoption of the relevant resolution in the general shareholders' meeting of Celesio which shall take place on 15 July 2014 have been taken into account (please see the detailed explanation and reasoning regarding the adequateness of the Compensation in Section E.3).

However, if the Agreement is terminated by one of the contracting parties, the outside Celesio Shareholders existing at the time of the termination are entitled to sell their Celesio Shares to Dragonfly within a period of two months after the date on which the registration of the termination of the Agreement in the commercial register of Celesio has been publicly announced pursuant to section 10 Commercial Code (see Section D.1.5.4).

### 3.2.2 Contract audit by an expert auditor

In response to the joint application of the management board and the management of the contracting parties, the District Court (*Landgericht*) Stuttgart in accordance with section 293c para. 1 Stock Corporation Act selected and appointed Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Kronenstraße 30, 70174 Stuttgart, Germany, as expert auditor within the meaning of section 293b para. 1 Stock Corporation Act by order dated 6 February 2014. This court order is attached to the Report as **Annex 3**. Ebner Stolz examines the Agreement and especially the adequateness of the Guaranteed Dividend, annual Recurring Compensation Payment as well as the Compensation and prepares a separate Audit Report pursuant to section 293e Stock Corporation Act. From the date on which the ordinary general shareholders' meeting which shall take place on 15 July 2014 is called, this Audit Report will be available together with the documents set forth in section 293f para. 1 Stock Corporation Act on Celesio's website



at <http://www.celesio.com/Hauptversammlung>. The information will also be available for display by the shareholders at the offices of Celesio from the date on which the ordinary general shareholders' meeting is called until its end and will also be available during the general shareholders' meeting of Celesio on 15 July 2014. A copy of these documents will be sent to any Celesio Shareholder free of charge without undue delay upon request. Reference is made to the invitation for the general shareholders' meeting of Celesio that will resolve upon the approval of the Agreement with regard to the details of the availability and request of the copies of this and the other documents.

### 3.2.3 Appraisal proceedings

Should outside Celesio Shareholders be of the opinion that the amount of the Guaranteed Dividend or of the Recurring Compensation Payment set out pursuant to clause 4 paras. 1, 2 and 3 of the Agreement is too low, they can have the adequateness of the Guaranteed Dividend or of the Recurring Compensation Payment examined by a court in appraisal proceedings pursuant to section 304 para. 3 sentence 3 Stock Corporation Act in conjunction with section 1 no. 1 Appraisal Proceedings Act after the Agreement takes effect. The right to initiate appraisal proceedings does not depend on having declared during the general shareholders' meeting an objection to the minutes recorded by the officiating notary against the resolution of the general shareholders' meeting on the Agreement. The court examination of the Guaranteed Dividend or of the Recurring Compensation Payment in special proceedings under section 304 para. 3 sentence 3 Stock Corporation Act in conjunction with section 1 no. 1 Appraisal Proceedings Act can be requested within three months from the date on which the registration of the existence of the Agreement in the commercial register of Celesio has been publicly announced pursuant to section 10 Commercial Code. The request must be supported with reasons in accordance with section 4 para. 2 Appraisal Proceedings Act within the above stated deadline of three months. If a higher Guaranteed Dividend or annual Recurring Compensation Payment is set forth by the court having jurisdiction in such appraisal proceedings by an order which can no longer be appealed (*rechtskräftig*), all outside Celesio Shareholders can assert a claim against Dragonfly for the Guaranteed Dividend or the Recurring Compensation Payment as increased by the court (section 13 Appraisal Proceedings Act). In this case Dragonfly may terminate the Agreement within two months after the court decision can no longer be appealed without having to comply with a notice period (section 304 para. 4 Stock Corporation Act). If appraisal proceedings are ended by a court settlement, the rights of all outside Celesio Shareholders are protected by the fact that such an end of proceedings under section 11 para. 2 Appraisal Proceedings Act is only possible with the consent of the joint representative of the outside Celesio Shareholders and any agreement about an increased Guaranteed Dividend or Recurring Compensation Payment (*Ausgleichszahlung*) or any increased Compensation (*Abfindung*) agreed in order to end the proceedings applies for the benefit of all outside Celesio Shareholders regardless of whether they were involved in the appraisal proceedings themselves.

Should outside Celesio Shareholders be of the view that the Compensation set out in clause 5 para. 1 of the Agreement is too low, they can also have the adequateness of the Compensation examined by a court in appraisal proceedings pursuant to section 305 para. 5 sentence 2 Stock Corporation Act in conjunction with sec-



tion 1 no. 1 Appraisal Proceedings Act. The discussion in the above paragraph concerning the Guaranteed Dividend and the Recurring Compensation Payment applies accordingly with regard to the deadline for submitting the request, the submission of reasons for the request, the effect of the court decision in such appraisal proceedings, a termination right of Dragonfly following a court decision regarding the Compensation and the conclusion of such proceedings by way of court settlement.

#### **4 Tax effects on outside Celesio Shareholders**

##### **4.1 Preliminary remarks**

The following paragraphs contain a brief summary of some important German tax principles which can be relevant in connection with entering into the Agreement for the outside Celesio Shareholders who are subject to full taxation in Germany.

Tax effects for outside Celesio Shareholders who are not fully subject to taxation in Germany are not explained below. These tax effects depend, among other aspects, on special provisions of German tax law, the tax law of the country in which the respective shareholder is domiciled as well as on provisions in any existing treaty for the avoidance of double taxation (double taxation treaty).

The description generally only relates to corporate income tax, income tax, withholding tax on investment income and trade tax as well as the solidarity surcharge, which accrue in Germany, but not church tax, and deals only with some of the aspects of these types of taxes. For example, the description does not address the specific aspects with regard to so-called tainted shares (*einbringungsgeborene Anteile*) which were acquired as consideration for a tax benefited contribution under the German Reorganisation Tax Act (*Umwandlungssteuergesetz – UmwStG*) as well as special provisions for certain companies in the financial and insurance industry. Only the currently applicable legal situation is used as a basis, as it is applied by the tax authorities and the tax courts at the time of this Report. This situation can change, potentially also with retroactive effect.

No liability is assumed for the completeness and accuracy of this description. The recommendation is made to shareholders to consult with their tax advisors. Only the tax advisors are able to reasonably take into account the specific tax circumstances of the individual shareholder.

##### **4.2 Taxation at the level of Celesio Shareholders on a differential amount to be paid as a result of the Guaranteed Dividend**

The following explanations under 4.3 below on the taxation of Recurring Compensation Payments shall apply *mutatis mutandis* to the differential amount, payable pursuant to clause 4 para. 1 of the Agreement, between the dividend paid by Celesio and the dividend guaranteed by Dragonfly for the 2014 fiscal year.

##### **4.3 Taxation of Recurring Compensation Payments at the level of shareholders**

The guaranteed Recurring Compensation Payment to be paid pursuant to clause 4 para. 1 of the Agreement should be subject to the general rules on taxation of dividends at the level of the affected shareholders.



### 4.3.1 Withholding tax on investment income

Withholding tax on investment income (*Kapitalertragsteuer*) in the amount of 25% plus the solidarity surcharge of 5.5% on the amount of the withholding tax on investment income (tax deduction including solidarity surcharge in total amounts to 26.375% must be deducted from the Recurring Compensation Payment at payment. The withholding tax on investment income is generally withheld and passed on without regard to which amount the payment is actually subject to taxation at the level of the shareholders.

With regards to shareholders who hold their shares in private assets the withholding tax on investment income payable on the Recurring Compensation Payment has definitive effect (so-called flat tax (*Abgeltungssteuer*)). In contrast, with regards to shareholders who hold their shares as business assets the withholding tax on investment income is offset against the income or corporate income tax to be paid by the shareholders. Withheld tax on investment income will be reimbursed to the extent it exceeds the shareholders' personal tax obligation. This applies accordingly to the solidarity surcharge.

### 4.3.2 Shares in private assets

The Recurring Compensation Payments for shares held in private assets are subject to income tax as income from capital assets; however, the deduction of withholding tax on investment income in general has final effect (so-called flat tax (*Abgeltungssteuer*)) and the Recurring Compensation Payment therefore does not have to be declared in the tax declarations of each shareholder. In certain situations (for example in the case of the existence of a non-assessment certificate of the tax authorities or in the case of an exemption order in a sufficient volume), the Recurring Compensation Payment can be paid out to the shareholders without deducting withholding tax on investment income and the solidarity surcharge.

Upon request of the shareholder the respective Recurring Compensation Payments can be made subject to standard income tax instead of the flat tax if this leads to a lower tax burden for the shareholder (most-favourable-tax-treatment test (*Günstigerprüfung*)). In this case the investment income including a deduction of saver's (tax-free) allowance (*Sparer-Pauschbetrag*) of EUR 801 (EUR 1,602 in the case of jointly assessed spouses) is relevant and deduction of the actual income-related expenses is excluded. The initially withheld tax on investment income is credited against the levied income tax.

### 4.3.3 Shares held as business assets

In case of shares held as business assets, the taxation depends on whether the shareholder is a corporation, an individual business person or a partnership (co-entrepreneur):

#### (i) Corporations

With regards to corporations Recurring Compensation Payments are generally subject to corporation tax, unless the shareholder held at least 10% of the share capital at the beginning of the respective calendar year. In this case the Recurring Compensation Payment is generally exempt from corporate income tax. However, 5% of these tax-exempt revenues are deemed to be expenses which may not be deducted as operating expenses and



thus are subject to corporation tax (plus solidarity surcharge thereon). In exchange, operating expenses which have actually been incurred in connection with the Recurring Compensation Payments can generally be fully deducted (subject to other limits on deduction). The Recurring Compensation Payments are fully subject to trade tax (*Gewerbesteuer*) unless the shareholder has a participation of at least 15% of the share capital of Celesio (intercompany participation (*Schachtelbeteiligung*)) at the beginning of the relevant tax period. In the latter case, the exemption of 95% of the Recurring Compensation Payments from corporation tax applies accordingly for purposes of trade tax.

(ii) Individual business person

In the case of individual business persons (natural persons (*natürliche Personen*)), 60% of the Recurring Compensation Payment is subject to taxation (so-called partial income system (*Teileinkünfteverfahren*)). Accordingly, expenses economically connected with the Recurring Compensation Payment are only deductible in an amount of 60% (subject to other limits on deduction). If the shares belong to the assets of a permanent business establishment located in Germany, the Recurring Compensation Payment is fully subject to trade tax if the shareholder is subject to trade tax and does not have a participation of at least 15% of the share capital of the company at the beginning of the relevant tax period. However, the trade tax can be fully or partially credited against the shareholder's income tax by means of a flat sum procedure.

(iii) Partnerships

If the shares are held by a partnership (co-entrepreneur) the income tax or corporation tax is only incurred at the level of each partner. In case of partners subject to corporation tax who hold a participation of at least 10% of the share capital at the beginning of the relevant tax period, 95% of the Recurring Compensation Payment is tax-exempt and the remainder is subject to taxation (see Section (i) above). In case the partner instead is subject to income tax, 60% of the Recurring Compensation Payment is subject to taxation (see Section (ii) above). With regards to deductibility of operating expenses the information in Section (i) and (ii) above applies accordingly to partners subject to corporation tax. The Recurring Compensation Payment is fully subject to trade tax at the level of the partnership if it is subject to trade tax and does not hold a participation of at least 15% of the share capital of the company at the beginning of the relevant tax period. Insofar as natural persons participate in the partnership the trade tax incurred at the level of the partnership is fully or partially credited against their income tax by means of a flat sum procedure. 5% of the Recurring Compensation Payment is subject to trade tax if the partnership holds a participation of at least 15% of the share capital of the company at the beginning of the relevant tax period. In case natural persons hold the participation the Recurring Compensation Payment is not subject to trade tax.



#### 4.4 Taxation of compensation at the level of shareholders

Pursuant to clause 5 para. 1 of the Agreement, Dragonfly undertakes towards shareholders who want to leave Celesio because of Celesio entering into the Agreement to purchase their shares in exchange for an adequate compensation in the amount of EUR 22.99 for each Celesio share. Any earnings resulting from the consequent transfer of shares of Celesio against the abovementioned Compensation should be subject to the statutory rules on taxation of gains from the disposal of shares in a corporate body (*Besteuerung von Gewinnen aus der Veräußerung von Anteilen an einer Körperschaft*) at the level of the respective shareholders. A capital gain is realized if the Compensation minus any costs of sale exceeds the acquisition costs for tax purposes or the book value for tax purposes for the relevant shares at the level of the respective shareholder. If the Compensation minus any costs of sale is less than the acquisition costs or the book value of the shares at the level of the shareholder, a capital loss is incurred.

##### 4.4.1 Withholding tax on investment income

Withholding tax on investment income in an amount of 25% plus the solidarity surcharge of 5.5% on the amount of the withholding tax on investment income (in total approximately 26.375%) must be deducted from the capital gain (*Veräußerungsgewinn*). Such deduction requires a domestic paying office (domestic or domestic branch of a foreign credit institution, financial services institution, securities trading company or securities trading bank) to hold or to administer the shares in custody or to carry out the sale and to pay out or issue a credit for the investment income.

No withholding tax on investment income will be due with regards to the Compensation if the shares are held in private assets and where acquired before 1 January 2009. Deduction of withholding tax on investment income also does not apply to the Compensation for shares held as business assets by corporation with unlimited tax liability. The same applies under certain circumstances to shares held by natural persons or by partnerships as business assets.

Deduction of withholding tax on investment income and solidarity surcharge has settling effect with regards to shares held in private assets. To the contrary, deduction of taxes does neither have settling effect with regards to shares held in private assets if the shareholder participated in at least 1% of the share capital of Celesio during the last five years prior to the disposal nor with regards to shares held as business assets. In these cases withheld taxes will be credited against the disposing shareholder's income or corporation tax and solidarity surcharge and an exceeding amount will be reimbursed.

##### 4.4.2 Shares in private assets

Taxation on the Compensation depends on whether the shareholders have acquired the shares before 1 January 2009 after 31 December 2008:

###### (i) Shares acquired before 1 January 2009

Capital gains from shares which were acquired before 1 January 2009 and which were held in private assets remain tax-free also with regards to any compensation.



However, capital gains from the Compensation in favour of a shareholder who, or – in case of acquisition of title free of charge – whose predecessor, at any point in time during five years prior to the acquisition of the shares by Dragonfly pursuant to clause 5 para. 1 of the Agreement directly or indirectly held a participation of at least 1% of the share capital of Celesio are subject to the so-called partial income system (*Teileinkünfteverfahren*), i.e. 60% of these capital gains are subject to taxation. Accordingly, only 60% of expenses economically connected to the Compensation and of capital losses may be deducted in this case.

(ii) Shares acquired after 31 December 2008

Capital gains from shares acquired after 31 December 2008 are, regardless of the holding period generally subject to taxation. Respective capital losses may only be offset against gains from the disposal of shares during the current or a later year.

Withholding tax on investment income is deducted from capital gains resulting from the compensation for shares which have been acquired after 31 December 2008, provided the presence of a domestic paying office. Deduction of withholding tax on investment income generally has settling effect, i.e. insofar the shareholder's tax liability is deemed settled and the capital gain does not need to be stated in the shareholder's annual tax declarations. Under certain circumstances (for example in case of the existence of a non-assessment certificate of the tax authorities or in case of an exemption order in a sufficient volume) the Compensation may be paid out to shareholders without deducting withholding tax on investment income and the solidarity surcharge. If the withholding tax on investment income is not deducted in other cases (for example in case of the absence of a domestic paying office) the shareholder must state the capital gain in its annual tax declarations. However, in these cases the capital gain will not be assessed at the shareholder's personal income tax rate but at the flat tax rate on investment income.

Upon request of the shareholder the capital gain resulting from the Compensation can be subject to the income tax rate instead of the taxation at the flat tax on investment income if this reduces the tax burden on the respective shareholder. In this case the initially withheld tax on investment income will be credited against the levied income tax. When determining the income from investments only a saver's (tax-free) allowance of EUR 801 (or EUR 1,602 in the case of jointly assessed spouses) may be deducted as income-related expenses. Deduction of the actual income-related expenses is excluded.

In case the shareholder held a participation of at least 1% of the share capital of Celesio at any point in time during the last five years 60% of the capital gain is subject to taxation. The withheld tax on investment income and the solidarity surcharge will be credited against the shareholder's tax liability and an exceeding amount will be reimbursed. In these cases shareholders may deduct only 60% of any capital losses and expenses in connection with the disposal.



**4.4.3 Shares held as business assets**

If shares are held as business assets the taxation of the capital gains resulting from the disposal depends on whether the shareholder is a corporation, an individual business person or a partnership (co-entrepreneur):

**(i) Corporations**

With regards to corporations profits from the disposal of shares are generally exempt from corporation tax and trade tax. However, 5% of the capital gains are deemed to be expenses which cannot be deducted as business expenses for tax purposes so that they are subject to corporation tax (plus the solidarity surcharge thereon) and trade tax. Capital losses and other reductions in the profit in connection to the disposed shares cannot be taken into account for tax purposes.

**(ii) Individual business person**

If the shares are held by an individual business person, 60% of the capital gains are subject to taxation. Accordingly, only 60% of the business expenses related to the capital gains as well as only 60% of any capital losses can be taken into account for tax purposes. If the shares belong to the assets of a permanent business establishment located in Germany, 60% of the capital gains are subject to trade tax if the individual business person is subject to trade tax. However, the trade tax is completely or partially credited against the income tax of the investor.

**(iii) Partnerships**

If the shares are held by a partnership (co-entrepreneur) the taxation depends on whether its partners are subject to income or corporation tax. With regards to partners subject to corporation tax, 95% of the capital gains from the disposal of shares are generally tax-exempt (see Section (i) above). With regards to partners subject to income tax, 60% of the capital gains from the disposal of shares are subject to taxation (see Section (ii) above). In addition, in case of an allocation to a permanent business establishment located in Germany, 60% of the capital gains from the disposal of shares are subject to trade tax at the level of the partnership if natural persons participate in the partnership, and 5% of the capital gains are subject to trade tax at the level of the partnership if corporations participate in the partnership. However, to the extent that natural persons participate in the partnership, the trade tax is completely or partially credited against their income tax by way of a flat rate procedure. With regards to deductibility of operating expenses and capital losses, the information on partners subject to corporation tax in Section (i) and the information on partners subject to income tax in Section (ii) above applies accordingly.

**5 Tax effects on Celesio**

If all other preconditions for a consolidated tax group for purposes of corporate income tax and trade tax are fulfilled, the Agreement will have the effect that earnings of Celesio are allocated to Dragonfly for corporate income and trade tax purposes and are subject to taxation at Dragonfly. Celesio does, however, have to submit its earnings in an amount of



20/17 of the paid compensation payments to taxation (section 16 Corporation Tax Act). The consolidated tax group begins at the earliest from the fiscal year of Celesio, at the beginning of which the obligation to transfer profit pursuant to clause 2 of the Agreement is already in existence, i.e. presumably as of 1 January 2015, provided that that Agreement has been registered in the commercial register by the end of such fiscal year pursuant to clause 6 para. 2 of the Agreement. Loss carry forwards existing at the beginning of the consolidated tax group remain in place but cannot be used for tax purposes for the duration of the consolidated tax group.

As a result of the consolidation for tax purposes, Celesio is liable pursuant to section 73 German General Tax Code (*Abgabenordnung*) for those taxes of the parent company of the consolidated tax group for which the consolidated tax group is relevant. Claims for reimbursement of tax credits are treated equally with the taxes in this regard.

### **6 Cost of the domination and profit and loss transfer agreement**

Entering into the Agreement created one-time costs. These costs were in particular caused by mandating the Valuation Expert (see Section E.1), the issuance of the Audit Report by the court appointed Contract Auditor (see Section D.3.2.2), as well as by obtaining legal advice. Dragonfly and Celesio each bear one half of the costs for the preparation of the valuation report on the enterprise value prepared by the Valuation Expert as well as the costs for the preparation of the report by the Contract Auditor. All other costs incurred by the parties, including costs of external advisers, are borne by the respective party alone. External costs to be borne by Celesio in a range of approximately EUR 1.7 million are expected overall. The external costs to be borne by Dragonfly are expected to amount to approximately EUR 1 million.

## **E. TYPE AND AMOUNT OF THE RECURRING COMPENSATION AND THE COMPENSATION PURSUANT TO SECTIONS 304, 305 STOCK CORPORATION ACT**

### **1 Overview**

Pursuant to section 304 Stock Corporation Act, a domination and profit and loss transfer agreement must contain an adequate compensation for the outside shareholders by means of a recurring payment of money related to the shares in the share capital. The type of the Recurring Compensation and reasons for the valuation of the amount of the Recurring Compensation are described in Section D.1.4.3.

At least the annual payment of that amount must be promised as recurring compensation under section 304 para. 1 sentence 1 and para. 2 sentence 1 Stock Corporation Act which could most likely be distributed to the individual share as an average share in the profit according to the earnings position of the company to date and its future prospects for earnings, taking into account reasonable depreciation and adjustments in value but without establishing other profit reserves.

According to section 305 para. 1 Stock Corporation Act, a domination and profit and loss transfer agreement must also contain the obligation of the controlling company to purchase the shares of an outside shareholder upon request in exchange for adequate compensation determined in the agreement. The adequate compensation must take into account the circumstances of the company at the time of adopting the resolution by the general share-



holders' meeting about the agreement in accordance with section 305 para. 3 sentence 2 Stock Corporation Act. This applies accordingly for the Guaranteed Dividend and the Recurring Compensation Payment (*Ausgleichszahlung*) pursuant to section 304 Stock Corporation Act. According to the order of the BGH dated 27 April 1999 (case no. BvR 1613/94), an existing stock exchange price cannot be ignored when setting the amount of the Compensation (*Abfindung*) under section 305 Stock Corporation Act. The stock exchange price generally represents the lowest amount of the compensation to be paid to the shareholder.

The determinative date for the valuation of the Recurring Compensation and the Compensation is the scheduled date of the annual general shareholders' meeting of Celesio which will vote on the Agreement, i.e. 15 July 2014.

The management board of Celesio and the management of Dragonfly assigned KPMG to submit a Valuation Report on the company value of Celesio on the scheduled day of the general shareholders' meeting, i.e. 15 July 2014, as well as on the amount of the adequate Guaranteed Dividend (Garantiedividende) and the Recurring Compensation Payment (*Ausgleichszahlung*) for purposes of section 304 Stock Corporation Act and the Compensation (*Abfindung*) for purposes of section 305 Stock Corporation Act.

Between 10 February 2014 and 14 May 2014, KPMG performed the necessary steps to prepare the Valuation Report. On 14 May 2014, KPMG submitted its expert opinion on the estimation of Celesio's enterprise value as well as of the adequate Compensation (*Abfindung*) (section 305 Stock Corporation Act) and of the adequate Guaranteed Dividend and the Recurring Compensation Payment (*Ausgleichszahlung*) (section 304 Stock Corporation Act) as of 15 July 2014, i.e. the date of the general shareholders' meeting of Celesio voting on the Agreement.

KPMG, in its function as neutral expert within the meaning of IDW S 1, concludes in its Valuation Report that the objectified enterprise value within the meaning of IDW S 1 of Celesio as of 15 July 2014 is EUR 4,556. This corresponds to an amount of EUR 22.42 for each Celesio Share given 203,220,932 issued Celesio Shares.

KPMG also concludes that the relevant average stock exchange price is EUR 22.99 for each Celesio Share. This is determined on the basis of a volume weighted average stock exchange price for Celesio Shares determined by BaFin for the three months period prior to the announcement by McKesson on 23 January 2014 of the intent to bring about the signing of a Agreement between Celesio and Dragonfly (see E.3). Since the enterprise value determined using the discounted earnings method for each Celesio Share is below the relevant stock exchange price, KPMG based the determination of the Compensation on the stock exchange price. This results according to the Valuation Report of KPMG to an adequate Compensation for the purpose of section 305 Stock Corporation Act of EUR 22.99 for each Celesio Share. The adequate Recurring Compensation for the purpose of section 304 Stock Corporation Act determined using the discounted earnings method results according to the valuations of KPMG to a gross amount of EUR 0.83 (net also EUR 0.83) for each Celesio Share.

The complete version of the Valuation Report of KPMG on the determination of the adequate Compensation (section 305 Stock Corporation Act) and the adequate Recurring Compensation (section 304 Stock Corporation Act) dated 14 May 2014 is attached as **Annex 4** to this Report and, thus, constitutes an integral part of this Report.

The management board of Celesio and the management of Dragonfly have completely incorporated the statements by KPMG in the referenced Valuation Report to the enterprise



value of Celesio, regarding the adequate Recurring Compensation Payment and regarding the adequate Compensation as their own and include it in the substance of this Report. In their own view, the management board of Celesio and the management of Dragonfly consider the Compensation (*Abfindung*) for purposes of section 305 Stock Corporation Act in the amount of EUR 22.99 for each Celesio Share as well as Recurring Compensation (*Ausgleich*) in the form of the Guaranteed Dividend and the Recurring Compensation Payment for purposes of section 304 Stock Corporation Act in the gross amount of EUR 0.83 (net also EUR 0.83) for each Celesio Share to be adequate.

The Valuation Report by KPMG – as well as this Report – will be available at the website of Celesio at <http://www.celesio.com/Hauptversammlung>, together with the other documents required pursuant to section 293f para. 1 Stock Corporation Act starting on the date on which the general shareholders' meeting of Celesio which will resolve on the approval of the Agreement is convened. The documents will also be available for display for the Celesio Shareholders in the offices of Celesio from the date on which the ordinary general shareholders' meeting is called until its end and will also be available during the general shareholders' meeting of Celesio on 15 July 2014. A copy of these documents will be sent to any Celesio Shareholder free of charge without undue delay upon request. Reference is made to the invitation for the general shareholders' meeting of Celesio that will resolve upon the approval of the Agreement with regard to the details of the availability and request of the copies of these and other documents.

The management board of Celesio and the management of Dragonfly expressly point out for purposes of avoiding the risk of liabilities under foreign legal systems that the planning of Celesio constituting the basis of the enterprise valuation was prepared to the best of their knowledge but that neither Celesio, nor a company of the McKesson Group can assume any liability for their future occurrence.

## **2 Determination and setting of the amount of the appropriate Guaranteed Dividend and the appropriate Recurring Compensation Payment pursuant to Section 304 Stock Corporation Act**

Pursuant to clause 4 para. 1 of the Agreement, Dragonfly guarantees to the outside Celesio Shareholders a fixed Guaranteed Dividend for the 2014 fiscal year, in the event the Agreement takes effect in 2014.

The Guaranteed Dividend comes to an amount of EUR 0.83 before taxes and a net amount of currently EUR 0.83 per Celesio Share.

Pursuant to clause 4 para. 2 of the Agreement, Dragonfly grants to the outside Celesio Shareholders a fixed annual Recurring Compensation Payment for the duration of the Agreement starting from the relevant fiscal year for which the obligation to transfer profit pursuant to clause 2 of the Agreement becomes effective, and at the earliest starting from the fiscal year beginning on 1 January 2015.

The annual Recurring Compensation Payment comes to an amount of EUR 0.83 before taxes and a net amount of currently EUR 0.83 per Celesio Share.

The reasons why the parties have agreed on a fixed Guaranteed Dividend and a fixed Recurring Compensation Payment were described in Section D.1.4.3(ii). The contracting parties have agreed on a gross amount in accordance with the case law of the BGH (judge-



ment dated 21 July 2003, case no. II ZB 17/01 – “Ytong”). Reference is made on this point to the explanation in Section D.1.5.

The management board of Celesio and the management of Dragonfly have mutually agreed on the amount of the Guaranteed Dividend and of the Recurring Compensation Payment, based on the results of the Valuation Report of KPMG dated 14 May 2014, in which KPMG comes to the conclusion that the adequate Recurring Compensation amounts to EUR 0.83 before taxes (net amount is also EUR 0.83) per Celesio Share.

### **3 Determination and setting of the amount of the appropriate Compensation pursuant to Section 305 Stock Corporation Act**

Pursuant to clause 5 of the Agreement, Dragonfly undertakes upon demand of each outside Celesio Shareholder to purchase such shareholder's Celesio Shares in exchange for a Compensation (section 305 para. 2 No. 3 Stock Corporation Act). Each outside Celesio Shareholder willing to make use of the offer for Compensation receives for each Celesio Share a Compensation in the amount of EUR 22.99. The determining conditions for the Agreement on the form of Compensation as cash compensation are described in Section D.1.5.

The management board of Celesio and the management of Dragonfly agreed to determine the amount of the Compensation on basis of the results of the Valuation Report of KPMG of 14 May 2014. In this Valuation Report, KPMG has determined an amount of EUR 22.99 per Celesio Share as adequate Compensation within the meaning of Section 305 Stock Corporation Act.

The enterprise value of Celesio determined by KPMG in their Valuation Report in accordance with the discounted earnings method pursuant to IDW S 1 as of 15 July 2014 is EUR 4,556. This corresponds to a value of EUR 22.42 per Celesio share.

When determining the Compensation, KPMG and the contracting parties took further into account the stock exchange price for the Celesio Shares. According to the case law of the German Constitutional Court of 27 April 1999, case no. BvR 1613/94, the stock exchange price generally represents the lowest amount for determining the amount of the compensation to be offered to the outside shareholders.

The BGH (judgement dated 12 March 2001 – case no. II ZB 15/00) specified the requirements of the German Constitutional Court with regard to the relevance of the stock exchange price for determining the adequate compensation. In its judgement of 19 July 2010 (case no. ZB II 18/09 – “Stollwerck”) the BGH established additional requirements in this respect and stated in further detail that the relevant stock exchange price must be determined on the basis of a volume weighted average stock exchange price during a three month reference period prior to the announcement of a structural measure.

McKesson and Dragonfly announced their intent to enter into a domination and profit and loss transfer agreement between Celesio and Dragonfly by way of a press release (McKesson) as well as by way of a notification pursuant to section 10 para. 1 in connection with sections 29 para. 1, 34 Takeover Act (Dragonfly) on 23 January 2014. The volume weighted stock exchange price of Celesio shares determined by BaFin for the three months period prior to the publication of the press release on 23 January 2014 is EUR 22.99. As this value exceeds the above-mentioned enterprise value per share determined in accordance with the discounted earnings method, the volume weighted stock ex-



## NON-BINDING ENGLISH CONVENIENCE TRANSLATION

change price of EUR 22.99 was relevant for the determination of the Compensation in the present case.

The volume weighted stock exchange price does not have to be adjusted and extrapolated to the date of the general shareholders' meeting. According to the Stollwerck decision of the BGH, such adjustment only has to occur if a longer period of time has passed between the public announcement of the structural measure and the date of the general shareholders' meeting and if the development of the stock exchange prices shows that an adjustment is appropriate. An adjustment of the value weighted three months stock exchange price in the present case, however, is not necessary because a period of less than six months lies between the announcement of the intent to enter into a domination and profit and loss transfer agreement (23 January 2014) and the date of the general shareholders' meeting (15 July 2014) at which the Agreement will be presented for approval. This does not constitute a longer period of time under the Stollwerck decision.

### **F. CONTRACT AUDIT**

Ebner Stolz have prepared an Audit Report, which, together with the documents set forth in section 293f para. 1 Stock Corporation Act, will be available on Celesio's website at <http://www.celesio.com/Hauptversammlung> as of the date on which the general shareholders' meeting of Celesio AG is called. In addition, the Audit Report and the above mentioned documents will be available at the premises of Celesio for inspection by outside Celesio Shareholders and will also be available during the general shareholders' meeting. A copy of these documents will be sent to any Celesio Shareholder free of charge without undue delay upon request (see Section D.3.2.2.).



## NON-BINDING ENGLISH CONVENIENCE TRANSLATION

### **Celesio AG**

The Management Board

Stuttgart, 22 May 2014

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Dr. Marion Helmes

Speaker of the Management  
Board

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Stephan Borchert

Member of the Manage-  
ment Board

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Martin Fisher

Member of the Manage-  
ment Board

### **Dragonfly GmbH & Co. KGaA**

The Management

Frankfurt am Main, 22 May 2014

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Roger Wade Estey

as managing director of  
Dragonfly Verwaltungs  
GmbH with said entity acting  
in its capacity as general  
partner of Dragonfly GmbH  
& Co. KGaA

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Willie C. Bogan

as managing director of  
Dragonfly Verwaltungs  
GmbH with said entity  
acting in its capacity as  
general partner of Dragon-  
fly GmbH & Co. KGaA

Annexes



**Annex 1:** List of shareholdings of the Celesio Group as of 31 December 2013  
pursuant to Section 313 para. 2 German Commercial Code

<b>Name and registered office of company</b>	<b>Interest<sup>1)</sup> (as a %)</b>	<b>Equity<sup>2)</sup> EUR k</b>	<b>Net profit/loss<sup>2)</sup> EUR k</b>
<b>I. Parent company</b>			
Celesio AG, Stuttgart			
<b>II. Subsidiaries (fully consolidated companies)</b>			
"Aewige" ärztliche Wirtschaftsgesellschaft m.b.H., Wien	100.00		
2012 DREAM LIMITED, COVENTRY	100.00		
28CVR LIMITED, COVENTRY	100.00		
30MC LIMITED, COVENTRY	100.00		
A C FERGUSON (CHEMIST) LIMITED, COVENTRY	100.00		
A F CANNON (DISPENSING CHEMISTS) LIMITED, COVENTRY	100.00		
A MILLER (CHEMIST) LIMITED, Glasgow	100.00		
A. SUTHRELL (HAULAGE) LIMITED, COVENTRY	100.00		
AAH BUILDERS SUPPLIES LIMITED, COVENTRY	100.00		
AAH FURB PENSION TRUSTEE LIMITED, COVENTRY	100.00		
AAH GLASS & WINDOWS LIMITED, COVENTRY	100.00		
AAH Ireland, Dublin	100.00		
AAH LIMITED, COVENTRY	100.00		
AAH Lloyds Insurance (IoM) Limited, Douglas	100.00		
AAH LLOYDS PENSION TRUSTEES LIMITED, COVENTRY	100.00		
AAH NOMINEES LIMITED, COVENTRY	100.00		
AAH ONE LIMITED, Glasgow	100.00		
AAH PENSION TRUSTEES LIMITED, COVENTRY	100.00		
AAH PHARMACEUTICALS LIMITED, COVENTRY	100.00		
AAH RETAIL PHARMACY LIMITED, COVENTRY	100.00		
AAH TWENTY FIVE LIMITED, COVENTRY	100.00		
AAH TWENTY FOUR LIMITED, Glasgow	100.00		
AAH TWENTY LIMITED, COVENTRY	100.00		
AAH TWENTY SEVEN LIMITED, COVENTRY	100.00		
AAH TWENTY SIX LIMITED, COVENTRY	100.00		
AAH TWENTY THREE LIMITED, GLASGOW	100.00		
AAH TWENTY TWO LIMITED, COVENTRY	100.00		
ABG Apotheken-Beratungsgesellschaft mbH, Stuttgart	100.00		
ACEPEARL LIMITED, COVENTRY	100.00		
ACME DRUG CO. LIMITED, GLASGOW	100.00		
ADDED MARKETING LIMITED, COVENTRY	100.00		
Admenta Beteiligungs GmbH, Wien	100.00		
Admenta Denmark ApS, Rodovre	100.00		



Admenta Deutschland GmbH, Stuttgart	100.00
ADMENTA FRANCE, Saint Ouen	99.72
ADMENTA HOLDINGS LIMITED, COVENTRY	100.00
ADMENTA ITALIA S.P.A., Bologna	100.00
ADMENTA PENSION TRUSTEES LIMITED, COVENTRY	100.00
Admenta Sweden AB, Stockholm	100.00
ADMENTA UK PLC, COVENTRY	100.00
Admenta Verwaltungs GmbH, Wien	100.00
AFM - S.P.A., Bologna	79.91
AHLP PHARMACY LIMITED, COVENTRY	100.00
ALCHEM (SOUTHERN) LIMITED, COVENTRY	100.00
ALPE-ADRIA PHARMA pharmazeutisches Unternehmen GesmbH., Ljubljana	100.00
American Farma Distribuidora Farmacêutica Ltda., Recife	100.00
ANANCREST LIMITED, COVENTRY	100.00
Ancavion GmbH, Weiterstadt	100.00
ANSON TRADING LIMITED, COVENTRY	100.00
Apo-Holding Gesellschaft m.b.H., Wien	66.67
Apotheek Desmit, Wavre	100.00
ARCHSILVER LIMITED, COVENTRY	100.00
AYRSHIRE PHARMACEUTICALS LIMITED, Glasgow	100.00
AZIENDA FARMACEUTICA MUNICIPALE di Cremona S.p.A., Cremona	77.84
Azienda Farmacie Milanesi - A.F.M. S.p.A.	80.00
Babbingore Limited, Co Dublin	100.00
BACHEM PHARMACY LIMITED, COVENTRY	100.00
Ballycane Pharmacy Limited, Co Dublin	50.00
BANNISTER & THATCHER LIMITED, COVENTRY	100.00
BARCLAY ENTERPRISE LIMITED, COVENTRY	100.00
BARCLAY PHARMACEUTICALS (ATHERSTONE) LIMITED, COVENTRY	100.00
BARCLAY PHARMACEUTICALS LIMITED, COVENTRY	100.00
BARLEY CHEMISTS HOLDINGS LIMITED, COVENTRY	100.00
BARRY BLADON LIMITED, COVENTRY	100.00
BARRY SHOOTER (ROMFORD) LIMITED, COVENTRY	100.00
BARTON PHARMACY (TORQUAY) LIMITED, COVENTRY	100.00
Beauty & Wellness Shops S.P.R.L., Wavre	100.00
BEAUTY CARE DRUGSTORES LIMITED, COVENTRY	100.00
BELLA DONNA PHARMACY LIMITED, COVENTRY	100.00
BENSON PHARMACY LIMITED, COVENTRY	100.00
BERKSHIRE MEDICAL SUPPLIES LIMITED, COVENTRY	100.00
BETTERLIFEHEALTHCARE LIMITED, COVENTRY	100.00
BIG PHARMA LIMITED, Glasgow	100.00
BLAKEY & GRIFFIN LIMITED, COVENTRY	100.00



Breamor Pharmacy Limited	100.00
BRIAN CORPS (CHEMIST) LIMITED, COVENTRY	100.00
BRIDGETON HEALTH CENTRE PHARMACY LIMITED, Glasgow	86.00
BRIDPORT MEDICAL CENTRE SERVICES LIMITED, COVENTRY	100.00
BRUGEFI INVEST S.A.S., SAINT OUEN	100.00
C E UNDERHILL & SONS LIMITED, COVENTRY	100.00
C. H. POMEROY LIMITED, COVENTRY	100.00
CAHILL MAY ROBERTS GROUP LIMITED, Dublin	100.00
CARONET TRADING LIMITED, COVENTRY	100.00
CASTLEREAGH PHARMACEUTICALS LIMITED, COVENTRY	100.00
Celesio Business Services Ltd., Co Dublin	100.00
Celesio Finance B.V., Amsterdam	100.00
Celesio Manufacturer Solutions Österreich Vertriebsgesellschaft mbH, Wien	100.00
CELESIO UK HEALTHCARE (A) LIMITED, COVENTRY	100.00
CELESIO UK HEALTHCARE (B) LIMITED, COVENTRY	100.00
CENTRALE D'ADMINISTRATION DE BIENS IMMOBILIERS, Saint Ouen	100.00
Chem Labs Limited, Dublin	100.00
CIVICEASY LIMITED, COVENTRY	100.00
CLARK CARE GROUP LIMITED, COVENTRY	100.00
CLARK MUNRO LIMITED, Glasgow	100.00
CMR HOLDINGS (UK) LIMITED, COVENTRY	100.00
CMR Holdings Ltd, Dublin	100.00
Coleham, Co Dublin	100.00
COMPTOIR MONEGASQUE DE BIOCHIMIE, Monaco	100.00
COMPTOIR PHARMACEUTIQUE MEDITERRANEEN, Monaco	99.40
CORNWELLS (WHOLESALE) LIMITED, COVENTRY	100.00
CRAIG & LOVERING LIMITED, COVENTRY	100.00
CROSS AND HERBERT (DEVON) LIMITED, COVENTRY	100.00
CROSS AND HERBERT (HOLDINGS) LIMITED, COVENTRY	100.00
CROSS AND HERBERT LIMITED, COVENTRY	100.00
Crowley's Blackrock Limited, Dublin	100.00
D.F. BRINT (PORTISHEAD) LIMITED, COVENTRY	100.00
D.F. O'Neill (Chemists) Ltd, Co Dublin	100.00
DAVID J THOMAS LIMITED, COVENTRY	100.00
DAVID LOW (CHEMISTS) LIMITED, COVENTRY	100.00
DAVID TAUBER LIMITED, COVENTRY	100.00
DEANS PHARMACY LIMITED, COVENTRY	100.00
DEPOTRADE, Saint Ouen	100.00
DERBY (VERNON STREET) LIMITED,	100.00



COVENTRY	
Panpharma Distribuidora de Medicamentos Ltda., Goiânia	100.00
DocMorris Kooperationen GmbH, Stuttgart	100.00
DOL Pharmacy Limited, Co Dublin	100.00
Donald Munro Limited, Glasgow	100.00
Donnybrook Pharmacy Limited, Co Dublin	100.00
DRTHOM BILLING LIMITED, COVENTRY	100.00
E & M HAZLEHURST (SKIPTON) LIMITED, COVENTRY	100.00
ECLIPSE HEALTHCARE LIMITED, COVENTRY	100.00
ELGIN COURT LIMITED, COVENTRY	100.00
ESCON (ST NEOTS) LIMITED, COVENTRY	100.00
EUROSANTE (Société en liquidation), LUXEMBOURG	100.00
Evesland Limited, Co Dublin	100.00
EVOLUTION HOMECARE SERVICES LIMITED, COVENTRY	100.00
EXPERT HEALTH LIMITED, COVENTRY	100.00
F. FLYNN CHEMIST (ST. HELENS) LIMITED, COVENTRY	100.00
FAR.CO.SAN S.p.A., San Giovanni Valdarno	80.00
FARILLON LIMITED, COVENTRY	100.00
Farmacie di Parma S.p.A., PARMA	80.00
Farmacie Pratesi Pratoforma S.p.A., Prato	80.00
Farmalvarion Srl Socio Unico	100.00
Felview Limited, Co Dublin	100.00
FENDGROVE LIMITED, COVENTRY	100.00
FERAX LIMITED, COVENTRY	100.00
FIELD COURT LIMITED, COVENTRY	100.00
FIRMDRAW LIMITED, COVENTRY	100.00
FIRTH & PILLING LIMITED, COVENTRY	100.00
FOSTER & PLUMPTON GROUP LIMITED, COVENTRY	100.00
FOSTER & PLUMPTON LIMITED, COVENTRY	100.00
FOSTER PHARMACEUTICALS LIMITED, COVENTRY	100.00
FULLPAD LIMITED, COVENTRY	100.00
G J MALEY LIMITED, Douglas	100.00
G K CHEMISTS (GLOS) LIMITED, COVENTRY	100.00
G K CHEMISTS LIMITED, COVENTRY	100.00
GAMECREST LIMITED, COVENTRY	100.00
GEHE Immobilien GmbH & Co. KG, Stuttgart	100.00
GEHE Immobilien Verwaltungs-GmbH, Stuttgart	100.00
GEHE Informatik Services GmbH, Stuttgart	100.00
GEHE Pharma Handel GmbH, Stuttgart	100.00
GEHIS FRANCE, Saint Ouen	100.00
GELDHOLME (1982) LIMITED, COVENTRY	100.00
GELDHOLME LIMITED, COVENTRY	100.00
GEORGE STAPLES (OPTICIANS) LIMITED, COVENTRY	100.00
GEORGE STAPLES (STOKE) LIMITED, COVENTRY	100.00
Gerard Ryan Pharmacy (Clonmel) Limited, Co Dublin	100.00
Gerard Ryan Pharmacy (O'Connell Street)	100.00



Limited, Co Dublin	
Gerard Ryan Pharmacy (Patrick Street) Limited, Co Dublin	100.00
Gesellschaft für Versorgungskonzepte in der Wundbehandlung GmbH, Stuttgart	100.00
GOBAL Beteiligung GmbH & Co. Vermietungs KG	3) 0.00
GORDON'S PHARMACY LIMITED, COVENTRY	100.00
Goviltown Limited, Co Dublin	100.00
GOWCHARM LIMITED, COVENTRY	100.00
GPL 2007 LIMITED, COVENTRY	100.00
GRAEME PHARMACY (STIRLING) LIMITED, Glasgow	100.00
GREENS PHARMACEUTICAL (HOLDINGS) LIMITED, COVENTRY	100.00
Greystones Pharmacy Limited, Co Dublin	100.00
GWYNFA'S (HOUNSLOW) LIMITED, COVENTRY	100.00
H H THATCHER LIMITED, COVENTRY	100.00
H KERRUISH LIMITED, Douglas	100.00
H.E. NIBLETT LIMITED, COVENTRY	100.00
H.E.W.S LIMITED, COVENTRY	100.00
Haleston Enterprises Limited, Co Dublin	100.00
HAMMOND & BROWN LIMITED, COVENTRY	100.00
HAMMOND HOPKINS LIMITED, COVENTRY	100.00
HC Beteiligungsgesellschaft mbH, Wien	100.00
HEALTH NEEDS LIMITED, COVENTRY	100.00
HEALTHCLASS LIMITED, COVENTRY	100.00
Helmarid Holdings Limited, Co Dublin	100.00
Herba Chemosan Apotheker-AG, Wien	99.06
Herba Immobilienvermietungs GesmbH, Wien	99.95
HERBA Pharma d.o.o., Zagreb	100.00
HERBERT FERRYMAN LIMITED, COVENTRY	100.00
HIGGINS & SON (CHEMISTS) LIMITED, COVENTRY	100.00
HILLCROSS PHARMACEUTICALS LIMITED, COVENTRY	100.00
HILLS PHARMACEUTICALS LIMITED, COVENTRY	100.00
HILL-SMITH (WARRINGTON) LIMITED, COVENTRY	100.00
Hittelford Limited, Co Dublin	100.00
HOSP-LOG COMÉRCIO DE PRODUTOS HOSPITALARES LTDA., Brasilia	100.00
HOUGHTON & LAPPIN LIMITED, COVENTRY	100.00
HYWEL DAVIES (CAERPHILLY) LIMITED, COVENTRY	100.00
iCESS-Solutions GmbH	100.00
INDEPENDENT PHARMACY CARE CENTRES (2008) LIMITED, COVENTRY	100.00
INSPIRON DISTRIBUTION LIMITED, COVENTRY	100.00
INTEGRATED NETWORK FOR COMPUTER ADMINISTRATION LIMITED, COVENTRY	100.00
Inten GmbH, Stuttgart	100.00
INTERFACE und DATA Elektronische	100.00



Baugruppen Gesellschaft m.b.H., Wien	
IPCC LIMITED, COVENTRY	100.00
ISON & BOWYER LIMITED, COVENTRY	100.00
J A R BURBANK LIMITED, COVENTRY	100.00
J G DAWSON (SUNDERLAND) LIMITED, COVENTRY	100.00
J G DAWSON LIMITED, COVENTRY	100.00
J H RYAN LIMITED, COVENTRY	100.00
J S DENT LIMITED, COVENTRY	100.00
J.G. Crowley Pharmacy Limited, Co Dublin	100.00
J.M. BULLIVANT (CHEMIST) LIMITED, COVENTRY	100.00
JAMES B SNODDY LIMITED, Glasgow	100.00
JOHN BELL & CROYDEN LIMITED, COVENTRY	100.00
JOHN HAMILTON (PHARMACEUTICALS) LIMITED, Glasgow	100.00
JOHN ROBERTSON BUTLER AND SON (GORING) LIMITED, COVENTRY	100.00
JOHN ROBERTSON BUTLER AND SON (NEWBURY) LIMITED, COVENTRY	100.00
JOHN ROBERTSON BUTLER AND SON (WEST READING) LIMITED, COVENTRY	100.00
JOHN ROBERTSON BUTLER AND SON LIMITED, COVENTRY	100.00
John Smith & Son Limited, Co Dublin	100.00
JORDANS PHARMACY LIMITED, COVENTRY	100.00
Kairnburry, Dublin	100.00
Kemofarmacija, d.d, Ljubljana	98.04
Kilshallow Limited, Co Dublin	100.00
KINGSWOOD CHEMISTS LIMITED, COVENTRY	100.00
KINGSWOOD GK LIMITED, COVENTRY	100.00
KNOWLE PHARMACY LIMITED, COVENTRY	100.00
KYLE & CARRICK HOLDINGS LIMITED, Glasgow	100.00
L & L PHARMACY LIMITED, Douglas	100.00
Laboratoria Flandria NV, Zwijnaarde	100.00
LCH CHAPMAN (WHITESTONE) LIMITED, COVENTRY	100.00
LEEMA CONSULTANCY SERVICES LIMITED, COVENTRY	100.00
LEVELCROWN LIMITED, COVENTRY	100.00
LINFORD PHARMACIES LIMITED, COVENTRY	100.00
Lissone Farmacie S.p.A., Lissone	80.00
LIVINGSTON HEALTH CENTRE (P.D) CO. LIMITED, Glasgow	100.00
LLOYDS CHEMISTS LIMITED, COVENTRY	100.00
LLOYDS CHEMISTS PENSION TRUSTEES LIMITED, COVENTRY	100.00
LLOYDS CHEMISTS RETAIL (NORTHERN) LIMITED, COVENTRY	100.00
LLOYDS CHEMISTS RETAIL LIMITED, COVENTRY	100.00
LLOYDS GROUP PROPERTIES LIMITED, COVENTRY	100.00



LLOYDS HEALTHCARE HOLDINGS LIMITED, COVENTRY	100.00
LLOYDS PHARMACY LIMITED, COVENTRY	100.00
LLOYDS PROPERTIES LIMITED, COVENTRY	100.00
LLOYDS Property Management Company Belgium S.A., Wavre	100.00
LLOYDS RETAIL CHEMISTS LIMITED, COVENTRY	100.00
Lloydspharma Group S.A., Wavre	100.00
Lloydspharma S.A., Wavre	100.00
LPL ONE LIMITED, COVENTRY	100.00
M & J HOLDINGS LIMITED, COVENTRY	100.00
M H GILL LIMITED, COVENTRY	100.00
M PAYNE & CO LIMITED, COVENTRY	100.00
M.& M.L.GRUNDY LIMITED, COVENTRY	100.00
M.J.F LIMITED, COVENTRY	100.00
MACEYS LIMITED, COVENTRY	100.00
MANTRE LIMITED, COVENTRY	100.00
MARYHILL DISPENSARY LIMITED, Glasgow	50.00
MATIS Grundstücks-Vermietungsgesellschaft mbH & Co. Gehe Objekte OHG, Haan	3) 100.00
Maurice F. Dougan Limited, Co Dublin	100.00
May Roberts Ltd, Dublin	100.00
McSweeney Dispensers 10 Limited, Co Dublin	100.00
McSweeney Dispensers 23 Limited, Co Dublin	100.00
MEDIMART LIMITED, COVENTRY	100.00
Mesara Grundstücks-Verwaltungsgesellschaft mbH	3) 0.00
MOUNT PHARMACY LIMITED, COVENTRY	100.00
MPWB (ROMFORD) LIMITED, COVENTRY	100.00
MUNRO PHARMACY LIMITED, Glasgow	100.00
Natureline, Dublin	100.00
NEW KIRK PHARMACY LIMITED, Glasgow	100.00
NORPROD DISTRIBUIDORA DE PRODUTOS HOSPITALARES LTDA., Recife	100.00
Norsk Medisinaldepot AS, Oslo	100.00
O'Leary Pharmacy (Lucan) Limited, Co Dublin	100.00
OCP PORTUGAL, PRODUTOS FARMACÊUTICOS, S.A., Maia	100.00
OCP REPARTITION, Saint Ouen	100.00
OCP, Saint Ouen	99.99
OLOR Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	3) 0.00
ONCO PROD DISTRIBUIDORA DE PRODUTOS HOSPITALARES E ONCOLÓGICOS S/A, Sao Paulo	60.00
P C Cahill & Company Limited, Dublin	100.00
P.C.B., Bruxelles	86.78
PALEMODA LIMITED, COVENTRY	100.00
PAUL WHEELER LIMITED, COVENTRY	100.00
PEEL STREET PHARMACY LIMITED, COVENTRY	100.00
PERILLA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	3) 95.00
PHARMA BELGIUM, Bruxelles	100.00
PHARMA PARTNERS, Ostende	100.00



PHARMACTIV DISTRIBUTION, Saint Ouen	97.45
Pharmacy O'Riada Holdings B.V., Amsterdam	100.00
Pharmacy O'Riada Holdings Limited, Co Dublin	100.00
PHARMAGEN LIMITED, COVENTRY	100.00
PHARMATEL, Marseille	99.97
PHARMED LIMITED, COVENTRY	100.00
PHILIP GOODMAN LIMITED, COVENTRY	100.00
PRESOLVE LIMITED, COVENTRY	100.00
PRIMELIGHT LIMITED, COVENTRY	100.00
R F FOSKETT & SON LIMITED, COVENTRY	100.00
R GORDON DRUMMOND LIMITED, COVENTRY	100.00
R.J. MAIR LIMITED, GLASGOW	100.00
ROSE & BOYLE LIMITED, Glasgow	100.00
S & J HALLETT LIMITED, COVENTRY	100.00
S. E. BURGESS LIMITED, COVENTRY	100.00
SANOVA Pharma GesmbH, Wien	100.00
Sapphire Primary Care Developments, Ireland Limited, Co Dublin	100.00
SARACO'S LIMITED, COVENTRY	100.00
SATURA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	3) 0.00
SAVORY & MOORE (JERSEY) LIMITED, St Helier	90.00
SAVORY & MOORE LIMITED, Glasgow	100.00
SCHOLES (CHEMISTS) LIMITED, COVENTRY	100.00
SCOTTS CHEMISTS LIMITED, COVENTRY	100.00
SELBYS (SUSSEX) LIMITED, COVENTRY	100.00
Sheridan Distribution Services Ltd, Co Antrim	100.00
SILVER STREET PHARMACY LIMITED, COVENTRY	100.00
SIMPLE SOFTWARE LIMITED, COVENTRY	100.00
SOCIETE D'ETUDES ET DE REALISATIONS INFORMATIQUES, Monaco	99.50
SOLERO LIMITED, COVENTRY	100.00
SOLIHULL PHARMACY LIMITED, COVENTRY	100.00
SOLUSOFT, Saint Ouen	100.00
SOUTHWOOD AND LLEWELLYN LIMITED, COVENTRY	100.00
SP DISTRIBUIDORA DE VACINAS E MEDICAMENTOS LTDA. (ES), Portal de Jacaraípe	100.00
SP DISTRIBUIDORA DE VACINAS E MEDICAMENTOS LTDA. (SP), São Paulo	100.00
ST MATTHEWS PHARMACY LIMITED, COVENTRY	100.00
STATIM FINANCE LIMITED, COVENTRY	100.00
STEPHEN SMITH LIMITED, St Peter Port	57.14
Sudestefarma S.A. Produtos Farmacêuticos, Chácara Parreiral	100.00
SUMMITLANE LIMITED, COVENTRY	100.00
SUPERFIELD LIMITED, COVENTRY	100.00
T AND I WHITE LIMITED, COVENTRY	100.00
T BEATTIE (CHEMIST) LIMITED, COVENTRY	100.00
T TEMPLE (CHEMISTS) LIMITED, COVENTRY	100.00
T. Sheridan Sales & Marketing, Dublin	100.00



TANZAN CHEMISTS LIMITED, COVENTRY	100.00
TERRAPHARMA LIMITED, COVENTRY	100.00
THURNBY ROSE LIMITED, COVENTRY	100.00
TIRES Beteiligungs GmbH & Co. KG	3) 0.00
Tjellesen Max Jenne A/S, Rodovre	100.00
Todin A/S, Rodovre	100.00
TREDIMED FRANCE, Saint Ouen	100.00
TREDIMED, Saint Ouen	100.00
TRIDENT PHARMACEUTICALS LIMITED, COVENTRY	100.00
Unicare Dispensers 11 Limited, Co Dublin	100.00
Unicare Dispensers 12 Limited, Co Dublin	100.00
Unicare Dispensers 13 Limited, Co Dublin	100.00
Unicare Dispensers 16 Limited, Co Dublin	100.00
Unicare Dispensers 20 Limited, Co Dublin	100.00
Unicare Dispensers 21 Limited, Co Dublin	100.00
Unicare Dispensers 27 Limited, Co Dublin	100.00
Unicare Dispensers 5 Limited, Co Dublin	100.00
Unicare Dispensers 6 Limited, Co Dublin	100.00
Unicare Dispensers 8 Limited, Co Dublin	100.00
Unicare Pharmacy Group Limited, Co Dublin	100.00
UNICARE PHARMACY LIMITED, Co Dublin	100.00
USCITA LIMITED, COVENTRY	100.00
V G EVANS LIMITED, COVENTRY	100.00
VESTRIC LIMITED, COVENTRY	100.00
VESTRIC PENSIONS LIMITED, COVENTRY	100.00
Vitapharm, proizvodnja in trgovina farmacevtskih izdelkov d.o.o., Murska sobota	51.00
W A G GIBB LIMITED, COVENTRY	100.00
W A STROYDE (CHEMISTS) LIMITED, COVENTRY	100.00
W H CHANTER LIMITED, COVENTRY	100.00
W H GREEN (CHEMISTS) LIMITED, COVENTRY	100.00
W JAMIESON (CHEMISTS) LIMITED, COVENTRY	100.00
W. HEDLEY HEWES LIMITED, COVENTRY	100.00
WESTCLOSE LIMITED, COVENTRY	100.00

### **III. Associates accounted for using the equity method**

Aporana AS, Mo i Rana	49.00
Apovest AS	33.00
Blomsterdalen Apotek AS, Blomsterdalen	40.00
Brocef Holding N.V., BB Maarssen	45.00
LISEAPOTEKENE AS	49.00
Liseapoteket Nesbru og Asker AS	49.00
Nensi d.o.o., Ljubljana	35.00
SENS AS, Oslo	32.00
Vitus-Apoteket Torvbyen Fredrikstad AS, Fredrikstad	34.00

### **IV. Other interests with at least 5% of voting rights**

ASHLEY HOUSE PLC	9)	9.42	18,343	-20,539
BAILLIESTON HEALTH CENTRE PHARMACY LIMITED, Baillieston	9)	64.00	25	0
COATBRIDGE DISPENSARY LIMITED,	4)	17.14	184	0



Coatbridge			
COMPANY CHEMISTS ASSOCIATION LIMITED, Milton Keynes	5)	27.09	-39 46
Darwen (Hcc) Limited, Warrington	6)	42.00	288 -34
DATA CARE Datenpflege des Pharmagroßhandels Ges.m.b.H., Wien	10)	36.67	105 8
DATAPHARM, Paris	9)	38.89	108 71
EASTERHOUSE HEALTH CENTRE PHARMACY LIMITED, Easterhouse	4)	10.30	239 129
GALEN PHARMACY LIMITED, South Shields	5)	18.00	8 11
GOVANHILL PHARMACY LIMITED, Glasgow	5)	13.40	3 111
HOLMSCROFT HC LIMITED, Greenock	6)	20.00	211 309
KEIGHLEY HEALTH CENTRE LIMITED, KEIGHLEY, West Yorkshire	8)	16.67	283 107
SERVICE DE LA REPARTITION PHARMACEUTIQUE, Paris		39.50	87 29
SHC PHARMACY LIMITED, Edinburgh	5)	33.33	130 53
SPRINGBURN DISPENSARY LIMITED, Glasgow	7)	25.00	-6 -7
Swindon Health Centre (Pd) Limited, Swindon	5)	14.83	232 35
THE AHLP LIMITED PARTNERSHIP, COVENTRY		50.00	0 0
TORRINGTON PARK HCC LIMITED, London	4)	4.00	209 46
VICTORIA PHARMACY LIMITED	8)	7.32	98 0
W.H.C.P. (DUNDEE) LIMITED, Dundee	4)	13.70	136 98
WOODSIDE PHARMACY (GLASGOW) LIMITED, Glasgow	6)	25.00	395 184
WROSE HEALTH CENTRE P.D. LIMITED, Keighley	7)	42.59	45 0

- 1) Interests held by dependent companies are included in the calculation in full, even if the interest in this company is less than 100%.
- 2) In local currency
- 3) Special purpose entity
- 4) Financial statements for the period 01/04/2011 - 31/03/2012
- 5) Financial statements for the period 01/04/2012 - 31/03/2013
- 6) Financial statements for the period 01/10/2011 - 30/09/2012
- 7) Financial statements for the period 01/02/2012 - 31/01/2013
- 8) Financial statements for the period 01/07/2011 - 30/06/2012
- 9) 2012 financial statements
- 10) 2013 financial statements



**Annex 2:**

Domination and Profit and Loss Transfer Agreement between Celesio AG and Dragonfly GmbH & Co. KGaA together with the Comfort Letter from McKesson Corporation



**Domination and  
Profit and Loss Transfer Agreement**

between

Celesio AG, Neckartalstraße 155, 70376 Stuttgart  
registered in the commercial register (*Handelsregister*) at the Local Court  
(*Amtsgericht*) Stuttgart (HRB 9517)  
(“*Celesio*”)

and

Dragonfly GmbH & Co. KGaA, Eschenheimer Anlage 1, 60316 Frankfurt am Main  
registered in the commercial register (*Handelsregister*) at the Local Court  
(*Amtsgericht*) Frankfurt am Main  
(HRB 97726)  
(“*Dragonfly*”)



## **§ 1 Management Control**

- (1) Celesio submits the management control (*Leitung*) of its company to Dragonfly. Dragonfly is accordingly entitled to issue instructions (*Weisungen*) to the management board of Celesio with regard to the management control of the company.
- (2) The management board of Celesio is required to comply with the instructions of Dragonfly. Dragonfly is not entitled to issue the instruction to the management board of Celesio to amend, maintain or terminate this Agreement.
- (3) Any instructions require text form (*Textform*) or, if the instructions are issued orally, they shall be confirmed in text form without undue delay.

## **§ 2 Transfer of Profit**

- (1) Celesio undertakes to transfer its entire annual profit (*Gewinnabführung*) to Dragonfly. Subject to establishing or dissolving reserves in accordance with Clause 2 para 2 of this Agreement below, the maximum amount permissible under section 301 German Stock Corporation Act (*Aktiengesetz* – "**AktG**"), as amended from time to time, shall be transferred.
- (2) Celesio may, with the written consent of Dragonfly, allocate parts of its annual profit to other profit reserves if and to the extent permissible under commercial law and as economically justified by reasonable commercial judgement. Upon the written request of Dragonfly, Celesio shall dissolve other profit reserves established during the course of this Agreement and use the proceeds to compensate for any annual loss or transfer the proceeds as profit. Other reserves or profits carried forward from the period prior to the term of this Agreement may neither be transferred as profit nor be used to compensate for any annual loss.
- (3) The obligation to transfer the annual profit applies for the first time to the entire profits generated in the fiscal year of Celesio beginning on 1 January 2015 or for whichever subsequent fiscal year in which this Agreement becomes effective according to Clause 6 para 2 of this Agreement. The obligation according to sentence 1 becomes due upon the end of the fiscal year of Celesio and shall bear interest from this point on at an interest rate of 5% p.a.



### § 3 Assumption of Losses

- (1) Dragonfly is obliged towards Celesio to assume any losses (*Verlustübernahme*) according to the provisions of section 302 AktG in its entirety as amended from time to time.
- (2) The obligation to assume any losses applies for the first time to the entire fiscal year in which this Agreement becomes effective according to Clause 6 para 2 of this Agreement. Clause 2 para 3 sentence 2 applies accordingly to the obligation to assume any losses.

### § 4 Guaranteed Dividend and Recurring Compensation Payment

- (1) Dragonfly guarantees that it will pay to the outside shareholders of Celesio in respect of the fiscal year 2014 of Celesio a certain portion of the profit pursuant to Clause 4 para 3 below as adequate cash compensation ("**Guaranteed Dividend**") (*Garantiedividende*). To the extent that the dividend (including any payments on account) paid in respect of the fiscal year 2014 by Celesio for each share of Celesio falls short of the Guaranteed Dividend, Dragonfly will pay to each outside shareholder of Celesio the corresponding difference per share. Payment of any such difference is due on the first banking day after the ordinary general shareholders' meeting of Celesio for Celesio's fiscal year 2014.
- (2) Dragonfly undertakes to pay to the outside shareholders of Celesio a recurring annual cash compensation ("**Recurring Compensation Payment**") (*Ausgleichszahlung*) from and including the fiscal year of Celesio in relation to which the claim of Dragonfly for the transfer of the annual profit under Clause 2 takes effect, and for the further duration of this Agreement.
- (3) The Guaranteed Dividend and the Recurring Compensation Payment (together "**Recurring Compensation**") amount for each full fiscal year of Celesio for each no-par value registered ordinary voting share (*Aktien ohne Nennbetrag*) in Celesio, representing a mathematical portion of EUR 1.28 in the share capital (each "**Celesio Share**" and when taken together "**Celesio Shares**") to a gross sum (*Bruttobetrag*) of EUR 0.83 minus the amount of any corporate income tax and the solidarity surcharge in accordance with the respective tax rate applicable for these taxes for the relevant fiscal year, whereby this deduction is to be effected only on any portion of the gross sum resulting from profits which are subject to German corporate income tax. When rounded to a full



Cent-amount in accordance with commercial practices, this portion of the gross sum amounts to EUR 0.00, meaning that no deduction is to be carried out in this respect. The Recurring Compensation Payment is due on the first banking day following the ordinary general shareholders' meeting of Celesio for any respective preceding fiscal year but in any event within eight months following expiration of the relevant fiscal year.

- (4) The Guaranteed Dividend is granted for the fiscal year 2014 of Celesio if this Agreement becomes effective in the year 2014. The Recurring Compensation Payment is granted for the first time for the full fiscal year of Celesio for which the claim of Dragonfly for transfer of profit under Clause 2 becomes effective. If this Agreement ends during a fiscal year of Celesio or if Celesio establishes an abbreviated fiscal year (*Rumpfgeschäftsjahr*) for a period during the course of this Agreement, the Recurring Compensation is reduced *pro rata temporis* for the relevant fiscal year.
- (5) If the share capital of Celesio is increased from the reserves in exchange for the issuance of new shares, the Recurring Compensation for each Celesio Share is reduced to such an extent that the total amount of the Recurring Compensation remains unchanged. If the share capital of Celesio is increased by cash contributions and/or contributions in kind, the rights under this Clause 4 also apply for the shares subscribed to by outside shareholders in such capital increase. The beginning of each entitlement of the new shares pursuant to this Clause 4 corresponds to the dividend entitlement set by Celesio when issuing the new shares.
- (6) If an appraisal proceeding (*Spruchverfahren*) according to the German Act on Appraisal Proceedings (*Spruchverfahrensgesetz*) is initiated and the court adjudicates a legally binding higher Guaranteed Dividend and/or Recurring Compensation Payment, the outside shareholders, even if they have already been compensated according to Clause 5, are entitled to demand a corresponding additional payment to the Guaranteed Dividend and/or Recurring Compensation Payment. Likewise all other outside shareholders will be treated in the same way if Dragonfly undertakes to pay a higher Guaranteed Dividend and/or Recurring Compensation Payment to an outside shareholder of Celesio in a court settlement (*gerichtlicher Vergleich*) for the purpose of avoiding or settling judicial appraisal proceedings (*Spruchverfahren*).



## § 5 Compensation

- (1) Dragonfly undertakes upon demand of each outside shareholder of Celesio to purchase such shareholder's Celesio Shares in exchange for a cash compensation ("**Compensation**") (*Abfindung*) in the amount of EUR 22.99 for each Celesio Share.
- (2) The obligation of Dragonfly to purchase Celesio Shares is for a limited period of time. The time limitation period ends two months after the date on which the registration of this Agreement in the commercial register at the registered seat of Celesio has been announced pursuant to section 10 German Commercial Code (*Handelsgesetzbuch* – "**HGB**"). An extension of the time limitation period pursuant to section 305 para. 4 sentence 3 AktG as a result of a motion for determining the Recurring Compensation or Compensation by the court determined according to section 2 of the German Act on Appraisal Proceedings remains unaffected. In this case, the time limitation period ends two months after the date on which the decision on the last motion ruled on has been announced in the Federal Gazette (*Bundesanzeiger*).
- (3) If the share capital of Celesio is increased from the reserves in exchange for the issuance of new shares prior to the expiration of the time limitation period set forth in Clause 5 para 2, the Compensation for each share is reduced to such an extent that the total amount of the Compensation remains unchanged. If the share capital of Celesio is increased prior to the expiration of the time limitation period set forth in Clause 5 para 2 by means of cash contributions and/or contributions in kind, the rights under this Clause 5 also apply for the shares subscribed to by the outside shareholders in such capital increase.
- (4) The transfer of the Celesio Shares for Compensation is free of costs for the outside shareholders of Celesio.
- (5) If an appraisal proceeding pursuant to the German Act on Appraisal Proceedings is initiated and the court adjudicates a legally binding higher Compensation, the outside shareholders, even if they have already been compensated, are entitled to demand a corresponding additional payment to the Compensation. Likewise all other outside shareholders will be treated in the same way if Dragonfly undertakes in a court settlement to pay a higher Compensation to an outside shareholder of Celesio for the purpose of avoiding or settling judicial appraisal proceedings.



- (6) If this Agreement is terminated by notice of termination by Dragonfly or Celesio at a point in time when the time limitation period set forth in Clause 5 para 2 for accepting the Compensation pursuant to Clause 5 para 1 has already expired, each outside shareholder of Celesio at that time is entitled to sell his Celesio Shares held at the time of the termination of this Agreement to Dragonfly in exchange for payment of the Compensation set forth in Clause 5 para 1 for each Celesio Share and Dragonfly is required to purchase the shares of each outside shareholder upon request of such outside shareholder. If the Compensation set forth in Clause 5 para 1 for each Celesio Share is increased by a legally binding decision in judicial appraisal proceedings or in a court settlement for the purpose of avoiding or settling judicial appraisal proceedings, Dragonfly will purchase the shares of the outside shareholders under the preconditions set forth in sentence 1 in exchange for payment of the amount established for each Celesio Share in the judicial appraisal proceedings or the court settlement. The right to sell pursuant to this Clause 5 para 6 is for a limited period of time. The time limitation period ends two months after the date on which the registration of the termination of this Agreement in the commercial register of Celesio is announced pursuant to section 10 HGB. Clause 5 para 3 and Clause 5 para 4 apply accordingly.

## **§ 6 Effectiveness and Term of this Agreement**

- (1) This Agreement requires for its effectiveness each the consent of the general shareholders' meeting of Celesio as well as the consent of the general shareholders' meeting of Dragonfly.
- (2) This Agreement becomes effective upon registration of its existence in the commercial register at the registered seat of Celesio.
- (3) This Agreement is concluded for an indefinite period of time. It can be terminated in writing with a notice period of six month to the end of the fiscal year of Celesio. This Agreement can be terminated for the first time as of the end of the fiscal year that ends at least five years (*Zeitjahre*) (60 months) after the beginning of the fiscal year of Celesio for which the obligation of Celesio to transfer its entire annual profit (*Gewinnabführung*) pursuant to Clause 2 becomes effective.
- (4) Each party can terminate this Agreement for good cause (*wichtiger Grund*) without compliance with any notice period. Good cause exists in particular if



good cause for purposes of German tax law for the termination of this Agreement exists.

- (5) Any notice of termination must be in writing.

## **§ 7 Comfort Letter**

McKesson Corporation with seat in San Francisco, California, USA (“**McKesson**”) indirectly holds 100% of the shares in Dragonfly and in this capacity as indirect shareholder, has without joining the Agreement as a party provided the comfort letter attached for information purposes to this Agreement as an Annex. In this comfort letter McKesson undertakes without limitation and irrevocably to ensure, that Dragonfly will be financially equipped in a way that Dragonfly is at all times able to fulfil all its obligations arising from or in connection with this Agreement completely and in time. This applies in particular to the obligation to compensate losses pursuant to section 302 AktG. McKesson undertakes towards the outside shareholders of Celesio irrevocably and in principle without limitation that Dragonfly fulfils all its obligations towards them arising from or in connection with this Agreement completely and in time, in particular with respect to the Guaranteed Dividend, the Recurring Compensation Payment and the Compensation. To that extent the outside shareholders of Celesio have an own claim according to section 328 para. 1 German Civil Code (*Bürgerliches Gesetzbuch* – “**BGB**”) directed at payment to Dragonfly. This claim and the corresponding liability of McKesson towards the outside shareholders however only apply if Dragonfly does not fulfil its obligations towards the outside shareholders of Celesio arising from or in connection with this Agreement completely and in time and McKesson does not comply with its obligation to equip Dragonfly.

## **§ 8 Miscellaneous**

To the extent a provision of this Agreement is or becomes invalid or impracticable in full or in part, or if this Agreement does not contain a necessary provision, the validity of the remaining provisions of this Agreement shall not be affected. In place of the invalid or impracticable provision, or in order to remedy an omission in this Agreement, an appropriate provision shall apply which corresponds as far as legally permissible to what the Parties intended or would have intended in accordance with the intent and purpose of this Agreement if they had been aware of the provision.



**Celesio AG**

Stuttgart, 22 May 2014

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Dr. Marion Helmes

Speaker of the Management  
Board

---

Stephan Borchert

Member of the Management  
Board

**Dragonfly GmbH & Co. KGaA**

Frankfurt am Main, 22 May 2014

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Roger Wade Estey

as managing director of Dragonfly Verwaltungs GmbH with said entity acting in its capacity as general partner of Dragonfly GmbH & Co. KGaA

---

Willie C. Bogan

as managing director of Dragonfly Verwaltungs GmbH with said entity acting in its capacity as general partner of Dragonfly GmbH & Co. KGaA

Annex: Comfort Letter of McKesson Corporation



[Letterhead of McKesson]

McKesson Corporation, San Francisco, USA

San Francisco, 20 May 2014

Celesio AG  
Neckartalstraße 155  
70376 Stuttgart  
Germany,

### **Comfort Letter (*Patronatserklärung*)**

Dragonfly GmbH & Co. KGaA, Eschenheimer Anlage 1, 60316 Frankfurt am Main, Germany, registered in the commercial register (*Handelsregister*) at the Local Court (*Amtsgericht*) Frankfurt am Main under company number HRB 97726 ("**Dragonfly**"), intends to enter into a domination and profit and loss transfer agreement ("**Agreement**") (*Beherrschungs- und Gewinnabführungsvertrag*) with Celesio AG, Neckartalstraße 155, 70376 Stuttgart, Germany, registered in the commercial register at the Local Court Stuttgart under company number HRB 9517 ("**Celesio**"), with Celesio as the controlled and profit transferring company. McKesson Corporation, a stock corporation incorporated and operating under the laws of Delaware, USA, with registered office in San Francisco / California, USA ("**McKesson**"), indirectly holds 100% of the shares in Dragonfly. McKesson hereby makes the following declarations without joining the Agreement as a party:

1. McKesson undertakes without limitation and irrevocably to ensure, that Dragonfly will be financially equipped in such a way that Dragonfly is at all times able to fulfil all its obligations arising from or in connection with the Agreement completely when they become due. This applies in particular to the obligation to compensate losses pursuant to section 302 German Stock Corporation Act (*Aktiengesetz – AktG*).
2. McKesson undertakes without limitation and irrevocably vis-à-vis the outside shareholders of Celesio that Dragonfly fulfils all its obligations towards them arising from or in connection with the Agreement completely and in time, in particular with respect to the guaranteed dividend (*Garantiedividende*), the recurring compensation payment (*Ausgleichszahlung*) and the cash compensation (*Abfindung*). To that extent the outside shareholders of Celesio have an own claim according to section 328 para. 1 German Civil Code (*Bürgerliches Gesetzbuch – BGB*) directed at payment to Dragonfly. McKesson's liability pursuant to the two preceding sentences does, however, only apply if Dragonfly does not fulfil its obligations towards the outside shareholders of Celesio arising from or in connection with the Agreement completely and in time and McKesson does not comply with its obligation to equip Dragonfly pursuant to Section 1 of this Comfort Letter.
3. This Comfort Letter is subject to the law of the Federal Republic of Germany. McKesson hereby acknowledges German courts and the courts of Stuttgart to be competent with regard to any disputes and claims under or in connection with this Comfort Letter. In this



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regard, McKesson acknowledges the enforceability of final decisions of German courts. Dragonfly, Att. the Management, Eschenheimer Anlage 1, 60316 Frankfurt am Main, Germany shall be the agent for services of process (*Zustellungsbevollmächtigte*) in Germany for all proceedings under or in connection with this Comfort Letter

San Francisco, 20 May 2014

**McKesson Corporation**

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John H. Hammergren

President and Chief Executive Officer

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Willie C. Bogan

Secretary



**Annex 3:**

Order by the Stuttgart Regional Court of 6 February 2014 on the appointment of Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft Kronenstraße 30, 70174 Stuttgart as expert auditor (Contract Auditor) within the meaning of section 293b (1) AktG



- *Executed copy* -

Reference number:  
31 O 2/14 KfHAktG

6 February 2014

[*Emblem of the state of Baden-Wuerttemberg*]

**Stuttgart Regional Court (*Landgericht*)**

Commercial Division 31.

**Order**

In the proceedings concerning the application of

**1. Celesio AG,**

represented by its Management Board,  
Neckartalstr. 155, 70376 Stuttgart

**2. Dragonfly GmbH & Co. KGaA,**

represented by its Management Board,  
Eschenheimer Anlage 1, 60316 Frankfurt am Main  
- Applicants -

Legal representatives for parties 1 and 2 above:

Law firm Freshfields Bruckhaus Deringer, Bockenheimer Anlage 44, 60322  
Frankfurt/Main (internal ref. 104574-0125)

**regarding** the appointment of a joint expert auditor

the Commercial Division 31. of the Stuttgart Regional Court (*Landgericht*), acting through

Judge Wetzel, Presiding Judge of the Regional Court,

**ordered:**

I.

1.

In response to the joint application submitted by the stock corporations (*Aktiengesellschaften*) that are party to the enterprise agreement (the domination and profit and loss transfer agreement) dated 4 February 2014 (the Applicants),



the auditing firm

Ebner Stolz GmbH & Co. KG

Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft

Kronenstr. 30, 70174 Stuttgart

(Contact person: *Wirtschaftsprüfer* and *Steuerberater* Dr. Matthias Popp, auditor and tax consultant)

is hereby appointed as the court-appointed expert auditor.

As per the declaration made to the Court of 3 February 2014, the above auditing firm fulfils the requirements under section 293 d German Stock Corporation Act (hereafter: **AktG**) and section 319 (1) German Commercial Code (hereafter: **HGB**) and, in particular, is not excluded from acting as an auditor pursuant to section 319 (2) to (4), section 319 a and section 319 b HGB.

2.

Both the appointed auditor and the Applicants are referred to the fact that the expert auditor bears an obligation to carry out the audit independently and in good conscience and that the auditor's responsibility to fulfil this obligation is owed to both of the relevant companies and the minority shareholders in equal measure (section 293 d (1) AktG). For this reason, the auditor holds extensive information rights and rights of inspection vis-à-vis the relevant company and the main shareholder (section 293 d (1) AktG), to which the Court makes specific reference.

On the one hand, the independent status of the court-appointed auditor is to be seen in relation to their task of issuing a declaration in the audit report on the adequacy of the compensation offered. On the other hand, this status is also of particular significance in the event of any potential appraisal proceedings (*Spruchverfahren*) being subsequently instituted, in which not only the audit report itself can be used, but – in line with the legislator's intentions – as a rule, it is also possible to call upon the independent expert auditor to provide evidence by way of explanations and clarifications as part of a hearing in accordance with section 8 (2) German



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Appraisal Proceedings Act (hereafter: *SpruchG*), in order to avoid, as far as possible, a new expert valuation having to be performed.

However, the expert auditor is not supposed to carry out an independent valuation of the relevant enterprise. Rather the plausibility of the relevant elements of the valuation are to be checked and the key valuation parameters are to be openly presented in the audit report (see the details directly below, under item 3.).

3.

Against this background and in the interests of improving the transparency and credibility of the audit, the expert auditor is ordered to make a statement and provide explanations on the following points in its audit report pursuant to section 293 e AktG (see also section 293 e (1) sentence 3, section 293 e (2) in conjunction with section 293 a (2) AktG) to the extent that the information in question is not already sufficiently clear and extensive in the main shareholder's transfer report:

- a) The audit report is to set out the location and time at which the audit was carried out, the manner in which the audit was carried out and the qualifications possessed by the staff used to carry out said audit. In the event a parallel audit is carried out, the auditing process is to be briefly outlined in terms of its substance, the time taken and the relevant location used.
- b) On what key points did the views of the expert auditor diverge from those of the author of the relevant report or of the valuation report (*Bewertungsgutachten*) with respect to the valuation presented in said valuation report? To the extent that the valuation expert was not in line with the view of the expert auditor, the reason(s) why the expert auditor's view is preferable is/are to be then stated.
- c) In the event that any information, either requested by the auditor or otherwise required (see 2. above) was not provided, this is to be disclosed in the report.
- d) A description is to be provided of the methods that were used as the basis for determining the enterprise value and on whether said methods are appropriate. What is required here is



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a presentation of the valuation procedure for the valuation of the enterprise's essential assets, its non-essential assets and any special values, where appropriate.

- e) If the discounted earnings method (*Ertragswertverfahren*) is used, an explanation is to be provided on the sources used to derive the parameters for the calculation of the discount rate under the discounted earnings method (*inter alia*, the risk free rate, the terminal growth rate, the positive excess return, the BETA factor, the composition of a “peer-group”), and a brief justification is to be given on why these specific indices and/or the time span applied are preferable over others that could also have come into consideration for use here. A presentation is to be provided on whether and how the values that were derived using capital market data were subjected to a plausibility check in the light of the specific situation of the relevant enterprise.
- f) In the event past results are adjusted for certain extraordinary expenses and income, these are also to be explicitly stated and justified.
- g) The following points are to be set out with respect to the underlying business planning that was used:
  - (1) Basic planning: Who prepared the basic plans? When were the plans adopted? Which executive bodies approved the plans? Were the plans prepared as part of the standard business planning and budgeting process or were they specifically developed for the enterprise valuation that was carried out?
  - (2) Modifications: Did the valuation expert (or the expert auditor) make any changes or additions to the basic business planning within the enterprise? What independent calculations (e.g. determination of the perpetuity) or special value calculations (e.g. plan for the payment of pension commitments) did the experts determine themselves?
  - (3) Planning assumptions: Presentation of the key planning parameters with an influence on value, with corresponding explanations and/or justifications with respect to their selection and pre-existing fluctuation margins. In particular, the assumptions with regard to the development of business operations are to be set out. A description of the market forecasts available at the time the plans were prepared is to be provided, as



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well as a description of the selection of market forecasts used as a basis here. Income planning is to be described separately in relation to volume and price trends.

- h) Explanations on any special features regarding the valuation set out in the report or the valuation report (*Bewertungsgutachten*), e.g.
- special values
  - non-essential assets
  - special business conditions
- i) In the event a stock price value is determined, the relevant sources of data and method of calculation used when determining the average stock prices is to be stated and/or described.

If the stock price value differs considerably from an enterprise value determined using other methods, then the expert auditor is to set out the reasons that are representative for this situation, in the auditor's view.

4.

The expert auditor is ordered to submit a copy of their audit report to the Court for its records under the reference number stated above.

In the event the auditor uses a computer program for calculating the enterprise value, then, where possible and in order to facilitate plausibility-related considerations, a simplified model of computation is to be provided to the Court in file format on a standard data storage device (preferably CD-ROM with an Excel file) which is to be provided when sending the report.

The same applies to capital market data (stock exchange prices, trading volumes etc.), if these have been ascertained from the perspective of taking a stock price value into account.

5.

To the extent that an application is not made for the Court to set the relevant remuneration for the expert auditor (section 293 c (1) sentence 5 AktG and section 318 (5) HGB), then the expert auditor is to disclose their remuneration to the Court.



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6.

In the interests of prudence and clarity, the Court expressly reminds the expert auditor of section 403 AktG. Under this provision, any person acting as auditor or assistant to an auditor who renders a false report on findings of an audit or fails to disclose material facts in such report shall be punished by imprisonment of up to three years or by fine. If the offender acted for remuneration or with the intent to enrich himself or another person or with the intent of causing damage to another person, the punishment shall be imprisonment of up to five years or a fine (sub-section 2).

II.

1.

The **value of the matter** is set at €100,000.

2.

The **Applicants** are ordered to pay the **court fees** incurred in the amount of **€2,025.00** (= 2 court fees from the value stated in item 1. pursuant to Table A, no. 13500 Fee Schedule to section 34 German Act on Court and Notary Fees in Non-Contentious Matters (*GNotKG*)) without undue delay.

A transfer form containing information on payment is enclosed with the executed copy of this order that is being sent to the Applicants; the relevant parties are thus requested to take note of said information.

Judge Wetzel

Presiding Judge of the Regional Court

Executed

Stuttgart, 7 February 2014

Acting Registrar

of the Regional Court

[*Signature and stamp*]

Klingenberger, Servant of the Court [*Just. Ang'e*]



**Annex 4:**

Expert opinion of KPMG AG Wirtschaftsprüfungsgesellschaft of 14 May 2014 on the calculation of the value of Celesio AG as of 15 July 2014





This English version serves only as an explanatory note and shall not be signed by us.

In case of any inconsistencies between the German and English version of our expert opinion,  
the German version shall prevail.

## **Expert opinion**

on the equity value

of **Celesio AG**, Stuttgart,

as at 15 July 2014

as well as on a recurring compensation  
payment and cash compensation in  
accordance with sections 304 and  
305 AktG

in connection with the intended  
domination and profit and loss  
transfer agreement between  
Dragonfly GmbH & Co. KGaA,  
Frankfurt am Main, and Celesio AG

KPMG AG Wirtschaftsprüfungsgesellschaft



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# 1 Engagement and scope of work

## 1.1 Engagement

In February 2014 the management board of Celesio AG, Stuttgart/Germany (hereinafter referred to as “Celesio AG”), and respectively the management of Dragonfly GmbH & Co. KGaA, Frankfurt am Main/Germany (hereinafter referred to as “Dragonfly GmbH & Co. KGaA”), engaged us to determine the equity value of

### **Celesio AG.**

**The purpose of our engagement** is to issue an expert opinion on the equity value of Celesio AG, the amount of the reasonable recurring cash compensation in accordance with section 304 Aktiengesetz (German Stock Corporation Act, referred to as “AktG” below) and the amount of the reasonable one-off cash compensation in accordance with section 305 AktG as a basis for the intended domination and profit and loss transfer agreement according to section 291 AktG (hereinafter referred to as “DPLTA”) and the related reporting. Valuation date is set at 15 July 2014, the anticipated date of Celesio AG’s General Meeting at which the decision on the acceptance of the conclusion of the domination and profit and loss transfer agreement shall be made.

If significant changes should occur with regard to the consolidated net asset, financial position and results of operations of Celesio AG or with regard to the basis of valuation during the period between the end of our valuation work and the day of the General Meeting, which could have an influence on the amount of the annual cash compensation as well as the one-off cash compensation, the values presented in this expert opinion should be adjusted accordingly.

This engagement was performed in accordance with Standard S 1 “Principles for the Performance of Business Valuations” issued by the IDW [*Institut der Wirtschaftsprüfer in Deutschland e.V.*]: Institute of Public Auditors in Germany, Incorporated Association] on 2 April 2008 (IDW S 1). We performed our work in the capacity of a neutral expert. Therefore, the equity value determined by us is an objectively determined value.



The terms governing this engagement are set out in the **General Engagement Terms** for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms) in its version as at 1 January 2002 (refer to Appendix 6). Our liability is determined according to item No. 9 of the General Engagement Terms and any additional written agreements. Our liability towards third parties is defined in items No. 1 para. 2 and No. 9 of the General Engagement Terms.

The expert opinion has been prepared exclusively in conjunction with the proposed domination and profit and loss transfer agreement according to section 291 AktG and is intended for internal use by the parties of the agreement only. Internal use includes the reference to and the use of this expert opinion with regard to the reporting according to section 293a AktG, the disclosure pursuant to section 293 f. AktG before and on the General Meeting of Celesio AG deciding on the DPLTA, the publication on the internet (after the parties of the agreement have adopted the expert opinion as their own) as well as the use in connection with possible subsequent legal proceedings (namely “*Spruchverfahren*” or “*Freigabeverfahren*”). Beyond, our expert opinion may only be distributed to third parties which are subject to a written consent from KPMG AG Wirtschaftsprüfungsgesellschaft (hereinafter referred to as “KPMG”). The expert opinion may be distributed only in the unabridged version including the written declaration on the purpose of the engagement as well as the restrictions on distribution and liability, affixed thereto. The relevant third party has to provide a written consent to the application of the current General Engagement Terms supplemented by an individual liability agreement and a binding confidentiality agreement to KPMG prior to the distribution of the expert opinion.

## 1.2 Execution of our work

We carried out our **work** between February 2014 and 14 May 2014 at the premises of Celesio AG as well as in our offices in Stuttgart/Germany and Munich/Germany.

Our work was primarily based on the following documents:

- Unqualified, audited financial statements and consolidated financial statements for Celesio AG for the years 2010 to 2013;
- Annual reports of Celesio AG for the years 2010 to 2013;
- Consolidated financial planning figures of Celesio AG and the planning units comprising profit and loss statements, balance sheets as well as cash flow statements for the years 2014 to 2018;
- Minutes of the meetings of the management board of Celesio AG for the years 2012, 2013, to April 2014;



- Minutes of the meetings of the supervisory board of Celesio AG for the years 2012, 2013, to February 2014;
- Articles of Association of Celesio AG in the version dated 16 May 2013;
- Excerpts from the Commercial Register of Celesio AG dated 9 May 2014;
- Offer documents of Dragonfly GmbH & Co. KGaA dated 28 February 2014 with regard to the voluntary public takeover offer of 28 February 2014 to the shareholders of Celesio AG;
- Joint reasoned statement of the management board and the supervisory board of Celesio AG dated 13 March 2014 according to section 27 Wertpapiererwerbs- und Übernahmegesetz (Securities Acquisition and Takeover Act, hereinafter referred as to “WpÜG”) concerning the voluntary public takeover offer of Dragonfly GmbH & Co. KGaA;
- Final draft of the domination and profit and loss transfer agreement between Dragonfly GmbH & Co. KGaA and Celesio AG and of the contract report according to section 293a AktG, each dated 14 May 2014;
- Tax documents of Celesio AG and subsidiaries;
- Industry analyses of IMS Health Incorporated, Danbury/USA: IMS Health – IMS Market Prognosis 2013-2017 (as at March 2013) as well as IMS Health – IMS Market Prognosis 2014-2018 (as at March 2014) for the following countries: United Kingdom, France, Germany, Norway, Brazil, Italy, Belgium, Portugal, Denmark and Sweden;
- Financial and capital market data as well as economic data of: The Economist Intelligence Unit Limited, London/United Kingdom (hereinafter referred to as “EIU”), S&P Capital IQ, New York/USA (hereinafter referred to as “S&P Capital IQ”), as well as Bloomberg Inc., New York/USA; further press and market information.

Additional information was willingly provided to us by authorised staff named by Celesio AG and Dragonfly GmbH & Co. KGaA.

In principle the valuation of Celesio AG is based on the documentation provided to us for this purpose. The documents have been critically evaluated, but not verified with reference to an annual audit. The financial plans have been examined for plausibility and discussed with the management of Celesio AG as well as with other key employees. In addition, we have taken into consideration market studies, the current legal and economic environment as well as the financial and earnings situation in recent years.



Please note that the calculations exhibited in this report are rounded. As the calculations were in fact made with exact numbers, addition or subtraction of table values may lead to subtotals and totals that deviate from those presented in these tables.

The management of Dragonfly GmbH & Co. KGaA and the management board of Celesio AG each provided us with a **letter of representation** stating that we have received all the relevant information for the independent expert opinion and the information provided is accurate and complete.

In the context of the valuation, no particular difficulties as defined in section 293a para. 1, sentence 2 AktG have occurred.



## 2 Legal structure and economic situation

### 2.1 Legal structure

Celesio AG is a German stock corporation [*Aktiengesellschaft*] headquartered in Stuttgart and registered in the **commercial register** of the district court [*Amtsgericht*] Stuttgart under HRB 9517.

The **share capital** of Celesio AG amounts to €260,122,792.96 and is divided into 203,220,932 no-par value registered shares. According to section 9 para. 1 of the company's Articles of Association, each share represents one vote in the General Meeting. As at 31 December 2013 the share capital of Celesio AG amounted to €217,728,000.00, divided into 170,100,000 no-par value registered shares (hereinafter referred to as “existing shares”). Shares issued in 2014 due to the exercise of conversion rights from bonds (hereinafter referred to as “new shares”, and in combination with the existing shares of Celesio AG referred to as “shares of Celesio AG”) are entitled to the full dividend from the beginning of the financial year 2014.

The management board is authorised, with the consent of the supervisory board, to increase the share capital on or before 15 May 2017 by up to a total of €43,545,600.00 by issuing new no-par value registered shares against cash contributions (**Authorised Capital 2012**). Furthermore, the management board is authorised, with the consent of the supervisory board, to increase the share capital on or before 16 May 2016 by up to a total of €65,318,400.00 by issuing new no-par value registered shares against cash contributions and/or contributions in kind (**Authorised Capital 2011**).

By resolution of the annual general meetings the share capital of Celesio AG was contingently increased in three tranches of up to €21,772,800.00 each divided into 17,010,000 no-par value registered shares (**Contingent Capital 2009, Contingent Capital 2010 and Contingent Capital 2013** respectively). The purpose of the contingent capital increases is/was the issuance of new shares in connection with the exercise of conversion rights from bonds. The contingent capital increases shall only be implemented to the extent required to satisfy option or conversion rights under options or convertible bonds issued or guaranteed by Celesio AG or any of its affiliates on the basis of the authorisation resolved by the annual general meetings on 8 May 2009, 6 May 2010 and 16 May 2013 respectively and to the extent that such satisfaction is/was not made in cash or with treasury shares or shares of another listed entity.



The **Contingent Capital 2009** was resolved in relation to the issue of convertible bonds (hereinafter referred to as “convertible bond 2014”) in the aggregate amount of €350.0 million on 29 October 2009. The due date of the convertible bond was 29 October 2014 and in the case of a change of control holders of the convertible bonds had the right to either redeem their convertible bonds early or to exercise their right of conversion on the basis of an adjusted conversion price.

The **Contingent Capital 2010** was resolved in relation to the issue of convertible bonds (hereinafter referred to as “convertible bond 2018”) in the aggregate amount of €350.0 million on 7 April 2011. The due date of the convertible bonds was 7 April 2018 and in the case of a change of control holders of the convertible bonds had the right to either redeem their convertible bond early or to exercise their right of conversion on the basis of an adjusted conversion price. The Contingent Capital 2010 was completely used to issue 17,010,000 new shares upon the exercise of conversion rights. To the extent that the Contingent Capital 2010 was no longer available for converted bonds 2018, the remaining conversion rights were settled in cash.

On 11 April 2014 Celesio AG announced that it would make use of its right to redeem all outstanding convertible bonds 2014 and convertible bonds 2018. Holders of the convertible bonds therefore had the opportunity to exercise their conversion right on or before 6 May 2014. Until 6 May additional conversion rights were exercised following the notice of redemption and new shares have been issued (in relation to the convertible bond 2014) or were settled in cash (in relation to the convertible bond 2018).

The share capital of Celesio AG and the outstanding convertible bonds are as follows (subject to the registration of the share capital increase in the commercial register).

Share capital and convertible bonds of Celesio AG as at 6 May 2014					
		Convertible bond 2014	Convertible bond 2018	Total convertible bonds	Total
Shares as at 31 December 2013	No.				170,100,000
Share capital as at 31 December 2013	€				217,728,000.00
Declarations of conversions	No.	6,980	3,496		
Declarations of conversions	€	349,000,000.00	349,600,000.00	698,600,000.00	
Number of shares issued	No.	16,110,932	17,010,000	33,120,932	203,220,932
Share capital	€	20,621,992.96	21,772,800.00	42,394,792.96	260,122,792.96
Outstanding convertible bonds	No.	20	4		
Outstanding convertible bonds	€	1,000,000.00	400,000.00	1,400,000.00	

Source: Celesio AG.



20 outstanding convertible bonds 2014 and 4 outstanding convertible bonds 2018 were redeemed on 12 May 2014 at their principal amount plus interest accrued.

As no further convertible bonds 2014 are outstanding, it is no longer possible to continue using the Contingent Capital 2009.

The existing Celesio AG shares are admitted to trading on the regulated market of the Frankfurt Stock Exchange (Prime Standard) and are traded on the German electronic system Xetra and on the stock exchanges in Berlin, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart. The new Celesio AG shares are admitted to trading on the regulated market of the Frankfurt Stock Exchange (Prime Standard) as well.

The existing Celesio AG shares are traded under the German security code number ("WKN") CLS 100 and under the international security code Number ("ISIN") DE000CLS1001. The new Celesio AG shares are traded under WKN CLS 104 and under ISIN DE000CLS1043.

The existing shares are, inter alia, included in the MDAX.

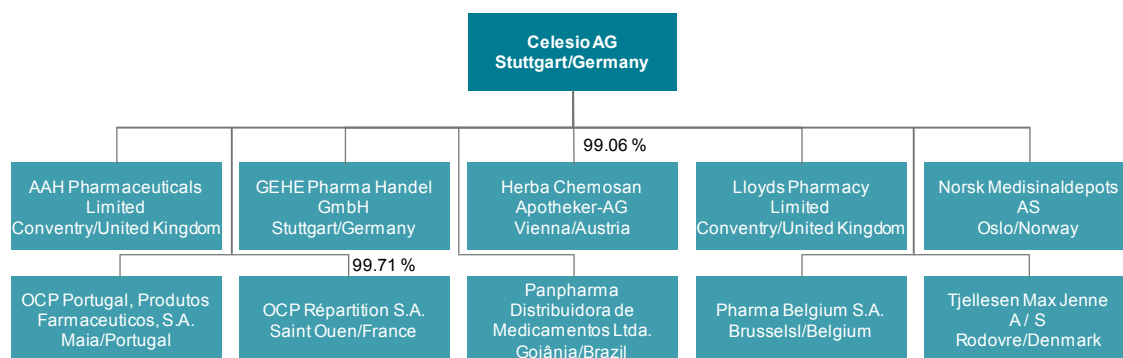
The **company's purpose** according to the Articles of Associations is the manufacturing and sale of all types of merchandise, particularly pharmaceutical products, and any other objects necessary in the provision of health care. In addition, Celesio AG renders, to the extent legally permissible, services of any nature, particularly in the field of health care. Furthermore the business objective of Celesio AG is the acquisition and administration of equity interests in companies as well as the management of companies. The company is further entitled to effect any and all transactions or other measures in connection with the above activities, as well as those which suitably facilitate such activities.

The financial year corresponds to the calendar year.

The articles of association in force are dated 16 May 2013.



The business activities of Celesio AG and its subsidiaries, associated companies and participations (together hereinafter referred to as “Celesio Group”) are international. As at 31 December 2013 Celesio Group includes 358 domestic and foreign subsidiaries. Nine associated companies are recognised using the equity-method. An extract of the Celesio Group is presented in the chart below (shareholding ratios which differ from 100%, are presented in the chart):



Source: Celesio AG.

The subsidiaries listed above – with the exception of Lloyds Pharmacy Limited – are pharmaceutical wholesale subsidiaries of Celesio AG. Lloyds Pharmacy Limited, on the other hand, is a British pharmaceutical retail subsidiary.

## 2.2 Acquisition of Celesio AG by McKesson Group

On 24 October 2013 McKesson Corporation, San Francisco/USA (hereinafter referred to as “McKesson Corp.”), and Celesio AG announced that Dragonfly GmbH & Co. KGaA (a wholly-owned subsidiary of McKesson Corp.) had signed an agreement with Franz Haniel & Cie. GmbH, Duisburg/Germany (hereinafter referred to as “Franz Haniel & Cie. GmbH”), to acquire a majority stake in Celesio AG for €23.00 per share and intends to launch parallel voluntary public tender offers for the remaining publicly-traded shares of Celesio AG and outstanding convertible bonds of Celesio Finance B.V., Amsterdam/Netherlands (hereinafter referred to as Celesio Finance B.V.). The offer documents regarding the voluntary public takeover offer for the outstanding shares of Celesio AG and convertible bonds of Celesio Finance B.V. (convertible bond 2014 and convertible bond 2018) were issued by Dragonfly GmbH & Co. KGaA on 5 December 2013. Despite an increase in the purchase price from €23.00 to €23.50 per share of Celesio AG on 9 January 2014, McKesson Corp was unsuccessful in reaching the 75% completion condition (on a fully diluted basis) within the acceptance period which ended on 9 January 2014. Therefore, the settlement condition of the share purchase agreement and the two voluntary public takeovers were not fulfilled.



On 23 January 2014 McKesson Corp. announced that Dragonfly GmbH & Co. KGaA had entered into a revised share purchase agreement with Franz Haniel & Cie. GmbH for the acquisition of – at this time – 75.99% of the Celesio AG shares currently outstanding. The transaction was completed on 6 February 2014. Hence, Dragonfly GmbH & Co. KGaA achieved an ownership of more than 75.00% in Celesio AG shares since 6 February 2014 with the exception of a temporary decrease below the threshold caused by the conversion of convertible bonds 2014 and convertible bonds 2018. Furthermore, Dragonfly GmbH & Co. KGaA entered into a bond purchase agreement with entities of the Elliott hedge fund group to acquire convertible bonds (convertible bond 2014 and convertible bond 2018) issued by Celesio Finance B.V.

On 23 January 2014 McKesson Corp. and Dragonfly GmbH & Co. KGaA announced a further voluntary public takeover offer to the shareholders of Celesio AG for the acquisition of their non-par-value registered shares in Celesio AG.

On 23 January 2014 McKesson Corp. and Dragonfly GmbH & Co. KGaA also announced that they intend to enter into a domination and profit and loss transfer agreement with Dragonfly GmbH & Co. KGaA as dominating party and Celesio AG as dominated party, pursuant to sections 291 et seq. AktG.

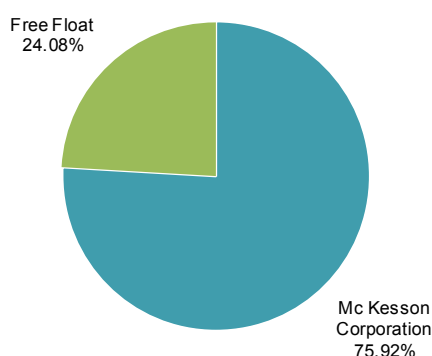
The offer documents regarding the further voluntary public takeover offer, which were issued by Dragonfly GmbH & Co. KGaA on 28 February 2014, stipulate a cash consideration of €23.50 per share of Celesio AG.

The Joint Reasoned Statement [*Gemeinsame Stellungnahme*] of the management board and the supervisory board of Celesio AG was published on 13 March 2014. The management board and supervisory board announced that they deem the offer price of €23.50 per share to be fair and adequate. The acceptance period of the further voluntary public takeover offer ended on 2 April 2014. The additional acceptance period of this further voluntary public takeover offer commenced on 8 April 2014 and ended on 22 April 2014. Finally, the takeover offer for a total of 1,946,081 shares of Celesio AG was accepted. This corresponds to approximately (hereinafter referred to as “approx.”) 0.96% of the share capital and the voting rights of Celesio AG.



McKesson Corp. and its subsidiaries (together referred to as “McKesson Group”) currently hold 154,277,886 shares of Celesio AG, this corresponds to approx. 75.92% of the share capital and the voting rights in Celesio AG.

**Shareholder structure of Celesio AG**



## 2.3 Tax position

Celesio AG, as a resident in Germany, is subject to corporate income tax, trade tax as well as to value added tax.

Due to domination and profit and loss transfer agreements the following companies are members of a – in parts multi-tier – tax group [*Organschaft*] for German corporate income and trade tax purposes with Celesio AG as the top-tier controlling company [*Organträgerin*]:

- ABG Apotheken-Beratungsgesellschaft mbH, Stuttgart/Germany
- Admenta Deutschland GmbH, Stuttgart/Germany
- Ancavion GmbH, Weiterstadt/Germany
- DocMorris Kooperationen GmbH, Aachen/Germany
- GEHE Pharma Handel GmbH, Stuttgart/Germany (hereinafter referred to as “GEHE GmbH”)
- GEHE Informatik Services GmbH, Stuttgart/Germany
- Gesellschaft für Versorgungskonzepte in der Wundbehandlung GmbH, Stuttgart/Germany
- Inten GmbH, Stuttgart/Germany



In addition, Celesio AG also forms, with these companies, a tax group for value added tax purposes.

Celesio AG has filed tax returns for the tax years up to and including 2011 and has been assessed accordingly. The tax assessments for the tax year 2011 were issued on 16 August 2013 with the proviso of reexamination [*Vorbehalt der Nachprüfung*], in terms of section 164 para. 1 of the German General Tax Code [*Abgabenordnung*].

Celesio AG has, for domestic tax purposes, tax loss carry forwards (particularly for corporate income tax purposes pursuant to section 10d of the German Income Tax Act [*Einkommensteuergesetz*] and for trade tax purposes pursuant to section 10a of the German Trade Tax Act [*Gewerbesteuerengesetz*] as well as an interest expense carry forward [*Zinsvortrag*] in the context of the German rules restricting interest expense allowances [*Zinsschranke*] (section 4h of the German Income Tax Act [*Einkommensteuergesetz*]). The tax loss carry forwards and the interest expense carry forward as at 31 December 2011 have been determined in the assessments dated 16 August 2013. No earnings before interest, taxes, depreciation and amortisation (hereinafter referred to as “EBITDA”) carry forward exists for purposes of the German rules on the restriction of interest expense allowances. Furthermore, foreign subsidiaries in Belgium, Brazil, France and Sweden have tax loss carry forwards.

Based on Celesio AG’s information, the tax loss carry forwards of the domestic and foreign entities amount, for tax purposes, to €552.4 million in total, of which an amount of €87.2 million can be offset in relation to the foreign group entities. As at 31 December 2013, the tax loss carry forwards for German corporate income tax purposes amount to €234.7 million and the German trade tax loss carry forwards amount to €199.7 million.

In the context of the shareholder exchange in 2014, the transfer of the majority shareholding in Celesio AG resulted in multiple change-of-control transactions pursuant to section 8c of the German Corporate Income Tax Act by Franz Haniel & Cie. GmbH (transfer of more than 25.0% of the shares of Celesio AG) and subsequently by Dragonfly GmbH & Co. KGaA (transfer of more than 50.0% of the shares of Celesio AG). Following these transactions the tax losses in Germany can only be offset to the extent that legal requirements for an exception from the forfeiture of the tax losses are met (so-called built-in gains clause pursuant to section 8c para. 1 sentence 6 et seq. of the German Corporate Income Tax Act [*Körperschaftsteuergesetz*]).

The tax audit for Celesio AG for the tax years 2003 through to 2005 was concluded in 2013 and processed in accounting terms. The tax audit addressed in the first place corporate income tax, trade tax and value added tax. The currently ongoing tax audit for the tax years 2006 through 2011 pertains to the same taxes together with the related assessments.



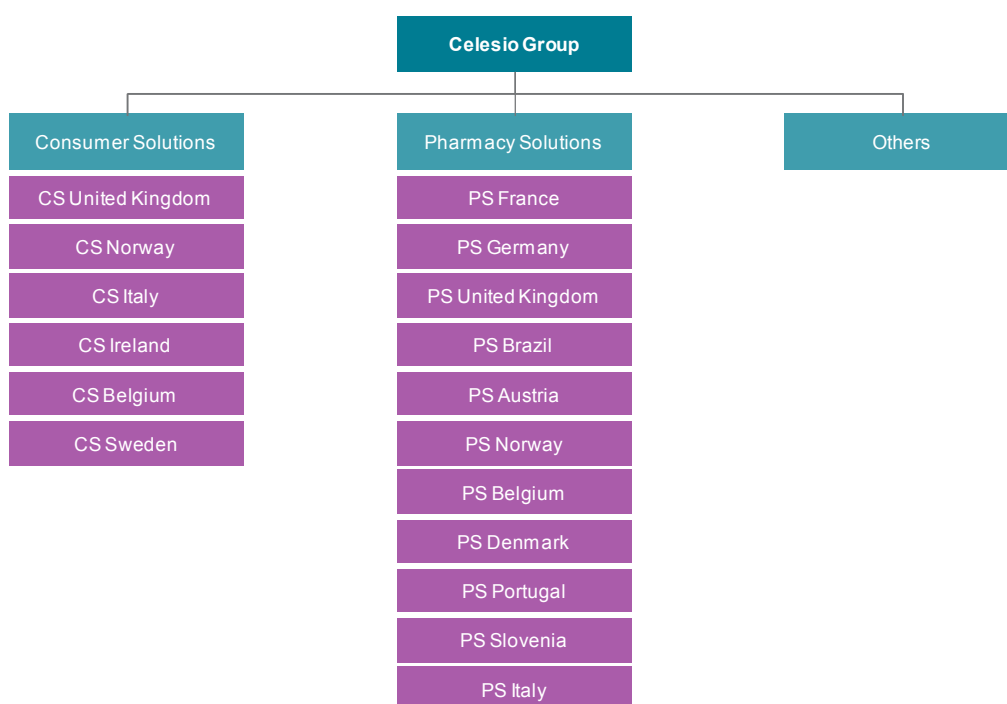
## 2.4 Business model

### 2.4.1 Overview

The business of Celesio Group includes the pharmaceutical wholesale and the operation of own retail pharmacies.

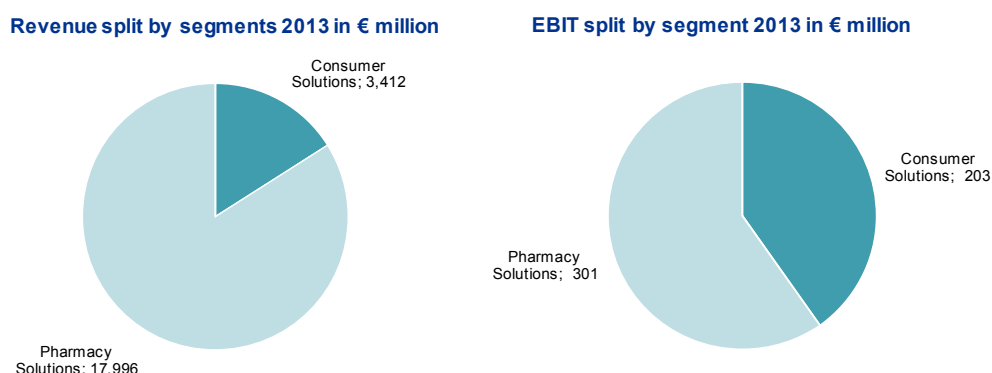
Gehe & Comp., a drug and paint business was established as a general partnership [*Offene Handelsgesellschaft*] in Dresden in May 1835. The company was listed in 1903 and operated as Gehe & Co. AG from 1903 until 1981. In 1981 the company was renamed in Gehe Aktiengesellschaft and since 2003 the company trades as Celesio AG. In addition to its core business, the pharmaceutical wholesale and retail business, Celesio AG was temporarily engaged in the manufacturing of pharmaceuticals and provided services to pharmaceutical manufacturers (Manufacturer Solutions). In order to expand the pharmaceutical wholesale and to build up the pharmaceutical retail business, Celesio AG withdrew from the manufacturing of pharmaceuticals in 1996/97. The segment Manufacturer Solutions (Movianto and Pharmexx) was sold in 2012 due to a strategic realignment and a concentration on the core business.

Currently the business activities of Celesio Group are divided into two divisions, Consumer Solutions (hereinafter referred to as “CS”) and Pharmacy Solutions (hereinafter referred to as “PS”). For segment reporting purposes, the activities of the Group’s parent, Celesio AG, and other companies which are not directly involved in operating activities are reported in the segment Others. The segments CS, PS and Others are presented in the chart below:





Historical, unadjusted revenue and earnings before interest and taxes (hereinafter referred to as “EBIT”) splits by segment are presented in the chart below for the financial year 2013.<sup>1</sup> With revenues in the amount of €17,966 million the segment PS accounts for approx. 84% of total revenues of the Celesio Group in the amount of €21,408 million. The segment CS generated revenues of approx. €3,412 million or 16% of total revenues in 2013.



*Source: Audited consolidated financial statements of Celesio AG as at 31 December 2013.*

With an EBIT of approx. €301 million, the segment PS makes the largest contribution to total EBIT in 2013 (€407 million after net cost of the segment Others). The segment CS contributes an EBIT of €203 million and the segment Others contributes a negative EBIT of €97 million in 2013.

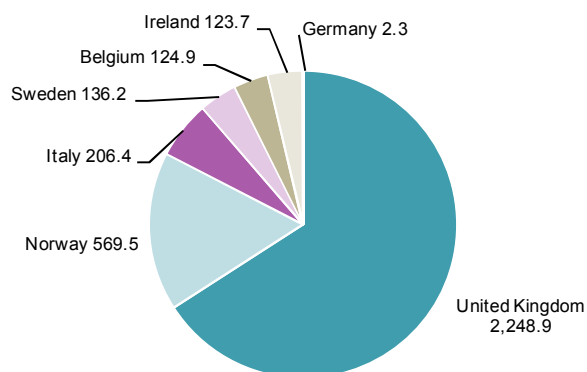
## 2.4.2 Consumer Solutions

Within the segment CS, the Celesio Group provides prescription-only pharmaceuticals, a wide range of OTC products as well as para-pharmaceutical products through own pharmacies. This covers the whole supply chain, from purchasing pharmaceuticals and merchandise to selling to end consumers. As at 31 March 2014, the Celesio Group owned 2,180 retail pharmacies in six countries. In addition, CS offers medical services and quality advice, which are tailored to varying conditions prevailing in each country. The segment CS contains the investment in Brocacef Holding N.V., Amsterdam/Netherlands (hereinafter referred to as “Brocacef Holding N.V.”) which is reported as an associate. Celesio AG holds 45.0% in the Dutch subsidiary of PHOENIX Pharmahandel GmbH & Co. KG, Mannheim/Germany (hereinafter referred to as “PHOENIX KG”), since its contribution of its Dutch retail pharmacies in 2010.

<sup>1</sup> Unadjusted according to the annual report 2013 of Celesio AG.



#### Revenue split by country 2013 in € million



*Source: Audited consolidated financial statements of Celesio AG as at 31 December 2013.*

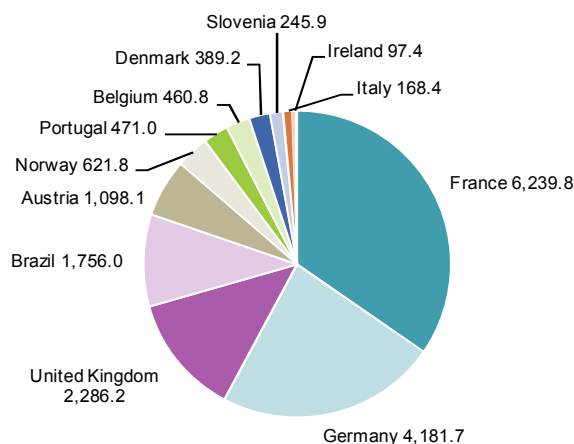
The United Kingdom (approx. 66% of total revenues in the order of €3,412 million in 2013) and Norway (approx. 17%) constitute the two most important markets for CS by means of revenues. Further markets are Italy (approx. 6%), Sweden (approx. 4%), Belgium (approx. 4%) and Ireland (approx. 4%). Until 2012, CS was also present in the Czech Republic.

### 2.4.3 Pharmacy Solutions

Core business of PS is the pharmaceutical wholesale. Through its pharmaceutical wholesale subsidiaries in different countries, Celesio AG procures pharmaceuticals and other products directly from the manufacturer and stores and delivers them to pharmacy customers nationwide. Through 133 branches, the Celesio Group supplies approx. 65,000 pharmacies (both pharmacies owned by the Celesio Group and associated as well as third party pharmacies). Besides pharmacies, the Celesio Group also supplies public organisations such as hospitals, health care centers or the military (e.g. in Norway). In addition, Celesio AG offers supplementary services for pharmacists for example in the areas of marketing, warehouse management and financial services.



**Revenue split by country 2013 in € million**



*Source: Audited consolidated financial statements of Celesio AG as at 31 December 2013.*

The most important markets for PS are France (approx. 35% of total revenues in the order of €17,996 million), Germany (approx. 23%), the United Kingdom (approx. 13%) and Brazil (approx. 10%). Furthermore PS serves the following European markets with revenue shares of less than 10%: Austria, Norway, Portugal, Belgium, Denmark, Slovenia, Ireland and Italy. Until November 2012 and May 2013, the segment PS was also present in the Czech Republic and Ireland respectively.

#### **2.4.4 Strategic cornerstones of the Celesio Group**

In 2011, the Celesio Group introduced a new strategy due to declining earnings in previous years. Reasons for the decline in earnings are, inter alia, government measures within the pharma sector (e.g. reduction of the reimbursement prices for generic products in the United Kingdom) caused by the global financial and debt crisis. The main cornerstones of this strategic realignment are presented as follows.

To stabilise the earnings development in the short-term the Celesio Group has initiated and implemented the Operational Excellence Programme (“OEP”) in 2011. Initiatives in this regard are cost reduction measures, the groupwide bundling of procurement activities (so-called Top-in-Class-Procurement “TiC”) and the optimisation of the international logistics network.

Furthermore, the segment Manufacturer Solutions was sold in financial year 2012 to focus on the development of the core business of the Celesio Group.



In 2013, as a further cornerstone of the strategic realignment, the Celesio Group focused on the expansion of the retail pharmacy business. Already rolled out in pilot pharmacies, the new European pharmacy network (“EPN”), “Lloyds”, offers new advisory and other health and well-being services to patients and customers. The Celesio Group will roll out the concept gradually across all own pharmacies from 2014 on. In addition, the new concept is open to partner pharmacies as well.

To optimise the value chain the Celesio Group develops and implements tailored logistic solutions as part of the project end-to-end integration. With the software “Optimised Pharmacy Replenishment” (“OPR”), for example, the ordering process of pharmacies can be optimised. Already introduced on a trial basis in the United Kingdom, the service “Intelligent Prescription Picking” (“IPP”) enables pharmacists to focus on customer care as recurring order processes (e.g. for chronically ill patients) are outsourced to wholesale warehouse pharmacies.

In 2014 the strategic realignment shall be continued consistently. The strategic roadmap foresees the broad market launch of the European pharmacy network within the own pharmacies of the Celesio Group.



## 2.4.5 Financial position

The financial position of the Celesio Group as at 31 December 2011 to 2013, respectively, is presented as follows. The consolidated financial statements of Celesio AG have been prepared in accordance with the International Financial Reporting Standards (IFRS).

Celesio Group - balance sheet account			
as at 31 December in €m	2011	2012	2013
<b>Assets</b>			
Intangible assets	2,637.2	2,297.2	2,199.0
Property, plant and equipment	608.3	529.7	506.9
Associates accounted for using the equity method	81.4	71.7	78.9
Other financial assets	116.6	98.0	109.5
Other non-current assets	19.2	69.9	39.8
Income tax receivables	2.5	2.3	2.0
Deferred tax assets	168.6	111.1	101.7
<b>Non-current assets</b>	<b>3,633.8</b>	<b>3,179.9</b>	<b>3,037.8</b>
Inventories	1,791.5	1,582.0	1,597.8
Trade receivables	2,529.4	2,096.1	2,082.7
Income tax receivables	28.9	36.1	18.9
Other receivables and other assets	392.7	407.7	322.9
Cash and cash equivalents	448.3	523.9	535.7
Assets held for sale	2.2	103.0	2.5
<b>Current assets</b>	<b>5,193.0</b>	<b>4,748.8</b>	<b>4,560.5</b>
<b>Total assets</b>	<b>8,826.8</b>	<b>7,928.7</b>	<b>7,598.3</b>
<b>Equity and liabilities</b>			
Issued capital	217.7	217.7	217.7
Capital reserves	1,186.0	1,186.0	1,186.0
Revenue reserves	1,291.5	1,091.2	1,191.3
Revaluation reserves	-260.8	-333.3	-437.0
Non-controlling interests	32.2	34.3	34.0
<b>Equity</b>	<b>2,466.6</b>	<b>2,195.9</b>	<b>2,192.0</b>
Financial liabilities	1,775.5	1,916.0	1,396.0
Pension provisions	276.3	345.1	336.8
Other non-current provisions	92.5	71.0	63.8
Other liabilities	120.9	8.2	0.3
Deferred tax liabilities	110.6	38.8	41.7
<b>Non-current liabilities</b>	<b>2,375.8</b>	<b>2,379.1</b>	<b>1,838.6</b>
Financial liabilities	291.5	166.9	503.1
Trade payables	2,799.4	2,325.0	2,384.6
Other current provisions	176.2	156.4	144.0
Income tax liabilities	54.7	55.7	63.4
Other liabilities	662.6	573.1	472.6
Liabilities held for sale	-	76.6	-
<b>Current liabilities</b>	<b>3,984.4</b>	<b>3,353.7</b>	<b>3,567.7</b>
<b>Liabilities</b>	<b>6,360.2</b>	<b>5,732.8</b>	<b>5,406.3</b>
<b>Total equity and liabilities</b>	<b>8,826.8</b>	<b>7,928.7</b>	<b>7,598.3</b>

Source: Audited consolidated financial statements of Celesio AG as at 31 December 2011, 31 December 2012 and 31 December 2013.



## **Assets**

Intangible assets mainly include goodwill stemming from several acquisitions in the past as well as concessions and industrial rights. The decrease from €2,637.2 million to €2,297.2 million as at 31 December 2012 as compared to the previous year, is mainly due to the disposal of discontinued operations (Movianto, Pharmexx, Doc Morris and Czech operations) and due to reclassifications from disposal groups (Irish wholesale operations) to assets held for sale and due to amortisation and impairment. The decrease in the order of €98.2 million as at 31 December 2013 is largely caused by translation differences as well as amortisation on concessions and industrial rights.

Property, plant and equipment mainly relates to land and buildings and other equipment. The decrease of €78.6 million as at 31 December 2012 is mainly due to the reclassifications from discontinued operations and disposal groups to assets held for sale and scheduled depreciation.

The main item within Associates accounted for using the equity method is the 45% investment in Brocacef Holding N.V. Other financial assets mainly include investments in entities that are not listed and over which the Celesio Group has neither control nor the ability to exercise a significant influence.

Deferred tax assets as at 31 December 2011, 2012 and 2013 arose from unused tax loss carry forwards as well as from temporary differences between the carrying amounts recognised in the consolidated financial statements and the tax base of assets and liabilities. As at 31 December 2013, deferred taxes on unused tax losses amount to €28.0 million.

Inventories relate to finished goods and merchandise. The decrease of €209.5 million as at 31 December 2012 does not reflect the trend in revenue but is caused by the disposal of discontinued operations and the reclassifications of several business areas and operations to assets held for sale in accordance with IFRS 5.

Trade receivables as at 31 December 2011 until 2013 mainly include trade receivables that are neither impaired nor overdue. The decrease of €433.3 million as at 31 December 2012 is mainly due to disposals of discontinued operations and reclassifications to assets held for sale in accordance with IFRS 5.

Other receivables and other assets mainly include VAT and other income tax and tax receivables, supplier bonuses, creditors with debit balances, receivables from employees and other short-term receivables.

Cash and cash equivalents mainly consist of cash at banks.



Assets held for sale as at 31 December 2012 relate to assets of the disposal group, Wholesale Ireland, and the discontinued operations, Movianto Ireland. In 2012 the business areas Movianto (without Ireland), Pharmexx and Doc Morris and the operations in the Czech Republic have been classified as discontinued operations and disposal groups respectively. As they have been disposed by Celesio AG during the financial year 2012, the respective assets are not included in the balance sheet as at 31 December 2012 anymore. The decrease of €100.5 million as at 31 December 2013 is caused by the disposal of the operations, Wholesale Ireland and Movianto Ireland, in the second quarter of 2013.

The reported carrying amounts of the financial instruments as at 31 December 2013 correspond to the respective fair values as at 31 December 2013.

### **Equity and liabilities**

The equity of the Celesio Group as at 31 December 2011, 2012 and 2013 comprises an issued capital in the amount of €217.7 million and capital reserves in the amount of €1,186.0 million. The decrease in capital reserves in the order of €200.3 million as at 31 December 2012 is mainly due to the net loss in the financial year 2012 and a dividend distribution. The following increase in capital reserves as at 31 December 2013 is largely caused by the net profit of the financial year 2013. Revaluation reserves mainly include translation reserves and reserves relating to revaluations of defined benefit plans. Revaluation reserves decreased as at 31 December 2012 and as at 31 December 2013 mainly due to the revaluation of defined benefit plans and due to effects of foreign currency translation, respectively.

Current and non-current financial liabilities relate primarily to liabilities to banks and to promissory notes and bonds with a remaining maturity of less than one year and more than one year respectively. The increase in non-current financial liabilities as at 31 December 2012 resulted from the issuance of a new bond in the nominal amount of €350.0 million in October 2012. The decrease in non-current financial liabilities and the increase in current financial liabilities as at 31 December 2013 are mainly due to reclassifications because of reduced maturities. As at 31 December 2013 the carrying amount of non-current financial liabilities of €1,396.0 million has a fair value of €1,591.8 million and the carrying amount of current financial liabilities of €503.1 million has a fair value of €551.0 million. The differences mainly result from valuation differences concerning promissory notes and bonds.

Pension provisions consist of obligations arising from defined benefit schemes, which mainly relate to the United Kingdom, Norway and Germany. The increase in pension provisions in the order of €68.8 million, as at 31 December 2012, is caused by an increase in the defined benefit obligations due to service costs and interest expenses. An increase in the fair value of plan assets, due to interest income and contributions by the employer, reduced the pension provisions as at 31 December 2013.



The decrease in trade payables of €474.4 million as at 31 December 2012 does not reflect the trend in cost of materials but is caused by the disposal of discontinued operations and the reclassifications of several business areas and operations to liabilities held for sale in accordance with IFRS 5.

Other liabilities mainly include outstanding invoices, personnel liabilities and other tax liabilities. Other provisions mainly have been accrued for obligations to personnel, restructuring measures and litigation and other legal risks.

Liabilities held for sale as at 31 December 2012 result from the reclassification of Wholesale Ireland, as disposal group, and Movianto Ireland, as discontinued operations, in accordance with IFRS 5 in the financial year 2012. Due to the disposal of these business areas in the second quarter of financial year 2013, there are no liabilities held for sale as at 31 December 2013.

Apart from those financial liabilities as discussed above, the carrying amounts of financial instruments on the liability side as at 31 December 2013 correspond to fair values as at 31 December 2013.



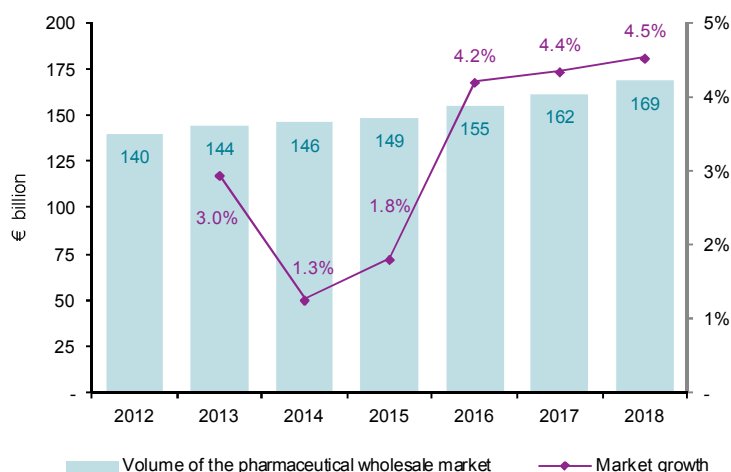
## 2.5 Market environment and competitive landscape

The following section 2.5.1 presents the key factors and significant structural features based on the European pharmaceutical wholesale markets, in which Celesio Group operates. The specific characteristics of the pharmaceutical markets most relevant to Celesio Group in Germany, France, United Kingdom, Norway, Austria and Brazil are presented in Appendix 3. Section 2.5.2 presents the derivation of the company-specific market growth between 2014 and 2018 and section 2.5.3 presents a competitor analysis.

### 2.5.1 The European pharmaceutical wholesale market

#### *Volume and growth of the European pharmaceutical wholesale market*

The European pharmaceutical wholesale market, in which the Celesio Group operates, reached a total market volume of approx. €144 billion in 2013. The largest domestic markets are Germany, France, Italy and the United Kingdom. The following chart displays the past and projected development of pharmaceutical expenditure in the European pharmaceutical wholesale market:



Source: IMS Health – IMS Market Prognosis 2014-2018 (March 2014), KPMG analysis.

The country specific development regarding the various European domestic markets is very heterogeneous. In 2013, the markets in Germany, Italy, Austria and Sweden expanded, whereas markets in France, Portugal, Ireland and Slovenia declined. In the United Kingdom and Norway market growth, measured in local currency, was overcompensated by negative exchange rate effects. Overall, the European market, in which Celesio AG operates, remained stable compared to the previous year. For the year 2014 a continued decrease in market volume is expected in France, this however will be compensated by expanding markets in other major regions

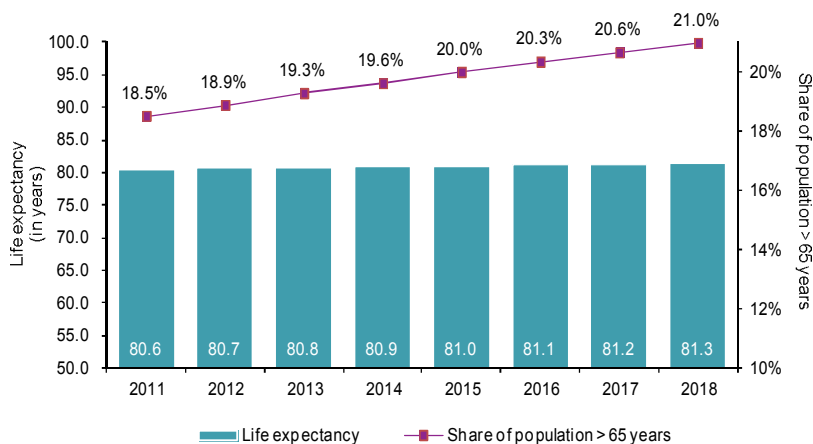


especially in Germany, Italy and the United Kingdom. Overall, IMS Health<sup>2</sup> predicts a positive development for the years 2015 to 2018 (with the exception of France). The Celesio-specific market volume is thereby expected to grow to €169 billion in the year 2018.

#### *Key factors for the development of the pharmaceutical wholesale markets*

The current state of the pharmaceutical wholesale market as well as the future development of individual regional markets is essentially determined by demographic, economic and especially (socio-) political factors.

The following chart shows the projected life expectancy in Europe combined with the percentage of population older than 65 years.



Source: Economist Intelligence Unit 2014.

Note: Data for all countries in which Celesio Group operates in Europe.

The demographic development in Europe is characterised by a growing life expectancy. The low or partially declining birth rates<sup>3</sup> and an expected average annual population growth of 0.36%<sup>4</sup>, lead to a shift in the population's age structure. According to the EIU, the proportion of population older than 65 years is expected to increase from 18.5% in 2011 to 21.0% in 2018. Presumably, this will lead to increased demand for health services (e.g. by an increase of chronic diseases). Moreover, elderly people frequently enjoy comprehensive insurance coverage, making their demand for pharmaceuticals relatively price inelastic. The growing health consciousness of the population, advancements in treatment options and an increasing political

<sup>2</sup> For the country specific forecasts, refer to Appendix 3.

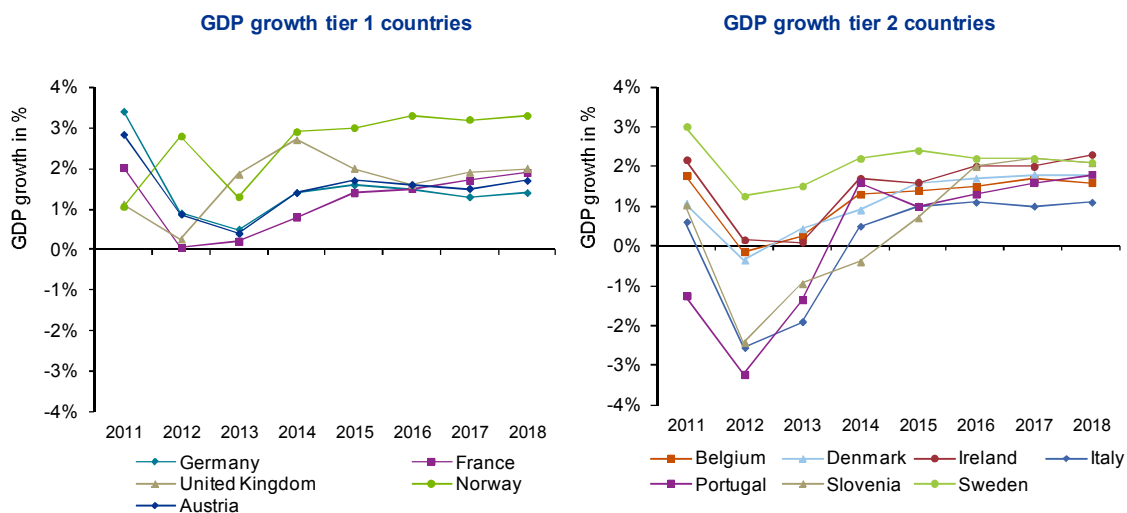
<sup>3</sup> Cf. German Federal Ministry of Family Affairs, Senior Citizens, Women and Youth, Gender Datenreport: Geburtenziffern im europäischen Vergleich, 2nd Edition, Munich, November 2005:  
<http://www.bmfsfj.de/Publikationen/genderreport/4-Familien-und-lebensformen-von-frauen-und-maennern/4-1-Einleitung/4-1-1-geburtenziffern-im-europaeischen-vergleich.html> (20/02/2014).

<sup>4</sup> Economist Intelligence Unit 2014.



influence of the elderly generation are expected to further stimulate demand for pharmaceutical products in Europe.

The following chart depicts real economic growth rates (growth of Gross Domestic Product, “GDP”) for the relevant European countries in which the Celesio Group operates.

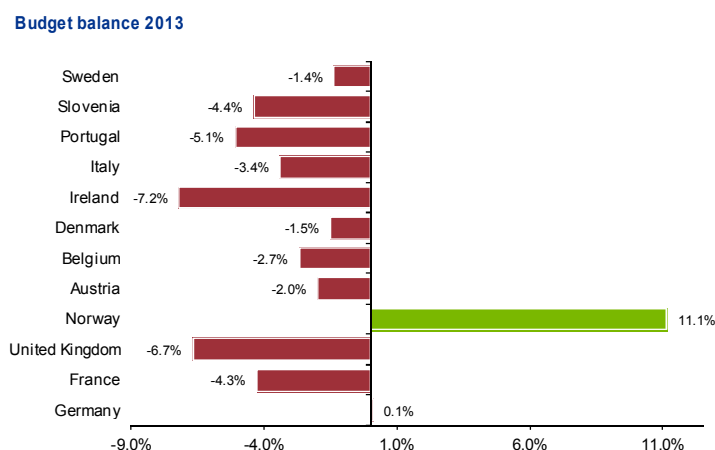


Source: Economist Intelligence Unit 2014.

In the years 2012 and 2013 economic growth stagnated in most European countries due to the impact of the debt crisis. Some countries, especially Portugal, Italy and Slovenia experienced a decline in GDP. From 2014 onwards, the overall GDP is expected to grow. The average growth rates for the major European markets (according to sales and revenue contribution to the Celesio Group) are expected to be between 1.4% (Germany) and 3.1% (Norway). For the remaining European markets relevant for the Celesio Group, the average growth rates are predicted to be between 0.9% (Italy) and 2.2% (Sweden).



The following chart illustrates an overview of budget surpluses and deficits of countries constituting the home market of Celesio Group's business units in 2013.



Source: Economist Intelligence Unit 2014.

Most countries experienced budget deficits during the debt crisis. This affected government health care spending being significantly dependent on the overall government budget situation.

The following table depicts the share of public and private health care spending (in percentage of GDP) for the years 2011 to 2013, as well as projections until 2018:

Share of public and private health care spending								
in % of GDP	2011	2012	2013	2014	2015	2016	2017	2018
Germany	11.6%	11.7%	11.8%	11.8%	11.8%	11.9%	11.9%	11.9%
France	11.9%	12.0%	12.1%	12.1%	12.0%	11.8%	11.8%	11.8%
United Kingdom	9.4%	9.5%	9.6%	9.7%	9.8%	10.0%	10.1%	10.2%
Norway	9.4%	9.4%	9.4%	9.3%	9.3%	9.3%	9.3%	9.3%
Austria	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.3%	10.5%
Belgium	11.1%	11.2%	11.3%	11.3%	11.3%	11.3%	11.3%	11.4%
Denmark	11.0%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Ireland	9.1%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Italy	9.1%	9.1%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Portugal	10.7%	10.9%	10.8%	10.6%	10.3%	10.1%	10.0%	10.0%
Sweden	9.5%	9.6%	9.7%	9.7%	9.8%	9.9%	10.0%	10.1%

Source: Economist Intelligence Unit 2014.

The share of public and private health care spending (as a percentage of GDP) in 2013 was between 9.0% (Italy and Ireland) and 12.1% (France), averaging 10.4%.<sup>5</sup> Overall, health care spending in relation to GDP is expected to be stable until 2018. However, a lower share

<sup>5</sup> Economist Intelligence Unit 2014.



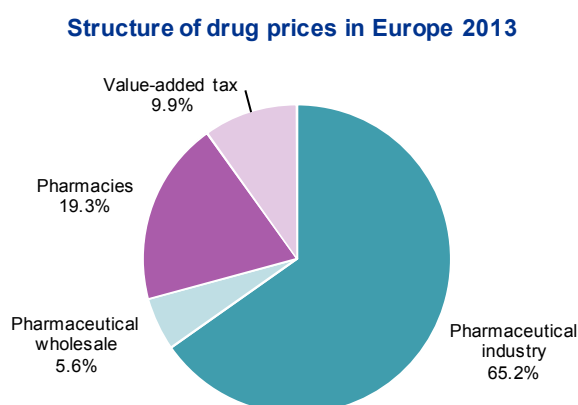
compared to 2013 is anticipated for France, Norway and Portugal, whereas the remaining countries are forecast to be stable or experience slight increases.

The development of the pharmaceutical markets is significantly influenced by country-specific political factors (regulatory environment). Efforts by the respective governments to reduce costs of federal health systems lead to corresponding initiatives and legal interventions in the pharmaceutical wholesale market.

Pharmaceuticals' pricing in European countries is regulated very heterogeneously both with direct mechanisms for price regulation as well as with further instruments used in particular for the purpose of cost reduction. A country-specific presentation of the regulatory environment is given in Appendix 3.

#### *Structure of prices for pharmaceuticals in Europe*

The following chart illustrates the price structure of pharmaceuticals (ratio of individual value-added components in relation to the overall pharmacy sales price) in Europe in 2013.



*Source: Own presentation based on: Bundesverband der pharmazeutischen Industrie e.V. (BPI), Pharma-Daten 2013, p. 53.*

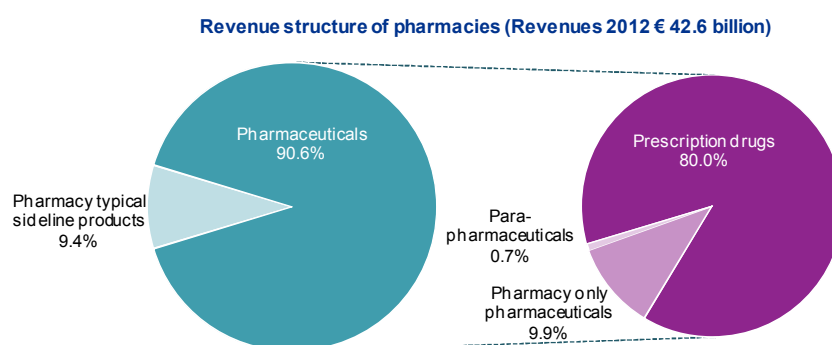
The main proportion of value-added was accumulated by manufacturers of pharmaceutical products, with an average of 65.2% of the total sales price. The retail stage accounted for another 19.3% whereas the pharmaceutical wholesale's share of value-added accounted for only 5.6% on average. The residual share of 9.9% was apportioned to governments by means of value added tax.

In comparison, in some cases ratios of the value-added across Europe differ quite substantially. These are mainly caused by federal influences such as statutory determination of margins for levels of trade as well as different value added tax rates.



### *Pharmacies' revenue structure*

The revenue of pharmaceutical retail primarily comprises pharmaceutical products as well as pharmacy typical sideline assortment. The following chart exemplifies the revenue structure of pharmacies in Germany for 2012.



Source: Own presentation based on: Bundesvereinigung deutscher Apothekenverbände (ABDA), Jahresbericht 2012/13, p. 44.

In 2012 the total revenue in Germany amounted to €42.6 billion (excluding VAT) of which 90.6% were generated by the sale of pharmaceuticals. About 80% of total revenue of pharmacies were prescription drugs. The share of sales for non-prescription (prescribed by a physician or self medication) and over-the-counter pharmaceuticals (self medication only) was approx. 10%. The pharmacy typical sideline products which account for 9.4% of total revenue of pharmacies in Germany in 2012, comprise health care products (e.g. measuring instruments, thermometers, adhesive bandages, wound bandages, incontinence products) as well as pharmacy typical sideline products (e.g. personal hygiene products, body care products, cosmetics and sun protection).

Non-prescription drugs to be sold in pharmacies only (so-called over-the-counter ("OTC") products) are, depending on regulatory differences, also available in drug stores and supermarkets, for example, in the United Kingdom. Other medications (so-called "para-pharmaceuticals") are mainly not limited to sales in pharmacies.



### *Pharmaceutical value added chain*

The pharmaceutical value added chain comprises the stages demonstrated in the following chart.



*Source: Own presentation based on Celesio Group Annual Report 2013.*

On the manufacturer's side, the pharmaceuticals market is dominated by global pharmaceuticals corporations. Among the biggest pharmaceutical producers are Pfizer Inc., New York/USA, Novartis AG, Basel/Switzerland, Merck & Co., Inc, Whitehouse Station/USA, and Sanofi Aventis SA, Paris/France.<sup>6</sup>

In the so-called pre-wholesale business the producer of pharmaceuticals outsources the entire on-site drug distribution logistics to logistics service providers.

The local, temporal and quantitative compensation between pharmaceuticals producers and the pharmaceutical retail is undertaken by the pharmaceutical wholesale stage. Core logistics services include bulk purchase, professional warehousing, commissioning and packaging as well as transportation of drugs in small quantities to the pharmacies or other dispensing sites (e.g. hospitals). In addition, supplementary services such as support of the information flow along the pharmaceutical value chain are offered.

6 Cf. [www.pharmexec.com](http://www.pharmexec.com), 2013 Pharm Exec Top 50: <http://www.pharmexec.com/pharmexec/article/articleDetail.jsp?id=813748&sk=&date=&pageID=3> (20 February 2014).



Drug issuance to consumers and patients takes place through pharmacies, hospitals and in some countries (e.g. in the United Kingdom) through self-dispensing doctors. Operation of pharmacies is determined by the regulatory framework in the respective country.<sup>7</sup>

*Distribution models of the pharmaceutical wholesale*

Alongside the classic distribution model of full-range or short-line pharmaceutical wholesaling (pharmaceuticals producers supply wholesalers who commission and deliver the drugs to the pharmaceutical retail) alternative distribution models also exist in the pharmaceutical distribution market. These especially include the exclusive distribution and the direct distribution. New distribution channels emerge from outside competitors entering the pharmaceutical distribution market.

In the European markets in which Celesio Group operates, with the exception of Sweden, producers sell their products through various distribution channels. In Sweden, the distribution of pharmaceutical products is mainly organised through the single-channel model. In this model, a producer exclusively supplies one pharmaceutical wholesaler which takes care of the distribution of all products to retailers in the country.<sup>8</sup>

In March of 2007, Pfizer, Inc., New York/USA, was the first producer to introduce exclusive distribution in cooperation with the wholesale company Alliance Boots GmbH, Zug/Switzerland ("Alliance Boots GmbH"), in the United Kingdom. In reaction to this decision, other large British pharmaceutical manufacturers modified their distribution models. Thus the distribution through a limited amount of wholesalers (reduced wholesaler models) or an exclusive wholesaler (Solus contracts) increasingly prevails in the United Kingdom.<sup>9</sup>

Some producers (e.g. in the United Kingdom) established performance-related remunerations for wholesalers (fee-for-service) in the past, whereby the pharmaceutical wholesaler does not acquire the products from the producer but is only remunerated for the logistics services.

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7 Cf. Institut für pharmaökonomische Forschung (IPF), The European Pharmaceutical Wholesale Industry, November 2005, p. III.

8 Cf. Oriola KD, <http://www.oriola.fi/en/Company/About-us/> (20 February 2014).

9 Cf. Apotheke adhoc, Eli Lilly startet Exklusivvertrieb, 18 November 2008: <http://www.apotheke-adhoc.de/Nachrichten/Internationales/4733.html> (20 September 2011).



A proportion of drugs is directly delivered from pharmaceutical producers to pharmacies. In some countries the so-called direct distribution accounts for double-digit market shares. Despite higher logistics expenses, producers gain a higher share in margin through the evasion of wholesalers. Additionally, producers can directly influence pricing and volume steering as well as secure the sale of own pharmaceuticals against cheaper products from competitors. From the perspective of the full-range wholesale industry, direct distribution leads to economic disadvantages as it often focuses on high margin products.<sup>10</sup> In Germany, pharmaceutical wholesale was incorporated into the public supply mandate through the 15<sup>th</sup> Amendment to the Medicines Act (“*Arzneimittelgesetz*”) in 2009 and the wholesalers’ right to be supplied by pharmaceutical producers was established. In turn, wholesalers are obliged to have the average two-week demand of supplied pharmacies available. Since the implementation of the 15<sup>th</sup> Amendment to the Medicines Act, the share of direct distribution dropped from approx. 17% (September 2007 to August 2009) to around 16% (September 2009 to August 2012)<sup>11</sup> and remained mostly unchanged since then.<sup>12</sup>

If pharmaceuticals are traded in one country and placed on the market in a different country thereby bypassing the producer’s distribution network, a so-called parallel import occurs. The aim of parallel imports is the exploitation of differing price levels in different countries. Particularly patented drugs are affected by parallel imports. In this context, in some countries regulation exists with respect to the supply obligation of the wholesale industry, which could limit parallel imports.

In recent years competitors from other logistics and distribution industries increasingly attempted to enter the pharmaceutical distribution market. For instance, in 2013 the British retailer, Tesco plc., Cheshunt/United Kingdom, switched to their own logistics resources for the sourcing of OTC medication.

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<sup>10</sup> Cf. Bundesverband des pharmazeutischen Großhandels (PHAGRO), Direktgeschäft nach der AMG-Novelle, 10 December 2009: [http://www.phagro.de/portal/alias\\_\\_phagro/lang\\_\\_de-DE/mid\\_\\_13157/ItemID\\_\\_28/tabid\\_\\_6777/default.aspx](http://www.phagro.de/portal/alias__phagro/lang__de-DE/mid__13157/ItemID__28/tabid__6777/default.aspx) (23 September 2011).

<sup>11</sup> Cf. Pharm. Ind. 72, Nr. 8, 1328-1333 (2010). Arzneimitteldistribution nach der 15. AMG-Novelle von Dr. Frenzel, Alexander und Weißenfeldt, Frank, S. 2: <http://www.imshealth.de/sixcms/detail.php/15206> (22 September 2011).

<sup>12</sup> According to Celesio AG.



### *Organisation of pharmaceutical retail*

The organisation of pharmaceutical retail is regulated heterogeneously across Europe. In some countries the pharmacy market is subject to strict regulatory regulations and restrictions, e.g. with regard to pharmacy ownership, whereas in other countries the market is widely liberalised. On 19 May 2009<sup>13</sup> the European Court of Justice (ECJ) ruled that the geographical allocation of pharmacies and the dispensing monopoly for medication remains in the responsibility of the member states.

Overall, a trend towards a liberalisation of the pharmacy market, especially with reference to regulations concerning pharmacy ownership and the ability to set up pharmacy chains, was observed in recent years. For instance, in the United Kingdom the existing system of awarding pharmacy licenses was partially loosened in April 2005. Since then, the number of independent pharmacies in the United Kingdom has decreased significantly. Currently, around two thirds of all pharmacies are organised in chains.<sup>14</sup>

A parliamentary decision taken in Sweden on 29 April 2009 caused the deregulation of public pharmacy ownership as well as the privatisation of the government owned pharmacy chain, Apoteket AB, via a monitored auction procedure, effective 1 July 2009.

In Germany, third-party pharmacy ownership is not allowed by law. Ownership and the formation of pharmacy chains is restricted to natural persons (approbated pharmacists) and limited to a maximum of four pharmacies per pharmacist.

Alongside the classic distribution via retailers, the supply of pharmaceuticals is carried out by hospitals and in-house hospital pharmacies, as well as in some countries (e.g. parts of Austria) by self dispensing physicians. The distribution of pharmaceuticals via internet still plays a minor role as in most countries only the sale of non-prescription drugs is allowed through this channel.

In some European countries non-prescription drugs do not have to be sold in pharmacies. Especially in the United Kingdom and Norway, several OTC products can be obtained in drug stores and supermarkets. Since mid 2008, France has allowed a selection of OTC products to be sold in supermarkets.<sup>15</sup>

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<sup>13</sup> Cf. European Court of Justice (ECJ) ruling dated 19 May 2009, Pharmacists' Association of Saarland et al./Saarland.

<sup>14</sup> According to Celesio AG.

<sup>15</sup> Cf. Apotheke adhoc, Supermarktkette: Fernsehwerbung für OTC-Freigabe, 30 November 2009: <http://www.apotheke-adhoc.de/nachrichten/internationales/8769.html> (23 September 2011).



### *Market trends*

The aging European population as well as the growing health consciousness will stimulate demand for medical services and products. With growing expenses for healthcare services pressure on healthcare systems, which are already highly financially burdened, will continue to grow. Hence, further cost reduction measures and legislative interventions into the pharmaceutical wholesale market can be anticipated in the future. In addition, based on the sovereign debt crisis the European governments will initiate measures for lowering costs in order to reduce the already significantly rising budget deficits. This mainly concerns the highly developed European industrial nations. As a result, the European pharmaceutical markets are expected to grow significantly below the global average in the coming years.<sup>16</sup> Due to the immanent growth in volume induced by the demographic change, the lower growth rates must be realised by lower drug prices. Furthermore, risks appear from a potential increase in inflation as a result of the ongoing expansive monetary policy by central banks. Because pharmaceutical prices are strongly influenced by statutory regulations, pharmaceutical wholesalers have only few opportunities to pass on inflation-induced increases in expenses to their clients through corresponding pricing. In comparison to the past, higher inflation rates in the future would adversely affect the pharmaceutical wholesalers' profitability directly.

Pharmaceutical prices are often set by regulatory measures, thus wholesale competition primarily occurs through rebates as well as offering of additional services to pharmacies and pharmaceutical producers. Through the formation of pharmacy buying syndicates, pharmacies try to enhance their purchasing power against the wholesalers. As a result of the formation of pharmacy chains, the pharmacies' purchasing power has increased considerably in recent years. Pharmaceuticals producers in turn try to achieve cost reductions through modifications of distribution models and to exploit margin potentials. Performance-linked remuneration for the wholesalers in a role as a sole provider of logistics and other services therefore gains in importance. Hence, the competitive environment offers only limited opportunities to increase profitability.

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<sup>16</sup> Cf. Economist Intelligence Unit, Pharmaceuticals Sales 2013-2017, 2014.



Opportunities for the pharmaceutical wholesale industry to maintain its current business model and profitability are particularly based on the vertical integration by means of market entry and expansion in the retail sector (if legally and economically feasible). The geographical distribution of pharmacies and the dispense monopoly for pharmaceuticals continues to be the responsibility of the respective member states.<sup>17</sup> However, developments on a national level which could influence the liberalisation process are currently still uncertain. Yet, a potential business model adaptation for pharmaceutical wholesalers will be initially connected with increased capital expenditure and temporarily decreasing profits because of restructuring expenses as well as changes to the risk profiles. An important success factor for wholesalers in non-liberalised markets is the cooperation with pharmacies.

Other substantial success factors for the pharmaceutical wholesale industry, in order to react to the growing price and margin pressure caused by changes in the regulatory and competitive environment, emerge by realising economies of scale to achieve cost degression effects, as well as diversification regarding regional markets. By internationalising their market presence, pharmaceutical wholesalers reduce their dependency on statutory regulations in individual countries.

The OTC product segment offers wholesalers opportunities to generate higher margins than in the much stricter regulated prescription drugs segment through the optimisation of the product portfolio. However, based on the supply mandate the product mix is dominated by the regulated segment, which limits optimisation potential. Further, the distribution channel liberalisation for OTC products carries the risk of other market participants entering the market, thereby increasing competition. Due to the increasing product supply of hospitals, revenue improvement potential arises. However, in many countries (e.g. France, Germany) hospitals are usually delivered directly by the manufacturers.

Through an ongoing optimisation of business processes as well as increases in efficiency and cost optimisation, pharmaceutical wholesalers try to compensate for pressure on revenue and margins.

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<sup>17</sup> Cf. European Court of Justice (ECJ) ruling dated 19 May 2009, Pharmacists' Association of Saarland et al./Saarland.

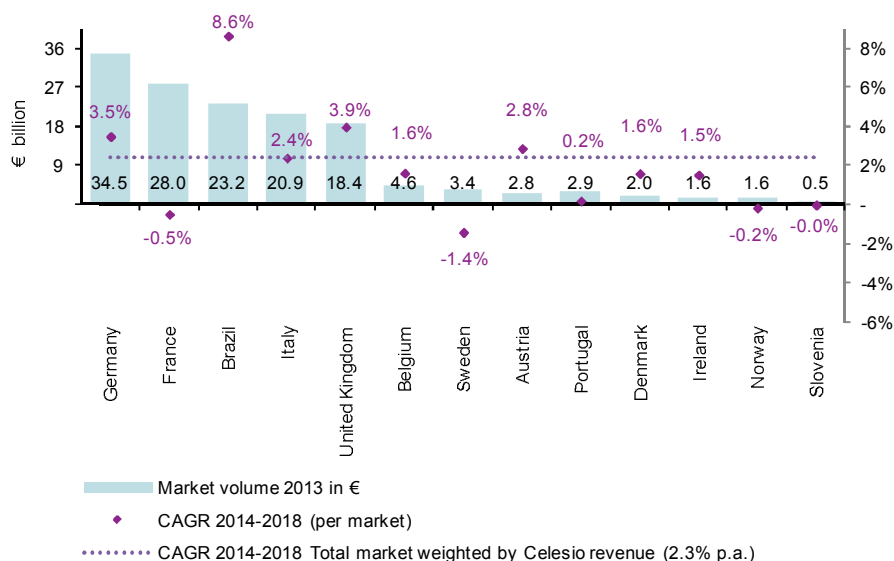


Additional opportunities emerge through the development of other logistics-related services which enhance the revenue and profitability situation (e.g. data transmission for volume management of producers and retailers). The integration of wholesale and retail also creates opportunities to realise efficiency potentials through process optimisations (e.g. sourcing or warehousing).

Overall, pressure on price and margins will remain on a high level on all stages of trade, especially for the wholesale stage. In many cases, optimisation measures of companies are designed to reduce negative external effects.

## 2.5.2 Company-specific market growth 2014 to 2018

The following chart shows the IMS market volume estimates (in manufacturers' prices) for the year 2013 as well as the growth projections for all pharmaceutical wholesale markets in which the Celesio Group operates (including Brazil) until the year 2018.



Source: IMS Health – IMS Market Prognosis 2014-2018 (March 2014), KPMG analysis.

For the developed pharmaceutical distribution markets in Western Europe as well as for the considerably smaller markets in Northern Europe, IMS Health estimates low single-digit or even negative growth rates, contrary to Brazil, where a relatively high market growth in local currency is expected.<sup>18</sup> A compound annual market growth of 2.3% is estimated for the period

<sup>18</sup> For information on the Brazilian wholesale market, refer to Appendix 3.



2014 to 2018 for the relevant Celesio Group-specific markets, based on the IMS estimate as well as by considering the country-specific contributions to total revenue of the Celesio Group in 2013.<sup>19</sup>

### 2.5.3 Competitor analysis

The European pharmaceutical wholesale market is dominated by three companies: Celesio AG, PHOENIX KG and Alliance Boots GmbH. In addition, there are several geographically more focused competitors, for example, Mediq NV, Utrecht/Netherlands (hereinafter referred to as “Mediq NV”), Oriola-KD Corporation, Espoo/Finland (hereinafter referred to as “Oriola Corp.”), Galenica Ltd., Bern/Switzerland (hereinafter referred to as “Galenica Ltd.”), and UDG Healthcare plc, Dublin/Ireland (hereinafter referred to as “UDG Healthcare plc”). Furthermore, cooperatives such as Sanacorp Pharmahandel GmbH, Planegg/Germany, are among the competitors in the wholesale segment.

The three largest participants in the Brazilian pharmaceutical wholesale market are Celesio AG (through its subsidiaries Panpharma Distribuidora de Medicamentos Ltda, Goiânia/Brazil (hereinafter referred to as “Panpharma”) and Oncoprod Distribuidora De Produtos Hospitalares E Oncológicos S/A, Sao Paulo/Brazil (hereinafter referred to as “Oncoprod”)), Distribuidora De Medicamentos Santa Cruz Ltda., Osaca/Brazil (hereinafter referred to as “Santa Cruz Ltda.”), and Profarma Distribuidora de Produtos Farmacêuticos S.A., Janeiro/Brazil (hereinafter referred to as “Profarma S.A.”). However, with about 300 market participants the market is highly fragmented. With McKesson Corp., Cardinal Health Inc., Dublin/USA (hereinafter referred to as “Cardinal Health Inc.”), and AmerisourceBergen Corporation, Chesterbrook/USA (hereinafter referred to as “AmerisourceBergen Corp.”), there are three large pharmaceutical wholesalers in North-America which generate revenues, like the Celesio Group, in double-digit billions.

The European pharmaceutical retail market is a highly fragmented market and is characterised by a large number of small, independent businesses. For example in the Celesio Group’s most important retail market, United Kingdom, one third of approx. 11,220 pharmacies are not part of a chain and therefore independent market participants.

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<sup>19</sup> Cf. IMS Health – IMS Market Prognosis 2014-2018, March 2014.



A description of listed companies<sup>20</sup> comparable to the Celesio Group which have been used to validate the plausibility of the discount rate and for a plausibility assessment on the basis of multiples is presented below:<sup>21</sup>

**Mediq NV** is a pharmaceutical wholesale and retail company with a geographical focus on the Netherlands and Poland. In the financial year 2012 Mediq NV generated revenues in the amount of €2.6 billion and an EBITDA margin of 5.0% of total revenues. The wholesale segment accounted for approx. 48% of total revenues in 2012. The retail segments in the Netherlands and in Poland accounted for about 36% and 18% respectively. Hence, the most important geographical markets are the Netherlands and Poland with shares of 58% and 18% of total revenues in 2012 respectively. Further markets of Mediq NV are Scandinavia and the Baltic states (together approx. 12%), the United States (approx. 6%) and further European countries (Germany, Denmark, Hungary, France, Belgium and Switzerland). Since January 2013 the majority of Mediq NV is held by Advent International Corporation, Boston/USA, and Mediq NV is not listed anymore.

**Oriola Corp.** is a pharmaceutical wholesale and retail company with a geographical focus on Northern-Europe and Russia. Total revenues in the financial year 2013 were €2.6 billion with an EBITDA margin of 1.8%. Key markets are Sweden, Russia and Finland and the Baltic states which accounted for 46%, 38% and 16% respectively. The major business segment is the pharmaceutical wholesale which accounted for 76% of total revenues in 2013. Within this segment about 33% of total revenues relate to the pharmaceutical wholesale in Russia, about 29% relate to the wholesale in Sweden and about 13% relate to the wholesale in Finland. Within the retail business Sweden accounts for approx. 26% of total revenues.

**Galenica Ltd.** is a pharmaceutical wholesaler, manufacturer and pharmacy operator in Switzerland. Total revenues in the financial year 2013 amount to €2.9 billion, with an EBITDA margin of 12.8%. The pharmaceutical wholesale is the most important business segment and accounts for 49% of total revenues in 2013. The pharmaceutical retail and manufacturing business report revenue shares of about 30% and 21% respectively. The major geographical market is Switzerland which accounts for about 85%. The pharmaceutical manufacturing business operates internationally.

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<sup>20</sup> Due to the fact that PHOENIX KG, Alliance Boots GmbH and Santa Cruz Ltda. are not listed, they are not included in the analysis.

<sup>21</sup> The presented financial ratios are based on S&P Capital IQ.



**McKesson Corp.** is a pharmaceutical wholesaler in the United States. In addition, McKesson Corp. offers health care related services to hospitals and healthcare organisations. In the financial year 2013 total revenues were €95.6 billion and the EBITDA margin was about 2.4%. The wholesale business accounts for approx. 97% of total revenue in 2013. About 92% of total revenue are generated within the United States.

**UDG Healthcare plc** is a pharmaceutical wholesaler and provider of healthcare services in the United Kingdom and Ireland. Total revenues in the financial year 2013 amounted to €2.0 billion, with an EBITDA margin of approx. 5.2%. The pharmaceutical wholesale is the major business segment of UDG Healthcare plc and accounts for about 72%. Important geographical markets are Ireland and the United Kingdom with shares in total revenues of about 55% and 26% respectively. In addition, UDG Healthcare plc serves markets in the rest of Europe and in North America.

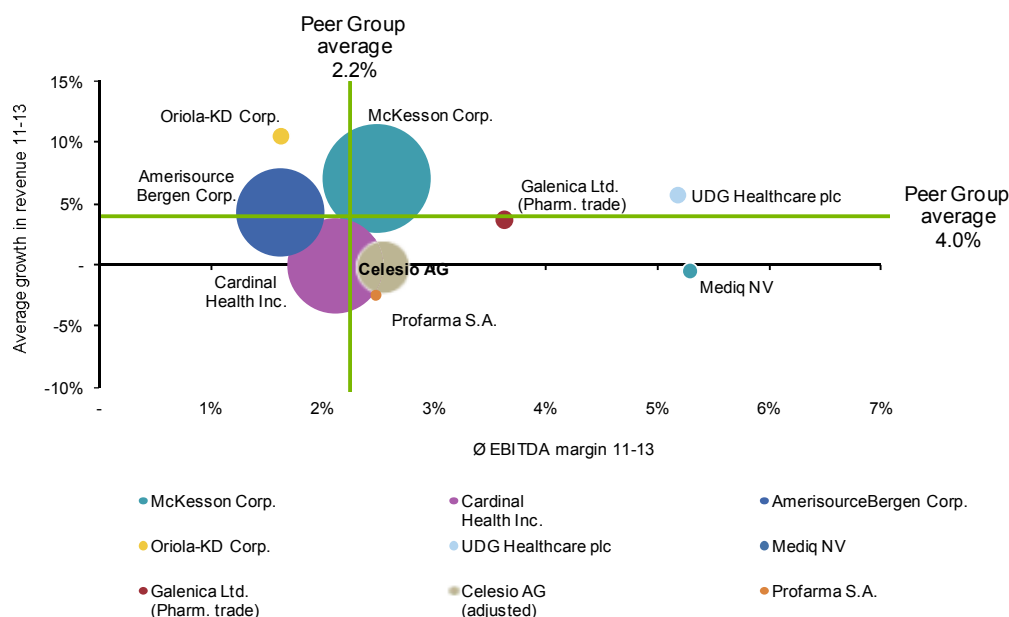
**Cardinal Health Inc.** is a pharmaceutical wholesaler and distributor/manufacturer of medical, surgical and laboratory products. In the financial year 2013 Cardinal Health Inc. generated total revenues in the amount of €77.8 billion, with an EBITDA margin of about 2.4%. With about 90% of total revenues the wholesale business is the major segment of Cardinal Health Inc. Almost 97% of total revenues are generated in the United States.

**AmerisourceBergen Corp.** is a pharmaceutical wholesale company with a geographical focus on the United States. Total revenues were €65.0 billion in the financial year 2013, with an EBITDA margin of about 1.3%.

**Profarma S.A.** is a pharmaceutical wholesaler in Brazil. In the financial year 2013 total revenues amounted to €1.1 billion, with an EBITDA margin of about 2.5%.



In the following section we analysed the position of Celesio AG among the peer group companies<sup>22</sup> and particularly compared revenue growth and profitability (based on EBITDA margin) of the competitors with the corresponding figures of Celesio AG (adjusted actuals) for the years 2011 through 2013. The size of the bubbles represents total revenues in the financial year 2013 (where available). The positioning of Celesio AG is based on the adjusted actual financial figures for the years 2011 through 2013 (cf. Appendix 2).



Source: S&P Capital IQ, KPMG analysis.

Revenue growth and profitability of the companies mainly differ because of two reasons: the companies show different weightings of the business segments wholesale and retail and the companies have different geographical scopes. In addition UDG Healthcare plc is a pharmaceutical wholesaler which is also engaged in the healthcare service sector. In this business area higher EBITDA margins are achievable than in the pharmaceuticals distribution business.

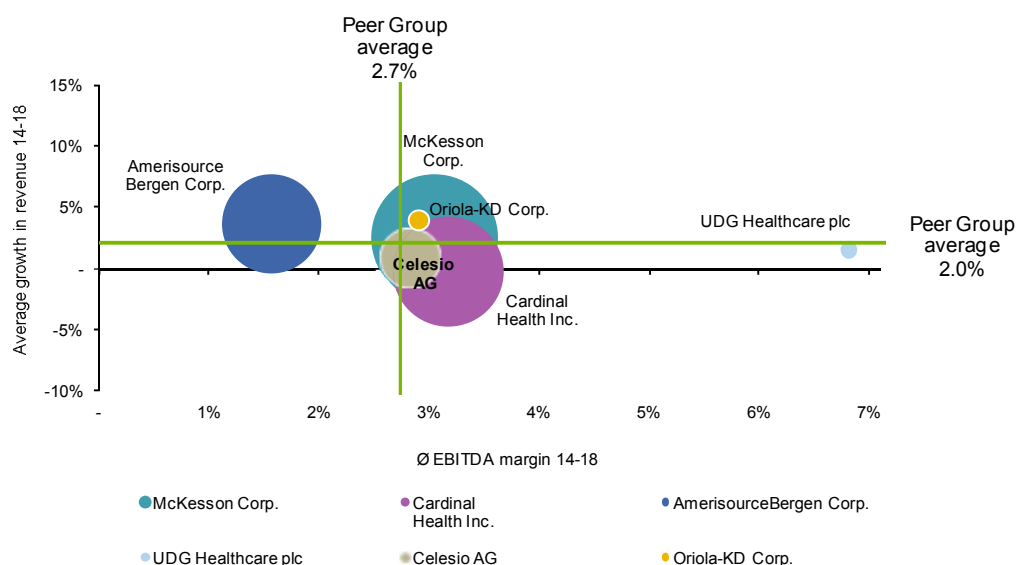
The analysis above shows that the average revenue growth from 2011 to 2013 of Celesio AG is below the weighted average revenue growth of the peer group. This is caused by ongoing pressure from competition, especially in France and Germany which are Celesio AG's most important countries in terms of revenue. In addition, the substitution of branded products with cheaper generics in some countries, e.g. France, resulted in downward market trends. In terms

<sup>22</sup> The ratios of Galenica Ltd. only include the segments Logistics and Retail, as the profitability in the segment manufacturing is higher than in the pharmaceutical trade. For Mediq NV the average growth in revenues and the average EBITDA margin for the years 2010 until 2012 is presented as the majority of Mediq NV is held by Advent International Corporation, Boston/USA, since January 2013 and no data for 2013 is available.



of profitability Celesio AG, with an EBITDA margin of 2.5%, is slightly above the average of the peer group with an average EBITDA margin of 2.2%. This is due to the fact that the peer group includes three pharmaceutical companies which are highly engaged in the wholesale business, which is less profitable than the retail business. Overall, we regard the peer group companies as sufficiently comparable to Celesio AG.

The chart below shows the expected positioning of Celesio AG among the peer group companies<sup>23</sup> in the years 2014 until 2018. The positioning of Celesio AG is based on the group's business plan, whereas the positioning of the peer group companies is based on analysts' estimates. As the business plan of Celesio AG does only include organic growth, ratios of peer group companies were adjusted for years which include inorganic growth because of acquisitions and strategic partnerships.<sup>24</sup>



Source: S&P Capital IQ, KPMG analysis.

All peer group companies are expected to experience a lower average annual growth in total revenues during the planning period 2014 until 2018 (when compared to the historical period

<sup>23</sup> Galenica Ltd. is not included in the analysis based on the planning years, as no analysts' estimates are available for the segments Logistics and Retail. Mediq NV is not included in the analysis based on the planning years, as no analysts' estimates are available.

<sup>24</sup> Because of the majority acquisition of Celesio AG by McKesson Corp. the projected revenues/EBITDA include the projected revenues/EBITDA of Celesio AG. The ratios were adjusted based on analysts' forecasts for Celesio AG. Profarma S.A. implemented a strategic association with AmerisourceBergen Corp. in March 2014 which includes the formation of a Joint Venture. In addition, as the database is insufficient for the years 2015 and 2016 because of a low number of analysts' forecasts Profarma S.A. is not included in the analysis. AmerisourceBergen Corp. started a strategic relationship with Walgreen Co. and Alliance Boots GmbH in March 2013. This agreement will have a full earnings effect in financial year 2014. The ratios were adjusted.



2011 until 2013). This observation reflects the expectation of declining growth rates in the developed European and North-American pharmaceutical markets. With regard to profitability the peer group companies are expected to achieve slightly lower average EBITDA margins.

When compared to the weighted peer group average the positioning of Celesio AG shows an improvement with regard to the forecasted average growth in revenues. Nevertheless, the planned growth in total revenues of 0.9% per year remains below the average peer group growth rate of 2.0% per year. With regard to profitability Celesio AG aims to achieve an average EBITDA margin of 2.8% per year which is slightly above the estimated weighted peer group EBITDA margin of 2.7% per year.

Based on our analysis of Celesio AG's business plan<sup>25</sup>, the expected market growth<sup>26</sup> and in comparison with the competitors we conclude that the planned growth in total revenues seems to be ambitious.

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<sup>25</sup> Cf. our remarks in section 5.3.

<sup>26</sup> Cf. our remarks in section 2.5.1.



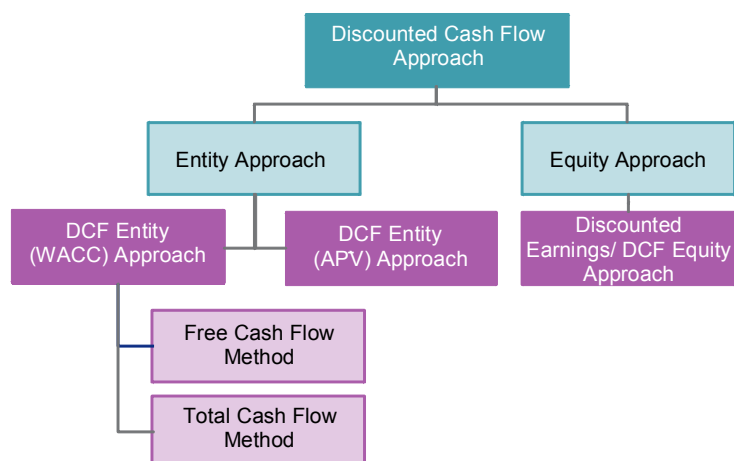
## 3 General valuation principles

The valuation principles described below are considered well-established in current theory and practice, and are reflected in professional journals and in the official bulletins published by the German Institute of Public Auditors and specifically in IDW S 1.

Based on prevailing case law and customary valuation practices, which are also consistent with the valuation described below, the recurring cash compensation (section 304 AktG) and the amount of the reasonable one-off cash compensation (section 305 AktG) must be derived on the basis of an objectively determined equity value. An objectively determined equity value represents an intersubjectively verifiable present value of future earnings of a company from the perspective of an owner under the assumption that the company will continue operations in line with the existing business model.

### 3.1 Discounted earnings

It is generally accepted in business administration doctrine, in the case law and in valuation practice that the value of a company can be determined using a present value-oriented method. If applied consistently, all methods result in the same valuation. The figure below provides a systematic overview of the major present value-based valuation methods:



In the present case, the valuation of Celesio AG was performed applying the discounted earnings approach, which is recognised in accordance with the German case law.



The discounted earnings of a company are determined, assuming exclusively financial objectives, applying the present value of net cash flows to shareholders associated with ownership of the company.

Applying the equity approach, discounted earnings are derived directly from the net cash flows to shareholders. Net cash flows to shareholders as the basis for the determination of discounted earnings are derived primarily from the distribution of the company's net income. Accordingly, a forecast of the company's disposable future net income is necessary for the valuation. Ancillary conditions, concerning eligibility for distribution in corporate law and the financing of distributions, must be taken into account in this regard. Potential distributions to shareholders can be derived from net profit (net of minority interest's profit share) as follows:

	<b>Net profit</b>
+ / –	Increase/reduction of share capital
–	Accumulation
<b>=</b>	<b>Cash flow to equity</b>



Alternatively, potential distributions to shareholders can be derived directly from net profit as follows:

	Net profit
+	Depreciation/amortisation
– / +	Investments/divestments in tangible and intangible assets
– / +	Investments/divestments in net working capital
– / +	Increase/decrease in other assets
– / +	Increase/decrease in interest-bearing assets
+ / –	Increase/decrease in provisions
+ / –	Increase/decrease in other liabilities
+ / –	Increase/decrease in interest-bearing liabilities
+ / –	Increase/decrease in minority interest
+ / –	Increase/reduction of share capital
=	Cash flow to equity

The probable cash flows to shareholders are derived from the company's net profit by adding depreciation/amortisation, deducting capital expenditure and taking into account changes in net working capital, other assets, provisions, other liabilities, the net financial position (balance of the interest-bearing assets and liabilities) and in the share capital.

In determining the cash flow to equity, appropriate consideration must also be given to the use of retained earnings resulting in increases in value, e.g. in order to finance investments and balance sheet growth or to pay off debt.



To derive an objectively determined equity value, it must be assumed that the company will distribute net income which is available for distribution according to its documented concept. Insofar as the forecast distinguishes between two phases, the breakdown of net cash flows for the first phase of the forecast (the detailed forecast period) into distributions and retained earnings is to be performed based on the company's individual concept, and in accordance with the current and planned distribution policy, capital adequacy and tax conditions. If there are no plans for the use of retained earnings and the investment or the financial forecast does not provide for specific use, an appropriate assumption is to be made as to the appropriation of funds. In order to simplify the valuation calculation, retained earnings can be notionally attributed to shareholders. For the second phase (the subsequent planning period, or perpetual annuity period), it is generally to be assumed that the dividend policy of the company subject to valuation will be equivalent to the distribution practice of an alternative investment. In this phase as well, retained earnings can be notionally attributed directly to shareholders insofar as retained earnings are not necessary to finance future balance sheet growth.

If increases in value as a result of retained earnings directly attributable to the shareholders within the framework of the valuation (capital gains) are subject to effective capital gains taxation, this must be taken into account in the valuation (cf. IDW S 1, section 4.4.2.3.). For this reason, in the following, the net cash flow to shareholders includes both the dividends paid to shareholders and directly attributable retained earnings.

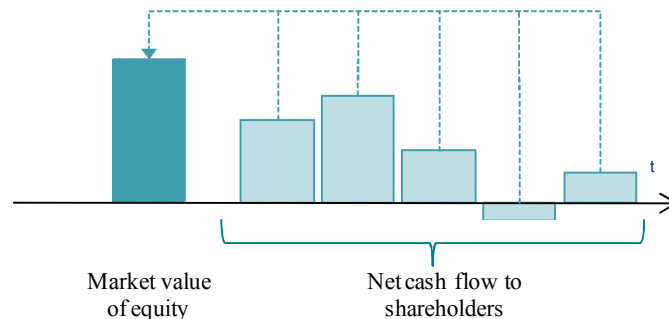
Since the valuation is to be performed from the point of view of shareholders, the tax rate paid by shareholders on distributions from the company and on capital gains (retained earnings attributed to shareholders) is to be taken into account.

In the valuation of German corporations, it must be kept in mind that dividends and interest income are subject to a uniform nominal tax burden of 25% plus solidarity surcharge, regardless of the individual circumstances of the individual shareholder. The same applies for realised capital gains on shares purchased as at 1 January 2009.

The effective tax rate for dividends and interest generally corresponds to the nominal tax rate. However, the effective tax rate on retained earnings resulting in increases in value depends on the point in time at which the increase in value is realised. It is reduced as the shareholder's holding period increases. Shareholders therefore endeavor to keep the effective tax rate on capital gains as low as possible through long holding periods. Assuming long holding periods and the associated discounting effect, this means that the effective tax rate on capital gains, which we have set for the typical shareholder at half the nominal tax rate plus solidarity surcharge, is much lower than the nominal tax rate of 25% plus the solidarity surcharge.

For the purposes of the valuation, the net cash flow to shareholders determined in this manner needs to be discounted to the valuation date using an appropriate discount rate.





Also consistent with the prevailing view in the case law and in business administration doctrine, the valuation of the company was performed on a “stand-alone basis”, meaning that all positive and negative synergy effects (so-called post contractual synergies) which can only be attained through the planned DPLTA were not taken into account. The same applies for investments, divestments and other measures which can only be undertaken if the DPLTA comes into effect.

### 3.2 Special items

Circumstances which cannot be reflected, or can be reflected only incompletely, in the determination of discounted earnings generally have to be valued separately and then added to the discounted earnings. In addition to assets which are not necessary for operations, this category may also include certain financial assets, tax effects and participations which are not included in the financial planning figures. Assets which are not necessary for operations are assets which can be freely sold without affecting the company’s actual operations.

### 3.3 Liquidation value and reconstruction value

If it generally proves more beneficial to sell off the assets of the company, individually or as self-contained units, relative to continuation as a going concern, the company’s liquidation value, i.e. the sum of net proceeds attainable through liquidation, would come into consideration as the valuation.



Since the company subject to valuation in this case is to be continued indefinitely as a going concern, and since it is to be assumed that, given the costs which would accrue in case of liquidation (e.g. social compensation plans, compensation), the discounted earnings are higher than the corresponding liquidation value which would be attained in case of liquidation, the derivation and presentation of the liquidation value were dispensed with in the context of this report.

Valuation based on the procurement of material assets yields the company's "reconstruction value", which is only partially valid given the general absence of intangible assets. This value has no independent significance in determining the overall value of a going concern. Accordingly, reconstruction value was not determined.

### **3.4 Market capitalisation**

Since the shares of Celesio AG are admitted for trading on various stock exchanges (cf. section 2.1) determining the compensation using the observable stock market prices of Celesio AG would be conceivable. However, there are strong arguments against deriving the compensation from the share price exclusively, since the share price depends on numerous extraordinary factors, such as the size and breadth of the market, coincidental changes in trading volume and speculative and other factors not related to value, and may therefore be subject to unpredictable fluctuations and trends.

Applying share prices (market capitalisation) as the basis for the determination of the reasonable compensation in accordance with section 305 AktG is no substitute for a valuation in accordance with the principles presented above, insofar as such a valuation uses a more detailed informational basis than the capital markets and incorporates capital market calculations into the valuation methodology. The valuation presented within this report is based on an analysis of historical data and long-term company forecasts which are not available to the public in this scope and in this level of detail.



The German Federal Constitutional Court ([*Bundesverfassungsgericht*], “BVerfG”) has ruled multiple times that, in a few specific cases (e.g. recurring compensation payment and one-off cash compensation payment in accordance with section 304 AktG, section 305 AktG and section 320b AktG), the share price is to be taken into account as a minimum value when determining the cash compensation for minority shareholders.<sup>27</sup> However, the principle that the share price is to be taken into account in determining the adequate one-off cash compensation payment does not mean, in the view of the BVerfG, that it alone must be decisive in all cases. Compensation in excess of the share price is constitutionally unobjectionable. However, there may also be material constitutional grounds for offering compensation which is below the share price.

For the development and relevance of the share price of Celesio AG, we refer to section 8.

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<sup>27</sup> Cf. e.g. BVerfG, Order of 27 April 1999, Case No. 1 BvR 1613/94.



## 4 Methodology

The general valuation principles explained in the above section represent an abstract framework which needs to be specified before it can be applied to the specific entity subject to valuation. The implementation of these general valuation principles in the valuation of Celesio AG is explained below.

### 4.1 Structure and definition of the entity subject to valuation

The entity subject to valuation is Celesio AG. Discounted earnings of Celesio AG have been determined based on the consolidated financial forecasts. The consolidated financial forecasts encompass all fully consolidated affiliated companies of Celesio AG. In addition, the consolidation scope of Celesio AG as at 31 December 2013 includes nine associates and 22 other participations. However, the consolidated financial forecasts only includes seven of the nine associates and 18 of the 22 other participations. The value of the associates and other participations which is not included in the financial forecasts is therefore recognised as a special item. The financial forecasts of Celesio AG will be provided along with a detailed analysis in section 5.

The equity value of Celesio AG is thus derived from discounted earnings plus the special items (values for participations which are not included in the financial forecast) of Celesio AG.

### 4.2 Valuation date

According to section 293 para. 1 AktG the domination and profit and loss transfer agreement has to be approved by the General Meeting of Celesio AG. It is for this reason that the valuation date is set at 15 July 2014, the anticipated date of the General Meeting at which the decision on the acceptance of the conclusion of the DPLTA shall be made. Accordingly, the valuation has to take into account all cash flows that will accrue after 15 July 2014 (incl. the entire cash flow of the current year).

1 January 2014 was selected as the technical valuation date. Therefore, all projected cash flows were discounted to this date. The technically derived equity value as at 1 January 2014 was subsequently compounded to 15 July 2014 and served as the basis for the determination of the reasonable recurring compensation payment (section 304 AktG) and the reasonable one-off cash compensation payment (section 305 AktG).



### **4.3 Analysis of earnings and derivation of future cash flows**

When estimating future earnings, the inherent uncertainty of future expectations must be taken into consideration. Estimates must equally consider risks and opportunities. The actual past financial performance can provide an initial indication as to future performance.

The analysis of the past financial years 2011 to 2013 as well as adjustments of selected items of the income statement of the company (cf. Appendix 2) in a first step serves the purpose of gaining a better understanding of the fundamentals of the business plan. As part of our analysis of the past financial performance, adjustments for one-off as well as exceptional and hence presumably non-recurring earnings effects have been made. As the determination of the equity value is based on the projections for future financial years, adjustments made as part of the analysis of historical data will have no effect on the equity value to be determined. Thus, adjusted results of the prior accounting periods serve only to provide further information and the assessment of the plausibility.

The business plan of Celesio AG includes income statements, balance sheet projections, and cash flow statements. The detailed forecast period covers the period from 2014 to 2018. The forecasts of Celesio AG have been prepared in accordance with IFRS as part of Celesio Group's internal reporting and planning process (cf. section 5.1).

We analysed the business plan in light of the analysis of past financial performance, the planning documentation and information provided by Celesio AG as well as external industry and market research. The consolidated business plan contains all fully consolidated affiliated entities and is presented and explained in detail in section 5 of this report. In addition, income from direct or indirect investments of non-consolidated entities is recognised separately in the investment result. The consolidated business plan of Celesio AG includes all expected synergies resulting from the closer cooperation with McKesson Corp. which shall be realised regardless of the DPLTA (so-called pre-contractual synergies). In contrast, the synergy potentials which require the conclusion of the DPLTA (so-called post-contractual synergies) are not included in the consolidated business plan of Celesio AG and are of no relevance for the determination of the equity value. Of the expected synergies which are absorbed by Celesio Group in the sustainable period, €12.8 million are pre-contractual and €86.2 million are post-contractual synergies. The pre-contractual synergies mainly result from joint procurement effects and are fully incorporated in the valuation.



## 5 Financial planning

### 5.1 Planning process

The financial planning of the Celesio Group comprises planned income statements (incl. investment result and tax planning on country level), planned balance sheets as well as planned cash flow statements for the years 2014 to 2018 in accordance with IFRS. The first planning year, 2014, is the budget year which comprises separate income statements for each month. The subsequent years are part of the long-term planning with financials forecasted on an annual basis.

Financial planning is part of the Celesio Group's regular internal planning and reporting process.

The regular planning process begins with the strategic planning in February of each year by defining and reviewing the group's strategy by the management board along with local managing directors of major country-specific business units as well as group directors for logistics, procurement, business development/merger & acquisition, IT, sales, marketing and controlling.

The approved or if necessary adjusted group strategy is the basis for strategy discussions conducted in April with individual countries. Local managing directors elaborate on how the group strategy as well as other local initiatives should be implemented on country level, given both country-specific macroeconomic factors as well as the industry-specific environment. For this purpose, key value drivers necessary for the operational implementation of the group strategy and local initiatives are quantified. In case the latest budget and long-term planning has to be adjusted in light of recent findings, the deviations are quantified by the individual countries.

For the purpose of operational planning, central planning parameters are defined and communicated to the business units no later than June based on the outcome of the strategic discussions, the preceding year's planning as well as the current business development. The planning parameters constitute the starting point for the country-specific business units to compile their bottom up planning. Subsequently, group controlling aggregates these local figures and performs a deviation-analysis to the central planning parameters. This data is presented to the management board of Celesio AG in September for further deliberations.

This deliberation is mainly conducted in operational planning discussions between the management board and representatives of the respective local business units. Once an agreement is reached, the individual operational plan is consolidated and adopted by the management board



in November as the overall group planning. Thereafter, the group planning is presented to the supervisory board.

In the subsequent year (in April, July and October) a projection for the current fiscal year is prepared on the level of country specific business units. Concurrently, a review of the operational planning for the current fiscal year is performed based on these projections.

In light of latest insights into industry and business specific developments with respect to the major countries the Celesio Group operates in (e.g. the ongoing intensive rebate competition in Germany, a lost tender offer in the Pharmacy Solutions Norway segment, more recent knowledge about austerity measures implemented by the French government regarding health care budget), the management board has agreed to use the strategic planning process conducted in April 2014 as the basis for an update of the preceding consolidated financial planning approved on 18 November 2013. This was decided in order to incorporate the management boards' latest insights in terms of the expected future development of the Celesio Group's financial position, results of operations and cash flows into the valuation of Celesio AG. We have methodically supported the Celesio Group in updating the financial planning. The adjustments for this update were carried out in order to derive an expected value for the budget year 2014 as well as for the long-term planning from 2015 to 2018 and were finally deliberated and concluded by the management board on 14 May 2014. The valuation of Celesio AG was based on the financial planning concluded by the management board on 14 May 2014.

## **5.2 Analysis of planning accuracy**

As a basis for the analysis of the consolidated financial planning of the Celesio Group, we have assessed the forecasting accuracy over the last five group planning cycles, each with a forecasting horizon of five years. Each financial plan has been compiled by the Celesio Group one year in advance of the respective planning period.<sup>28</sup> In the context of comparing target and actual figures, we have compared the planned revenue, EBIT as well as net profit prepared by the Celesio Group at group level to the actual figures and calculated the relative deviation in percent.<sup>29</sup> Positive and green shaded percentage figures indicate to which extent the respective

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<sup>28</sup> During the period subject to analysis, the planning date has moved from the 2<sup>nd</sup> Quarter for the group planning 2009 to 2013 to the 4<sup>th</sup> Quarter for the group planning 2013 to 2017.

<sup>29</sup> Since the group planning 2013 to 2017, the first planning year in the group planning corresponds to the budget set for the coming fiscal year.



forecasts were exceeded; negative and red shaded percentage figures indicate to which extent targets were missed.<sup>30</sup>

Revenue					
LTP	2009	2010	2011	2012	2013
2009-2013	-7.0%	-6.2%	-12.1%	-19.1%	-25.9%
2010-2014		6.0%	1.3%	-7.2%	-13.6%
2011-2015			-4.1%	-10.3%	-16.6%
2012-2016				-7.2%	-14.0%
2013-2017					-3.5%

EBIT					
LTP	2009	2010	2011	2012	2013
2009-2013	-66.6%	-29.3%	-65.1%	-62.3%	-62.5%
2010-2014		9.9%	-45.6%	-43.3%	-42.4%
2011-2015			-41.7%	-31.8%	-31.5%
2012-2016				-18.7%	-18.1%
2013-2017					-19.1%

Net Profit					
LTP	2009	2010	2011	2012	2013
2009-2013	-99.3%	-35.6%	-98.7%	-127.6%	-73.0%
2010-2014		-7.5%	-98.1%	-138.3%	-61.8%
2011-2015			-97.7%	-153.7%	-47.2%
2012-2016				-176.5%	-31.0%
2013-2017					-33.3%

Source: Celesio AG, KPMG analysis.

The tables show that deviations regarding the key indicators revenue, EBIT and net profit predominantly reached significant levels.

The deviations mainly result from unrealised market growth in the respective markets in terms of volume and prices, primarily caused by austerity measures in federal health care systems, non-realised market share gains as well as customer rebates and currency exchange effects that exceeded the underlying assumptions. Unexpected one-off earnings effects due to disposals related to strategic repositioning, respectively the focus on core business activities and restructurings as well as impairments also contributed to these deviations.

Overall, the consolidated forecasts of the Celesio Group analysed have been very optimistic compared to the actual realised results.

<sup>30</sup> In the following tables, the lowest diagonal from the top left to the bottom right depicts the deviation for the respective first planning year. The next higher diagonal (from top left to bottom right) depicts the deviation for the second planning year.



### 5.3 Consolidated financial planning of the Celesio Group

The forecasted income statement of the Celesio Group for the fiscal years 2014 to 2018 as well as for the sustainable period starting in 2019, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Celesio Group - Income statement									
Jan 1 - Dec 31 in €m	Actual			FC	Planning				Sustainable
	2011	2012	2013	2014	2015	2016	2017	2018	2019 ff.
<b>Revenue</b>	<b>21,391</b>	<b>21,620</b>	<b>21,308</b>	<b>21,581</b>	<b>20,774</b>	<b>21,174</b>	<b>21,628</b>	<b>22,216</b>	<b>22,438</b>
Growth in %		1.1%	-1.4%	1.3%	-3.7%	1.9%	2.1%	2.7%	1.0%
Cost of materials	19,094	19,236	18,964	19,184	18,343	18,649	19,020	19,516	19,761
<b>Gross profit</b>	<b>2,298</b>	<b>2,384</b>	<b>2,344</b>	<b>2,397</b>	<b>2,432</b>	<b>2,526</b>	<b>2,608</b>	<b>2,700</b>	<b>2,677</b>
Gross profit margin	10.7%	11.0%	11.0%	11.1%	11.7%	11.9%	12.1%	12.2%	11.9%
Personnel expenses	1,215	1,224	1,229	1,241	1,256	1,290	1,325	1,368	1,382
Other operating result	-563	-595	-565	-628	-620	-621	-635	-644	-651
<b>EBITDA</b>	<b>520</b>	<b>566</b>	<b>549</b>	<b>528</b>	<b>556</b>	<b>614</b>	<b>648</b>	<b>687</b>	<b>645</b>
EBITDA margin	2.4%	2.6%	2.6%	2.4%	2.7%	2.9%	3.0%	3.1%	2.9%
Depreciation and amortisation	123	134	125	130	140	141	146	151	151
<b>EBIT</b>	<b>397</b>	<b>432</b>	<b>424</b>	<b>399</b>	<b>416</b>	<b>473</b>	<b>501</b>	<b>536</b>	<b>494</b>
EBIT margin	1.9%	2.0%	2.0%	1.8%	2.0%	2.2%	2.3%	2.4%	2.2%
Financial result				-63	-54	-50	-39	-27	-10
Taxes on income				128	113	117	124	137	131
<b>Net profit</b>				<b>208</b>	<b>249</b>	<b>306</b>	<b>338</b>	<b>372</b>	<b>353</b>
Minorities				4	3	4	5	4	4
<b>Group result</b>				<b>204</b>	<b>246</b>	<b>302</b>	<b>334</b>	<b>368</b>	<b>349</b>
in % of revenue				0.9%	1.2%	1.4%	1.5%	1.7%	1.6%

Source: Celesio AG, KPMG analysis.

Adjustments and reclassifications made in order to ensure comparability in the analysis of historical data are outlined in Appendix 2.

The financial planning of the Celesio Group comprises the planning for the Consumer Solutions and the Pharmacy Solutions divisions, as well as for the holding functions and group consolidation. The planning of divisions outside the Euro area is based on constant exchange rates. Expected changes in the respective exchange rates have been considered by applying current currency forward rates. The application of forward rates leads to a negative EBIT effect at the level of the Celesio Group of approx. €11 million in forecast year 2018.

In the following, significant developments on division, holding and group consolidation level are presented up to the operating profit (EBIT) for the detailed planning period from 2014 to 2018. Detailed analyses on country level are depicted in Appendix 3. Subsequently, the forecast group result is outlined.



### 5.3.1 Projections for the Consumer Solutions division

The plan income statement of the Consumer Solutions division for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Consumer Solutions division - Income statement								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	<b>3,240</b>	<b>3,416</b>	<b>3,412</b>	<b>3,640</b>	<b>3,671</b>	<b>3,850</b>	<b>4,025</b>	<b>4,176</b>
<i>Growth in %</i>		5.4%	-0.1%	6.7%	0.8%	4.9%	4.5%	3.7%
Cost of materials	2,127	2,232	2,234	2,411	2,419	2,563	2,700	2,814
<b>Gross profit</b>	<b>1,113</b>	<b>1,184</b>	<b>1,178</b>	<b>1,229</b>	<b>1,252</b>	<b>1,287</b>	<b>1,325</b>	<b>1,361</b>
<i>Gross profit margin</i>	34.3%	34.7%	34.5%	33.8%	34.1%	33.4%	32.9%	32.6%
Personnel expenses	597	597	607	626	632	650	665	685
Other operating result	-309	-317	-303	-318	-343	-357	-369	-377
<b>EBITDA</b>	<b>207</b>	<b>271</b>	<b>268</b>	<b>285</b>	<b>277</b>	<b>280</b>	<b>290</b>	<b>299</b>
<i>EBITDA margin</i>	6.4%	7.9%	7.8%	7.8%	7.5%	7.3%	7.2%	7.2%
Depreciation and amortisation	56	63	60	65	72	71	72	73
<b>EBIT</b>	<b>151</b>	<b>207</b>	<b>208</b>	<b>220</b>	<b>205</b>	<b>210</b>	<b>218</b>	<b>226</b>
<i>EBIT margin</i>	4.6%	6.1%	6.1%	6.0%	5.6%	5.4%	5.4%	5.4%

Source: Celesio AG, KPMG analysis.

Adjustments and reclassifications made in order to ensure comparability in the analysis of historical data are outlined in Appendix 2.

Within the Consumer Solutions division the Celesio Group operates primarily in the United Kingdom and Norway. Further business activities exist in Belgium, Italy, Sweden and Ireland. Below, significant developments in the respective countries are illustrated for the detailed planning period from 2014 to 2018.



### *Revenue in the Consumer Solutions division*

Revenue in the Consumer Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Consumer Solutions division - Country revenue								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
United Kingdom	2,134	2,251	2,249	2,466	2,451	2,571	2,686	2,787
Growth in %		5.5%	-0.1%	9.6%	-0.6%	4.9%	4.5%	3.7%
Norway	532	573	570	563	581	609	633	652
Growth in %		7.7%	-0.6%	-1.1%	3.2%	4.8%	4.0%	3.0%
Italy	209	203	206	201	202	206	210	214
Growth in %		-2.7%	1.5%	-2.6%	0.5%	1.9%	2.0%	1.6%
Sweden	88	123	136	154	172	190	209	227
Growth in %		39.7%	11.0%	12.9%	11.5%	10.8%	9.7%	8.8%
Belgium	139	129	125	126	130	135	143	147
Growth in %		-6.5%	-3.5%	0.8%	3.1%	4.3%	5.7%	2.6%
Ireland	135	133	124	129	134	138	144	149
Growth in %		-1.7%	-7.0%	4.2%	3.7%	3.1%	4.2%	3.6%
Other	4	4	2	2	1	1	0	-
<b>Total</b>	<b>3,240</b>	<b>3,416</b>	<b>3,412</b>	<b>3,640</b>	<b>3,671</b>	<b>3,850</b>	<b>4,025</b>	<b>4,176</b>
Growth in %		5.4%	-0.1%	6.7%	0.8%	4.9%	4.5%	3.7%

Source: Celesio AG, KPMG analysis.

The revenue development in the Consumer Solutions division in the **United Kingdom** in the years 2012 and 2013 was strongly influenced by foreign exchange fluctuations. Revenue in local currency dropped in the fiscal year 2012 mainly due to the expiration of patents for several top-selling pharmaceuticals. In the fiscal year 2013, the negative exchange rate effect overcompensated the increase in revenue in the hospital services as well as the provision of pharmaceuticals to private homes. In the year 2014, revenue increases are expected for the United Kingdom due to new service contracts with hospitals as well as a higher volume of OTC product sales, resulting from the implementation of the EPN initiative. The forecasted currency exchange rate development will further contribute to the revenue increase of 9.6%. In the following year, revenue growth will be lower because of a shrinking retail market due to government measures. Considering the anticipated negative exchange rate effects, this will result in a decline of revenue in Euro terms. While the growth in service revenue in the planning years 2015 to 2018 slows down because of successive exploitation of existing market potential, the implementation of the EPN initiative should have positive growth effects. The expected rise in revenue to €2.787 million in the last planning year corresponds to an average annual growth rate of 4.4% over the total planning period 2014 to 2015, which is higher than the forecasted market growth rate of 3.9% for this period.



In the fiscal year 2012, growth within the para-pharmaceutical product segment as well as acquisitions and new openings of pharmacies contributed to the increase in revenue in local currency in **Norway**. In the fiscal year 2012, exchange rate effects were positive, however, in the following year (2013) exchange rate losses led to a slight decline in revenue in Euro. The average annual revenue growth of 2.8% in the detailed planning period significantly exceeds the anticipated overall market development of -0.2% p.a., induced by austerity measures in the health care sector. The revenue increase is expected to be realised by accelerating sales of para-pharmaceutical products as part of the implementation of the EPN initiative.

Revenue development in the fiscal years 2012 and 2013 in **Italy** was significantly better than the overall market development due to growth in the OTC product segment. The price decline for prescription drugs, anticipated in 2014, is expected to have a negative impact on revenue. In the following years, the already approved opening of new pharmacies as well as the successive strategic repositioning of existing pharmacies is expected to lead to revenue increases, whereas the retail market is predicted to stagnate (forecasted average growth rate of the retail market of 0% p.a.).

In **Sweden**, the market liberalisation was successfully continued by the pharmacy market expansion in the fiscal years 2011 to 2013. Overall, a significant increase in revenue was realised, although the market share gains in fiscal year 2013 did not reach originally targeted levels. In the detailed planning period, a significant average revenue growth of 10.7% is expected based on organic growth, despite the anticipated negative market development of the retail sector of an average of -2.2% p.a. as well as the dependency on the dominant wholesalers, Tamro AB and Oriola AB.

The initial decline in revenue in **Belgium** mainly reflects the federal health care budget cuts implemented in 2011. For the years 2014 to 2018, an average annual revenue growth of 3.3% p.a. is expected due to a positive market development of an average of 1.6% p.a. in conjunction with the initiated modernisation of all pharmacies.

The pharmacy business in **Ireland** was affected by the weak economic environment and declining revenue of prescription drugs in the fiscal years 2012 and 2013. In the planning period, apart from the expected market recovery, the positive impact of the strategic repositioning of pharmacies as well as the introduction of new services for nursing facilities contribute to a higher than the overall market revenue growth of 3.8% p.a. on average.



### *Gross profit of the Consumer Solutions division*

Gross profit of the Consumer Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Consumer Solutions division - Gross profit								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3,240	3,416	3,412	3,640	3,671	3,850	4,025	4,176
Cost of materials	2,127	2,232	2,234	2,411	2,419	2,563	2,700	2,814
<b>Gross profit</b>	<b>1,113</b>	<b>1,184</b>	<b>1,178</b>	<b>1,229</b>	<b>1,252</b>	<b>1,287</b>	<b>1,325</b>	<b>1,361</b>
<i>Gross profit margin</i>	<i>34.3%</i>	<i>34.7%</i>	<i>34.5%</i>	<i>33.8%</i>	<i>34.1%</i>	<i>33.4%</i>	<i>32.9%</i>	<i>32.6%</i>

Source: Celesio AG, KPMG analysis.

The retail activities in the United Kingdom, and Norway in fiscal year 2013 largely contributed to the gross profit of the Consumer Solutions division with 63.3% and 19.0% respectively.

In fiscal year 2012, gross profit of the Consumer Solutions division increased by €71 million, yielding an improvement in the gross profit margin by 0.4%-points. This can primarily be attributed to the increased sale of generics in the United Kingdom, which have higher margins compared to patented drugs, and of para-pharmaceutical products in Norway. Apart from the improved product mix, optimised procurement terms had a positive impact as well. The positive development of gross profit was partly slowed down by price cuts in the United Kingdom.

In fiscal year 2013, government measures in the United Kingdom such as reduced reimbursement prices and dispensing fees continued to burden the gross profit margin. Further, revenue growth in the significantly less profitable service segment led to a change in product mix, and thus contributed to a decline in gross profit margin in the United Kingdom. Positive effects resulted from the increase of generics revenue in Ireland as well as cost savings in the procurement process across all countries. The gross profit of the division declined by €6 million, which corresponds to a 0.2%-points drop in gross profit margin compared to the previous year.

The expected increase in gross profit in 2014 by approx. €51 million is mainly due to the anticipated increase in revenue in the United Kingdom. However, the expected strong growth in the service segment leads to changes in product mix and thus to a reduction in the gross profit margin. The anticipated increase of revenue with high-margin para-pharmaceutical products in Norway and high-margin OTC products in Italy as part of the implementation of the EPN initiative are expected to only partially compensate the generally negative trend. As a result, the gross profit margin will drop to 33.8% of revenue.



In light of the expected revenue growth until the planning period 2018, an increase of gross profit to approx. €1.361 million is forecasted. However the gross profit margin of the division, compared to the planning year 2014, will drop by 1.2%-points to 32.6%. This is due to the expected price cuts in the planning period in the United Kingdom as well as the growing share of the low-margin service segment. The implementation of the EPN initiative across all countries, the rising share of OTC revenue as well as cost savings resulting from optimised procurement in all countries, can only partially compensate the expected price cuts as well as the product mix effect.

*Personnel expenses of the Consumer Solutions division*

Personnel expenses of the Consumer Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, are presented in the following table:

Consumer Solutions division - Personnel expenses								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3,240	3,416	3,412	3,640	3,671	3,850	4,025	4,176
<b>Personnel expenses</b>	<b>597</b>	<b>597</b>	<b>607</b>	<b>626</b>	<b>632</b>	<b>650</b>	<b>665</b>	<b>685</b>
<i>in % of revenue</i>	18.4%	17.5%	17.8%	17.2%	17.2%	16.9%	16.5%	16.4%

Source: Celesio AG, KPMG analysis.

Adjusted personnel expenses of the Consumer Solutions division remained relatively steady in the fiscal year 2012 compared to 2011. The increase in personnel expenses in the United Kingdom and Sweden was compensated by declining expenses in Belgium and Norway. The decrease of personnel expenses in Norway was the result of a positive one-off effect following the application of the revised accounting standard for pension obligations (IAS 19). In conjunction with increased revenue, the personnel expenses ratio declined by 0.9%-points to 17.5% of revenue.

In the fiscal year 2013, personnel expenses increased by approx. €10 million. The primary reasons were union wage increases and higher pension obligations in Norway due to the omission of the positive one-off effect (pension obligations IAS 19). Cost savings achieved in a number of countries could only partially compensate this effect. Thus, the personnel expense ratio of the Consumer Solutions division increased slightly to 17.8%.

During the course of the planning period, personnel expenses are expected to increase at a lower rate than revenue. In the United Kingdom, inflation-induced wage increases by 2.0% p.a. shall be compensated by personnel reduction as part of the automation of dispensing procedures in pharmacies. In Sweden significant economies of scale are anticipated in the planning period based on expected strong revenue growth. As a result, the personnel expenses ratio of the division is forecasted to drop by 1.4%-points in the planning period compared to 2013.



*Other operating result of the Consumer Solutions division*

Other operating result of the Consumer Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Consumer Solutions division - Other operating result								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Other operating income	40	43	36	40	35	34	32	33
in % of revenue	1.2%	1.3%	1.1%	1.1%	0.9%	0.9%	0.8%	0.8%
Other operating expenses	-349	-360	-340	-358	-378	-392	-402	-410
in % of revenue	10.8%	10.5%	10.0%	9.8%	10.3%	10.2%	10.0%	9.8%
<b>Other operating result</b>	<b>-309</b>	<b>-317</b>	<b>-303</b>	<b>-318</b>	<b>-343</b>	<b>-357</b>	<b>-369</b>	<b>-377</b>
in % of revenue	9.5%	9.3%	8.9%	8.7%	9.3%	9.3%	9.2%	9.0%

Source: Celesio AG, KPMG analysis.

Adjusted other operating income of the Consumer Solutions division mainly comprises advertising income for marketing activities, proceeds derived from data delivery to the market research company IMS, income from property rental as well as income from the release of bad debt allowances. In the fiscal year 2012, adjusted other operating income increased by a total of €3 million partly due to one-time increase in advertisement income in Italy. In the following year 2013, other operating income declined mainly due to negative exchange rate effects in the United Kingdom and Norway.

In 2014, the expected increase in other operating income partially results from one-off effects due to the planned disposal of non-profitable pharmacies in the United Kingdom. In contrast, the renegotiations of contracts with market research provider IMS Health Inc. in 2014 and the subsequently expected lower income from data delivery will lead to a reduction in other operating income in the following years. An increase in other operating income which is expected in Belgium and Italy shall overcompensate the downward development towards the end of the planning period.

The adjusted other operating expenses of the Consumer Solutions divisions mainly consist of expenses for rent and lease, advertising costs, IT costs as well as transfer charges to the Pharmacy Solutions division in the United Kingdom, Norway, Italy and Belgium for sourcing through their own wholesale entities (Front-to-Back-recharge, hereinafter "FtB-recharge").



The increase of other operating expenses in the fiscal year 2012 was mainly attributable to exchange rate losses in the United Kingdom and Norway as well as restructuring costs in the United Kingdom following the combination of headquarters of the retail and wholesale segment. In contrast, the decline in business development expenses in Sweden led to a positive impact. In the following year 2013, apart from currency exchange effects mainly cost savings in the administration in the United Kingdom led to a significant decline of other operating expenses by about €20 million.

Since part of the operating expenses such as rent and IT costs are fixed costs, operating expenses as a whole are projected to grow at a lower rate than revenue. Temporarily, increased advertising and sales expenses are anticipated from the implementation of the EPN initiative. In conjunction with a planned revision of the transfer pricing system of the internal wholesale in Norway, an increase in the expense ratio to 10.3% of total revenue is anticipated in the planning year 2015.<sup>31</sup> The disproportionately lower growth of other operating expenses until the end of the detailed planning period leads to a reduction of the expense ratio to 9.8% of total revenue. This expense ratio is at a slightly lower level than in the fiscal years 2011 to 2013.

#### *Depreciation and amortisation of the Consumer Solutions division*

Depreciation and amortisation of the Consumer Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Consumer Solutions division - Depreciation and amortisation								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3,240	3,416	3,412	3,640	3,671	3,850	4,025	4,176
Depreciation and amortisation	56	63	60	65	72	71	72	73
in % of revenue	1.7%	1.9%	1.8%	1.8%	2.0%	1.8%	1.8%	1.7%

Source: Celesio AG, KPMG analysis.

Depreciation and amortisation of the Consumer Solutions division mainly comprises amortisation of intangible assets (such as inventory management software) as well as depreciation of operating and business equipment. In the planning period from 2014 to 2018, planned investments mainly consist of modernising the Lloydspharmacy stores which will be redesigned until 2018 as part of the EPN initiative. Overall, this leads to a temporary increase in the depreciation ratio during the course of the planning period, followed by a decline to historical levels toward the planning year 2018.

<sup>31</sup> The increase of the FtB-recharge is caused by the lost tender for exclusive supply of the hospitals in Norway and is consolidated at group level (cf. section 5.3.2, other operating income).



### *EBIT of the Consumer Solutions division*

Consumer Solutions division - EBIT								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3,240	3,416	3,412	3,640	3,671	3,850	4,025	4,176
<b>EBIT</b>	<b>151</b>	<b>207</b>	<b>208</b>	<b>220</b>	<b>205</b>	<b>210</b>	<b>218</b>	<b>226</b>
<i>EBIT margin</i>	4.6%	6.1%	6.1%	6.0%	5.6%	5.4%	5.4%	5.4%

Source: Celesio AG, KPMG analysis.

The development of operating profit (EBIT) of the Consumer Solutions division is determined by the expected (partially above market forecasts) revenue growth in conjunction with a lower gross profit margin due to changes in the product mix. Operating costs, which are expected to increase slower than revenue, have a partially compensating effect. As a result, the EBIT margin of the Consumer Solutions division is expected to drop during the planning period from 6.0% to 5.4% of total revenue.

## 5.3.2 Projections for the Pharmacy Solutions division

The plan income statement of the Pharmacy Solutions division for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Pharmacy Solutions division - Income statement								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	<b>18,152</b>	<b>18,205</b>	<b>17,896</b>	<b>17,966</b>	<b>17,129</b>	<b>17,349</b>	<b>17,629</b>	<b>18,066</b>
<i>Growth in %</i>		0.3%	-1.7%	0.4%	-4.7%	1.3%	1.6%	2.5%
Cost of materials	16,968	17,005	16,731	16,798	15,949	16,111	16,345	16,728
<b>Gross profit</b>	<b>1,185</b>	<b>1,200</b>	<b>1,165</b>	<b>1,168</b>	<b>1,180</b>	<b>1,238</b>	<b>1,283</b>	<b>1,338</b>
<i>Gross profit margin</i>	6.5%	6.6%	6.5%	6.5%	6.9%	7.1%	7.3%	7.4%
Personnel expenses	573	589	582	568	576	591	608	630
Other operating result	-213	-237	-224	-234	-219	-222	-222	-222
<b>EBITDA</b>	<b>399</b>	<b>374</b>	<b>359</b>	<b>366</b>	<b>385</b>	<b>426</b>	<b>453</b>	<b>487</b>
<i>EBITDA margin</i>	2.2%	2.1%	2.0%	2.0%	2.2%	2.5%	2.6%	2.7%
Depreciation and amortisation	57	59	52	50	53	56	59	63
<b>EBIT</b>	<b>342</b>	<b>315</b>	<b>307</b>	<b>316</b>	<b>332</b>	<b>370</b>	<b>394</b>	<b>424</b>
<i>EBIT margin</i>	1.9%	1.7%	1.7%	1.8%	1.9%	2.1%	2.2%	2.3%

Source: Celesio AG, KPMG analysis.

Adjustments and reclassifications made in order to ensure comparability in the analysis of historical data are outlined in Appendix 2.



In the Pharmacy Solutions division, the Celesio Group concentrates its activities primarily on Germany, France, the United Kingdom, Brazil, Austria and Norway. To a lesser extent, there are also activities in Italy, Belgium, Denmark, Portugal and Slovenia. Below, the significant developments in the respective countries, incl. operating profit (EBIT), are presented for the detailed planning period 2014 to 2018.

#### *Revenue of the Pharmacy Solutions division*

Revenue of the Pharmacy Solutions division for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Pharmacy Solutions division - Country revenue								
Jan 1 - Dec 31 in €m	2011	Actual 2012	2013	FC 2014	2015	Planning 2016	2017	2018
France	6,588	6,450	6,239	6,067	5,821	5,574	5,350	5,250
Growth in %		-2.1%	-3.3%	-2.8%	-4.1%	-4.2%	-4.0%	-1.9%
Germany	3,974	4,022	4,179	4,373	4,139	4,240	4,337	4,440
Growth in %		1.2%	3.9%	4.6%	-5.4%	2.4%	2.3%	2.4%
United Kingdom	2,500	2,352	2,286	2,404	2,442	2,525	2,630	2,765
Growth in %		-5.9%	-2.8%	5.2%	1.6%	3.4%	4.2%	5.1%
Brazil	1,648	1,876	1,756	1,609	1,602	1,772	1,947	2,127
Growth in %		13.8%	-6.4%	-8.4%	-0.5%	10.7%	9.8%	9.3%
Austria	1,075	1,087	1,098	1,124	1,149	1,181	1,215	1,250
Growth in %		1.1%	1.0%	2.4%	2.2%	2.8%	2.9%	2.9%
Norway	531	599	622	599	156	170	188	201
Growth in %		12.9%	3.9%	-3.7%	-73.9%	9.0%	10.2%	7.0%
Other countries	1,836	1,819	1,715	1,789	1,821	1,888	1,963	2,034
Growth in %		-0.9%	-5.7%	4.3%	1.7%	3.7%	4.0%	3.6%
<b>Total</b>	<b>18,152</b>	<b>18,205</b>	<b>17,896</b>	<b>17,966</b>	<b>17,129</b>	<b>17,349</b>	<b>17,629</b>	<b>18,066</b>
Growth in %		0.3%	-1.7%	0.4%	-4.7%	1.3%	1.6%	2.5%

Source: Celesio AG, KPMG analysis.

More than two-thirds of the revenue of the Pharmacy Solutions division are generated in Germany, France and the United Kingdom. About ten percent of the division's revenue is realised in Brazil.



In **France** – Celesio Group's most important wholesale market – the already fierce competitive situation was exacerbated by government measures (change in the margin system) in fiscal year 2012. The negative trend in the medium price segment impacted revenue, which fell by 2.1% compared to the previous year. This development continued in the following year 2013. In conjunction with overall weak drug sales volume as well as an increasing proportion of low-cost generics, revenue declined by 3.3% compared to the previous year. Due to recently announced far-reaching austerity measures regarding the French health care system, a negative market development is expected over the entire planning period. Considering the compensating effects through strategic measures, the Celesio Group anticipates, compared to the expected market growth of -4.3% p.a., a lower decline in revenue for the years 2014 to 2018 of on average 3.4% p.a. in France.

In **Germany**, a revenue growth of 1.2% was recorded in fiscal year 2012. On the one hand, changes in the regulatory environment (AMNOG II) had a positive effect. On the other hand, the intensifying discount competition during 2012 had a negative impact. The further growing rebate-based competition in the following year 2013 led to a growth in revenue of 3.9%, which was below the primarily price-induced market growth (5.4% according to IMS). Given the planned reduction of rebate levels in the years 2014 and 2015, customer churn is expected to lead to a temporary decline in revenue of 5.4% in fiscal year 2015. For the planning years 2016 to 2018, the proposed expansion of existing collaborative partnerships as well as the establishment and strengthening of the sale of own labels shall contribute to a stabilisation of revenue growth of 2.3% to 2.4% p.a., which is below the projected market growth of 3.5% p. a forecasted by IMS due to a lower expected volume growth.

In the **United Kingdom**, the wholesale revenue in British pounds declined by 12.0% in fiscal year 2012 compared to 2011 because of the loss of a major distribution contract (due to manufacturer transitioning to an exclusive distribution agreement) in a tender procedure. However, the positive exchange rate development mitigated the decline in revenue to 5.9% in Euro. In the following year 2013, the positive effect from gaining market share was mainly compensated by the adverse exchange rate effects. In fiscal year 2014, an increase in revenue of 5.2% is expected despite the anticipated decline of the pharmacy market. This is mainly attributable to three exclusive contracts which were signed with pharmaceutical manufacturers at the end of 2013 and the beginning of 2014. During the planning period, management expects revenue to grow at a rate of 3.9% p.a., which significantly exceeds the forecasted retail market development of 0.6% p.a. on average.



In fiscal year 2012, the initial full consolidation of Oncoprod in **Brazil** caused a significant increase in revenue of 13.8%. In contrast, revenue of the Brazilian entity Panpharma declined due to the loss of a major customer. Despite the positive development of Oncoprod, the further devaluation of the Brazilian Real led to a decline in revenue of 6.4%. The downward pressure on the Brazilian Real is expected to continue into the planning period, causing a strongly negative revenue development in Euro. In local currency, management anticipates a trend reversal, with revenue growth converging with the overall market in the relevant product segments over the course of the planning period due to implemented sales initiatives.

In **Austria**, particularly in fiscal years 2012 and especially 2013, the massive substitution by generics led to decreasing selling prices so that, despite higher revenue volumes, only moderate increases in revenue were recorded. During the planning period, management expects no significant changes of the competitive environment; therefore an average revenue growth of 2.6% p.a. in line with market growth is expected.

The revenue development in **Norway** is strongly affected by the tender offer loss to a competitor for the exclusive supply of the hospital sector, leading to a considerable loss of revenue from 2015 (revenue decline of approx. 74% compared to fiscal year 2014). In light of the significantly lower prices imposed by the winning competitor, management assumes that the business cannot be operated at a profit. In this context, an increased focus on the pharmacy market is intended from 2016. Despite the expected negative market development of an average of -2.3% p.a., ambitious growth rates are projected, albeit from a considerably reduced total revenue base.

The **other countries** (Italy, Belgium, Denmark, Portugal and Slovenia) account for a total of approx. 10% of revenue of the Pharmacy Solutions division. Due to a warehouse fire in Belgium, the tight market situation in Slovenia and the changed reporting of revenue in Denmark<sup>32</sup>, total revenue declined by 5.7% in 2013 compared to the previous year. Within the financial planning, revenue growth for other countries is expected at an average of 3.5% p.a., whereby each business unit is assumed to grow in excess of the respective market growth rate. The primary revenue driver is the opening of a new distribution center in the area of Milan, resulting in a significant increase in revenue of on average 13.8% p.a. in Italy.

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<sup>32</sup> Cf. section 3.



### *Gross profit of the Pharmacy Solutions division*

Gross profit of the Pharmacy Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Pharmacy Solutions division - Gross profit								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	18,152	18,205	17,896	17,966	17,129	17,349	17,629	18,066
Cost of materials	16,968	17,005	16,731	16,798	15,949	16,111	16,345	16,728
<b>Gross profit</b>	<b>1,185</b>	<b>1,200</b>	<b>1,165</b>	<b>1,168</b>	<b>1,180</b>	<b>1,238</b>	<b>1,283</b>	<b>1,338</b>
<i>Gross profit margin</i>	6.5%	6.6%	6.5%	6.5%	6.9%	7.1%	7.3%	7.4%

Source: Celesio AG, KPMG analysis.

In fiscal year 2012, the adjusted gross profit of the Pharmacy Solutions division increased by around €15 million. The decrease in gross profit margin due to governmental measures in France was overcompensated by the increased profitability with regard to regulatory changes in Germany (AMNOG II), as well as the purchase of the Brazilian entity Oncoprod, which achieves a higher gross profit margin than other business units.

In fiscal year 2013, the gross profit margin was adversely affected by the continuing intense discount competition in Germany, whereas the margin developed positively in the United Kingdom due to improved procurement terms and the changed product mix with increasing sales of higher-margin generic drugs. Despite further positive effects in Brazil and Austria, the gross profit margin decreased in comparison to the previous year. In conjunction with a decline in revenue, gross profit declined to €1,165 million.

In the planning year 2014, the gross profit margin is expected to remain unchanged at 6.5% compared to the previous year. The positive one-off effect in the United Kingdom (higher margins due to shortages in the supply of generics by manufactures) is expected to be offset by lower gross profits in Brazil and Norway (due to exchange rate effects) as well as in France and Slovenia (due to revenue declines).



In subsequent planning years, the increase of gross profit is largely driven by Germany, Brazil and the United Kingdom. In Germany, management expects a normalisation of discount levels by 2015 and therefore a gradually increasing gross profit margin. In Brazil, the competitor's level of profitability is targeted by the implementation of sales measures and the optimisation of the discount structure. In the United Kingdom, it is anticipated that, during the planning period, the pressure on the gross profit margin induced by customers and suppliers will be compensated by gaining market share and hence increasing revenue. Thus, the United Kingdom positively contributes to the gross profit of the Pharmacy Solutions division. The decrease of gross profit in Norway due to the lost tender as well as the decline in gross profit due to the expected revenue reduction in France will have the opposite effect. Ultimately, the gross profit margin of the Pharmacy Solutions division is expected to increase by 0.9%-points during the planning period, compared to 2013.

#### *Personnel expenses of the Pharmacy solutions division*

Personnel expenses of the Pharmacy Solutions division for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, are presented in the following table:

Pharmacy Solutions division - Personnel expenses								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	18,152	18,205	17,896	17,966	17,129	17,349	17,629	18,066
<b>Personnel expenses</b>	<b>573</b>	<b>589</b>	<b>582</b>	<b>568</b>	<b>576</b>	<b>591</b>	<b>608</b>	<b>630</b>
<i>in % of revenue</i>	3.2%	3.2%	3.3%	3.2%	3.4%	3.4%	3.5%	3.5%

Source: Celesio AG, KPMG analysis.

In fiscal year 2012, personnel expenses increased by approx. €16 million while the personnel expenses ratio remained at a level of 3.2% of revenue. The increase was mainly caused by the subsidiary Oncoprod being fully consolidated for the first time in 2012. Cost saving measures in the United Kingdom and Germany had an opposite effect. In the following year 2013, further cost savings especially in France, Norway and the United Kingdom could not reduce personnel expenses in proportion to revenue decrease; therefore the personnel expense ratio increased slightly to 3.3% of revenue.

In the planning year 2014 a significant overall decrease of personnel expenses in the Pharmacy Solutions division is expected. Major effects result from Brazil (mainly driven by currency exchange effects), the United Kingdom (implementation of cost efficiency measures relating to warehouse logistics) and France (continuing cost saving measures). In the planning period a disproportionately higher increase of personnel expense ratio to 3.5% of revenue is expected. Especially in France and Norway, the Celesio Group expects that the revenue decline cannot be completely offset by the reduction of personnel expenses. Presumably, the revenue decline will only partially be compensated by economies of scale and cost efficiency improvement (especially in the United Kingdom, Austria, as well as some of the other countries).



*Other operating result of the Pharmacy solutions division*

Other operating result of the Pharmacy Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Pharmacy Solutions division - Other operating result								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Other operating income	243	257	247	218	235	247	259	269
in % of revenue	1.3%	1.4%	1.4%	1.2%	1.4%	1.4%	1.5%	1.5%
Other operating expenses	-457	-494	-471	-452	-454	-469	-481	-491
in % of revenue	2.5%	2.7%	2.6%	2.5%	2.7%	2.7%	2.7%	2.7%
<b>Other operating result</b>	<b>-213</b>	<b>-237</b>	<b>-224</b>	<b>-234</b>	<b>-219</b>	<b>-222</b>	<b>-222</b>	<b>-222</b>
in % of revenue	1.2%	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%	1.2%

Source: Celesio AG, KPMG analysis.

The adjusted other operating income of the Pharmacy Solutions division comprises mainly services to pharmaceutical corporations (especially logistics services related to the so-called pre-wholesale business and income from Fee-for-Service models) and to retail pharmacies (especially related to pharmacy cooperations), data processing and IT services, income from marketing activities, income from reversals of bad debt allowances as well as income from internal cost allocation for supply of own pharmacies in the United Kingdom, Norway, Italy and Belgium (FtB-recharge).

In the fiscal years 2012 and 2013 one-off effects (incl. reversal of tax-related impairment losses in Brazil, first time full consolidation of Oncoprod, insurance payments in Belgium) led to a volatile development of other operating income. The other operating income ratio increased from 1.3% to 1.4% of revenue. In 2014, mainly expected normalisation of other operating income in Brazil, omission of insurance payments in Belgium and negative development of foreign exchange rates will lead to a significant decline of other operating income in absolute terms as well as in relation to revenue of the Pharmacy Solutions division. The expected increase in income from retail pharmacy cooperations in France and Germany represents the key driver of other operating income, which is anticipated to increase to a total of €269 million, or 1.5% in relation to revenue, in 2018. Together with the planned adjustment of the transfer-pricing method for the supply of own pharmacies in Norway<sup>33</sup> in 2015 and the expected declining revenue in France, other operating income is expected to increase disproportionately to revenue until 2018.

<sup>33</sup> The increase of the FtB-recharge is caused by the lost tender for exclusive supply of the hospitals in Norway and is consolidated at group level (cf. section 5.3.1, other operating expenses).



The other operating expenses of the Pharmacy Solutions division comprise lease payments, transport costs, IT and communication costs and other costs. The increase of other operating expenses in 2012 was mainly due to the first time full consolidation of the Brazilian subsidiary Oncoprod, the restructuring costs incurred by the merger of the headquarters of the Pharmacy Solutions and Consumer Solutions division in the United Kingdom and an adverse impact of the exchange rate development. Furthermore significant bad-debt allowances in Portugal drove the increase of other operating expenses. Omission of the one-off effects mentioned led to a significant decline of other operating expenses in 2013, despite negative effects of the exchange rate development.

In 2014, the expected strong currency devaluation of the Brazilian Real causes an absolute decline of other operating expenses in Brazil, overcompensating the expected increase of building, IT and transport costs. In the years 2015 to 2018, the key driver of the increase of other operating expenses is the expected business development in Brazil including an absolute increase of operating costs (which are growing less than revenue in Brazil in the same period). In addition an increase of other operating expenses compared to revenue development is planned in Germany. Against the background of ongoing fierce discounting competition, operating costs have already been reduced in Germany in the fiscal year 2013. Hence, further improvement of efficiency is difficult to achieve in Germany. On the contrary, the implementation of strategic initiatives requires additional expenses related to marketing activities. Furthermore other operating expenses in France, which are especially driven by increasing IT costs, transport costs and lease payments for warehouses, are increasing disproportionally to the declining revenue. Overall, other operating expenses are anticipated to increase to €491 million, or 2.7% in relation to revenue, until 2018.

#### *Depreciation and amortisation of the Pharmacy Solutions division*

Depreciation and amortisation of the Pharmacy Solutions divisions for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Pharmacy Solutions division - Depreciation and amortisation								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	18,152	18,205	17,896	17,966	17,129	17,349	17,629	18,066
Depreciation and amortisation	57	59	52	50	53	56	59	63
in % of revenue	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%

Source: Celesio AG, KPMG analysis.



Depreciation and amortisation of the Pharmacy Solutions division mainly comprises amortisation of intangible assets as well as depreciation of operating and business equipment. The depreciation and amortisation ratio of the Pharmacy Solutions division remained stable in the past at 0.3% of revenue. In the planning period an increase of depreciation and amortisation to €63 million is expected at a stable ratio (in % of revenue). The increase is mainly driven by planned investments in Germany regarding the implementation of an automated inventory management and commissioning system as well as replacement investments in warehouse logistics and IT. In addition the modernisation of warehouses and IT systems in the United Kingdom in the years 2012 and 2013 contributed to the rise of the depreciation in the following years.

*EBIT of the Pharmacy Solutions division*

Pharmacy Solutions division - EBIT								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	18,152	18,205	17,896	17,966	17,129	17,349	17,629	18,066
<b>EBIT</b>	<b>342</b>	<b>315</b>	<b>307</b>	<b>316</b>	<b>332</b>	<b>370</b>	<b>394</b>	<b>424</b>
<i>EBIT margin</i>	1.9%	1.7%	1.7%	1.8%	1.9%	2.1%	2.2%	2.3%

Source: Celesio AG, KPMG analysis.

Following a sharp decline in the years 2012 and 2013, the operating profit (EBIT) of the Pharmacy Solutions division is expected to increase significantly despite the low forecasted revenue growth. This is due to the anticipated significant improvement of the gross profit margin, along with a slightly higher increase of personnel expenses relative to revenue growth whereas other operating results and depreciation and amortisation will develop in line with revenue.



### 5.3.3 Financial planning of the Holding

The forecasted income statement of the Holding for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Celesio AG (Holding) - Income statement								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	-	-	-	-	-	-	-	-
Cost of materials	-	-	-	-	-	-	-	-
<b>Gross profit</b>	-	-	-	-	-	-	-	-
Personnel expenses	46	38	40	47	48	49	50	52
Other operating result	-40	-42	-37	-77	-59	-43	-45	-47
<b>EBITDA</b>	<b>-85</b>	<b>-79</b>	<b>-78</b>	<b>-123</b>	<b>-106</b>	<b>-92</b>	<b>-95</b>	<b>-99</b>
Depreciation and amortisation	10	11	13	14	14	15	15	16
<b>EBIT</b>	<b>-95</b>	<b>-91</b>	<b>-90</b>	<b>-137</b>	<b>-121</b>	<b>-107</b>	<b>-111</b>	<b>-114</b>

Source: Celesio AG, KPMG analysis.

Adjustments and reclassifications made in order to ensure comparability in the analysis of historical data are illustrated in Appendix 2.

The business of the Management Holding comprises the parent company of the group, Celesio AG (370 employees), the financing company, Celesio Finance B.V. (1 employee), as well as Admenta Deutschland GmbH, Stuttgart/Germany and Admenta France SA, Saint-Ouen/France (both companies with a total of 4 employees). The Holding primarily provides administration and IT-services for the operating subsidiaries of the Celesio Group. The main expense items of the Holding are personnel expenses and other operating costs.

In 2011 the Holding was restructured and reduced in size. In 2012, together with the implementation of the new function-oriented management structure, the realignment of the Holding was decided. The resolution mainly comprised the expansion of the Holding functions procurement, IT and sales, as well as the establishment of a marketing department. The planned increase in the number of personnel following the realignment leads to an increase of personnel expenses of €7 million in 2014 compared to fiscal year 2013. In the subsequent years, personnel expenses are expected to increase at the level of agreed collective wage increases, whereas the number of employees is kept at a constant level.

The other operating result of the Holding comprises other operating income and other operating expenses. The major share of other operating income relates to income from administration and IT services charged to the respective country subsidiaries, and is planned to increase by 2% p.a.



A significant share of other operating expenses relates to IT costs, consulting fees, travel expenses, rent and lease payments and other expenses. The major driver of other expenses development is inflation. In the forecast year 2014 cost savings (with respect to travel expenses and consulting services for projects of minor strategic relevance) are planned, which are expected to lead to a decrease of other operating expenses of approx. €7 million compared to fiscal year 2013. In forecast years 2014 and 2015 other operating expenses include expenses of €37 million and €17 million, respectively, related to the integration into the McKesson Group. Those costs, which are non-rechargeable to and independent of the conclusion of the domination and profit and loss transfer agreement with the Dragonfly GmbH & Co. KG, mainly pertain to the conversion of accounting systems to US general accepted accounting practice (US GAAP), harmonisation of administrative functions and consulting services in conjunction with the integration process. In the forecast years 2014 and 2015, planned integration costs lead to a temporary increase of other operating expenses, which are expected to return to normalised levels in the following years.

The planned increase of IT investments leads to a higher level of depreciation in the forecast period, compared to the past fiscal years.

Ultimately, the operating result (EBIT) of the the Holding decreases from €-90 million in fiscal year 2013 to €-114 million in forecast year 2018.

### 5.3.4 Consolidation

The consolidation related to the forecasted income statement for the fiscal years 2014 to 2018 is presented in the following table:

Consolidation					
Jan 1 - Dec 31 in €m	FC 2014	2015	Planning		
			2016	2017	2018
<b>Revenue</b>	-25	-25	-25	-26	-26
Cost of materials	-25	-25	-25	-26	-26
<b>Gross profit</b>	-	-	-	-	-
Personnel expenses	1	1	1	1	1
Other operating income	-112	-127	-131	-136	-141
Other operating expenses	-113	-128	-132	-137	-142
Other operating result	1	1	1	1	1
Depreciation and amortisation	-	-	-	-	-
<b>EBIT</b>	-	-	-	-	-

Source: Celesio AG, KPMG analysis.



The consolidation at the level of the Celesio Group mainly relates to cross-border revenue between the (pre-) consolidated business divisions, as well as costs charged from the Holding to the operating subsidiaries. The growth of the respective positions was planned according to the planned business development of the Celesio Group.

### 5.3.5 Summary revenue and EBIT

The following chart depicts the anticipated revenue development of the Celesio Group by business division as well as revenue growth rates of the Celesio Group in comparison to market expectations, competitors (peer group) and analysts' estimates.



Source: Celesio AG, S&P Capital IQ, KPMG analysis.

The expected revenue growth of the Celesio Group in the years 2014 to 2018 is lower in the forecast period 2015 to 2017 than the overall market development.<sup>34</sup> This is mainly due to the fact that the Celesio Group's revenue forecasts are subject to market segment specific factors which deviate from overall market development, as well as partially incorporate strategic assumptions which deviate from the overall market development. For instance, in this context revenue losses in Germany from 2015 onwards due to a lower level of granted rebates in order to ensure profitability can be mentioned. Further, the loss of a major distribution contract in

<sup>34</sup> To ensure comparability, market growth was determined according to the regional presence of Celesio Group in the individual markets (based on turnover of Celesio Group in the fiscal year 2013) as well as currency equivalence (conversion of market forecasts in Euro with forward rates as was used in the financial planning).



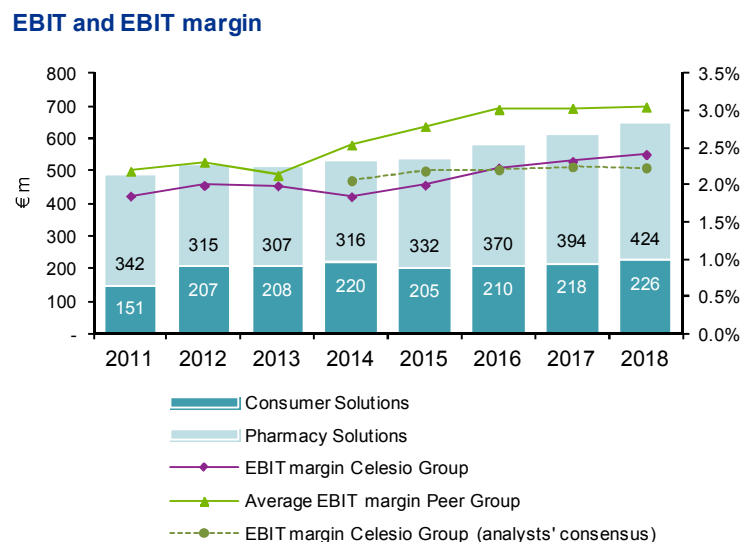
Norway adversely affects revenue growth in the planning period 2015. Toward the end of the planning period, the anticipated revenue development of the Celesio Group converges to the projected market development, and reaches market level in the planning period 2018.

The Celesio Group's expected revenue development is also lower compared to its peer group in the years 2015 to 2018. However, it has to be noted that the validity of the comparison is undermined by significant differences in regional positioning of the publicly listed competitors (and thus also considerable differences in characteristics of market specific growth drivers). Hence, the analysis is not suitable to determine the plausibility of the forecasted development.

The expected revenue growth of the Celesio Group mainly corresponds to the consensus of analysts' estimates, with the exception of the planning year 2015, which is characterised by one-off effects.

In light of our analysis of expected development on country level as well as by comparing market forecasts and analysts' estimates, we consider the proposed revenue development of the Celesio Group to be comprehensive and reasonable.

The following chart depicts the expected development of operating profit (EBIT) of the Celesio Group by business division, as well as the EBIT margin of the Celesio Group in comparison to competitors (peer group) and analysts' estimates.



Source: Celesio AG, S&P Capital IQ, KPMG analysis.

In the detailed planning period, the EBIT margin of the Celesio Group improved continuously to 2.4% of revenue, compared to the adjusted fiscal years 2011 to 2013. This continuous improvement is primarily based on the expected profit contributions resulting from strategic repositioning (cf. section 2.4.4) and especially due to the related initiatives TiC, EPN and End-



to-End. These margin improvements contain the projected pre-contractual synergies, which are expected to increase steadily until 2018 to €11.3 million. The following table shows the proposed pre-contractual synergies (by product group) for the planning years 2014 to 2018:

Pre-contractual synergies					
in €m	FC	Planning			
	2014	2015	2016	2017	2018
Generics	-	2.2	5.8	7.6	8.3
Branded products	-	-	0.9	1.7	3.0
<b>Sum of synergies</b>	-	<b>2.2</b>	<b>6.6</b>	<b>9.3</b>	<b>11.3</b>

Source: Celesio AG, KPMG analysis.

The pre-contractual synergies are fully included in the present valuation on the basis of the documentation and information provided to us.

The EBIT margin of the Celesio Group in the past as well as in the detailed planning period is lower compared to its peer group. However, due to differences in segment focus (retail and wholesale), a general comparison of competitors' margin levels is problematic. The direct comparison of margin developments shows however, that the anticipated increase of the EBIT margin of the Celesio Group in the planning period from 1.8% in 2014 to 2.4% of revenue in the last planning year (corresponds to an increase in EBIT margin by about 31% over the planning period) is stronger than of its peer group (an average increase of about 20% over the planning period).

The anticipated development of EBIT margin in the planning years 2017 and 2018 also exceeds analysts' estimates (forecasted increase of EBIT margin of the Celesio Group in the planning period by a total of approx. 8%).

In light of our analysis of expected developments on division and country level, as well as compared to its peer group and analysts' estimates, we consider the consolidated planning compiled by Celesio AG to be plausible and achievable. However, the improvement of profit contributions mainly depends on the implementation of proposed strategic initiatives (cf. section 2.4.4) and the subsequent realisation of related profit contributions (incl. pre-contractual synergies).

Risks of realising these profit contributions arise mainly from not achieving the expected market growth rates and market share gains. Further implementation risks arise in particular due to the continuous rebate driven competition of German pharmaceutical wholesalers or the adoption of a similar rebate competition in other countries, future government regulatory measures as well as future changes in currency exchange rates (incl. the United Kingdom, Brazil).



### 5.3.6 Financial result

The plan financial result of the Celesio Group for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Celesio Group - Financial result								
Jan 1 - Dec 31 in €m	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Interest income	8	11	10	4	5	7	6	5
Interest expenses	163	178	145	78	71	71	61	48
Interest result	-155	-167	-135	-74	-66	-64	-55	-43
Investment result	8	8	12	11	12	14	16	16
Other financial result	16	4	-14	-	-	-	-	-
<b>Financial result</b>	<b>-131</b>	<b>-155</b>	<b>-138</b>	<b>-63</b>	<b>-54</b>	<b>-50</b>	<b>-39</b>	<b>-27</b>

Source: Celesio AG, KPMG analysis.

The financial result of the Celesio Group comprises interest result, investment result as well as other financial result.

The **interest result** of the Celesio Group mainly consists of interest income and interest expenses, which primarily result from financing activities of the finance entity, Celesio Finance B.V., as well as from existing pension obligations within the Celesio Group. Forecasting of interest income and expenses from financing activities is based on the financing plan as well as on the current financing conditions of the Celesio Group. The decline in interest expenses at the beginning and during the planning period reflects the development of net financial liabilities, which results from contractual repayments financed by retained earnings.

The **investment result** of the Celesio Group mainly comprises the proportionate results of the Dutch investment in Brocacef Holding N.V. Investment income further consists of minority investments in pharmacies. The plan investment result is based on the proportionate expected results of the investments within the planning period.

The **other financial result** mainly contains market value changes (recognised as profit or loss in the years 2012 to 2013) of derivatives, which are held for interest and currency hedging, profits and losses from currency exchanges, as well as value adjustments of loan receivables. Hedging transactions are used for securing fair values of assets and liabilities as well as future cash flows (especially for the purchase of trade goods within a twelve month horizon and for investments). Accordingly, in the detailed planning period an other financial result of zero has been assumed.



### 5.3.7 Taxes on income

The income tax burden of the Celesio Group for the fiscal years 2014 to 2018, compared to the adjusted fiscal years 2011 to 2013, is presented in the following table:

Celesio Group - Income taxes								
1 Jan. - 31 Dec in €m	Actual			Forecast	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Earnings before tax	195	18	282	336	362	423	462	509
<b>Income taxes</b>	<b>100</b>	<b>105</b>	<b>98</b>	<b>128</b>	<b>113</b>	<b>117</b>	<b>124</b>	<b>137</b>
<i>in % of earnings before tax</i>	51.36%	574.22%	34.63%	38.12%	31.20%	27.69%	26.83%	26.91%
<i>thereof German tax</i>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.23%	0.00%

Source: Celesio AG, KPMG analysis.

The corporate income tax levy for the Celesio Group was derived from the earnings before taxes prepared in accordance with IFRS and the applicable country specific corporate income tax rates. Where the tax rules require so, deviations between the tax base and the projected earnings before taxes under IFRS have been considered.

In principle, for the profits in Germany the trade tax and the corporate income tax have been considered. The solidarity surcharge is taken into account as an additional levy to the corporate income tax. For the domestic companies a combined total tax rate of 30.7% has been considered, comprising the trade tax and the corporate income tax (incl. solidarity surcharge). The tax group of Celesio AG comprises for purposes of domestic trade tax and corporate income tax (incl. solidarity surcharge) also the profits of the controlled companies (*Organgesellschaften*) ABG Apotheken-Beratungsgesellschaft mbH, Admenta Deutschland GmbH, Ancavion GmbH, DocMorris Kooperationen GmbH, GEHE GmbH, GEHE Informatik Services GmbH, Gesellschaft für Versorgungskonzepte in der Wundbehandlung GmbH und Inten GmbH. This applies also to those controlled companies, which at the same time act as controlling companies (Admenta Deutschland GmbH and GEHE GmbH).

The foreign corporate income tax levy was derived in relation to the foreign profit share in the planning period on the basis of the standard tax rate applicable in the individual year. The foreign profit share comprises the profits from Austria, Belgium, Brazil, Denmark, France, Ireland, Italy, the Netherlands, Norway, Portugal, Slovenia, Sweden and the United Kingdom.

The determination of the tax levy considers domestic and foreign tax loss carry forwards (as per 31 December 2013: €552.4 million), as provided by the applicable tax regulations.



A number of factors have influence on the development of the effective tax rate in the planning period. Firstly, the positive development of the profits in Germany and overseas allows an utilisation of current-year losses within the tax groups and, where applicable, with tax loss carry forwards in accordance with the relevant tax provisions. Secondly, the share of profits in relation to the total profits before taxes increases particularly in those countries where pursuant to the current foreign law a decline of the standard tax rate will occur (e.g. the United Kingdom).

### 5.3.8 Group result

The group result was determined for the planning period 2014 to 2018 on the basis of net profit after deducting non-controlling interest (minority interest) as follows:

Celesio Group - Minority interest								
Jan 1 - Dec 31 in €m	2011	Actual 2012	2013	FC 2014	2015	Planning		
						2016	2017	2018
Net profit	95	-87	184	208	249	306	338	372
Minorities	4	7	7	4	3	4	5	4
<b>Group result</b>	<b>91</b>	<b>-94</b>	<b>178</b>	<b>204</b>	<b>246</b>	<b>302</b>	<b>334</b>	<b>368</b>
<i>in % of revenue</i>	<i>0.4%</i>	<i>-0.4%</i>	<i>0.8%</i>	<i>0.9%</i>	<i>1.2%</i>	<i>1.4%</i>	<i>1.5%</i>	<i>1.7%</i>

Source: Celesio AG, KPMG analysis.

For fiscal years 2011 to 2013 net profit before adjustments.

Non-controlling interest mainly pertains to business entities in Italy, Germany, France, Belgium and Austria. The intended purchase of the remaining 40% of Oncoprod shares, which is scheduled for 2014 and 2015, leads to a respective decline of non-controlling interest.

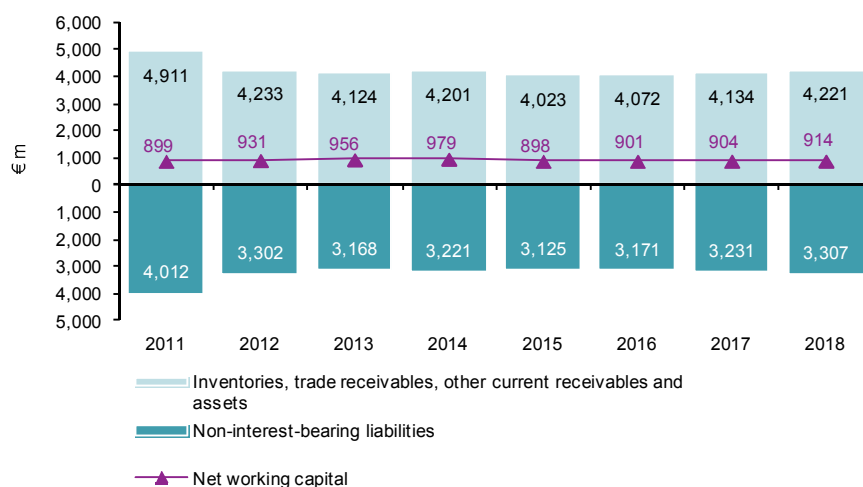
The consolidated result increases from 0.8% of revenue in fiscal year 2013 to 1.7% in the course of the detailed planning period.



### 5.3.9 Net working capital

The following chart shows the development of net working capital of the Celesio Group for fiscal years 2011 to 2018 at the end of the respective fiscal year:

**Celesio Group - Net working capital**



Source: Celesio AG, KPMG analysis.

Net working capital comprises inventories, trade receivables, as well as other current receivables and assets less non-interest-bearing liabilities.

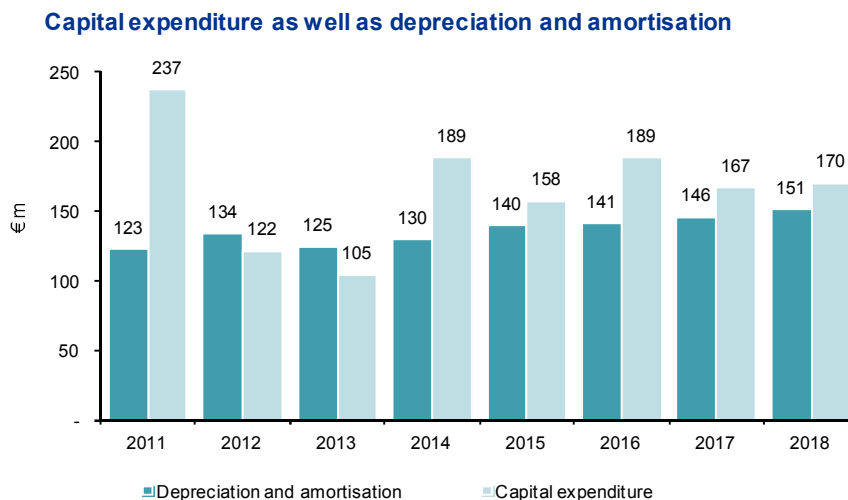
During the planning period, group-wide measures to optimise warehousing and inventory management will be implemented to achieve a decline in inventory turnover, which amounted to 27 days in 2012 and 2013 and is expected to drop to 24 days in the planning year 2018. In addition, the development of trade receivables and trade payables is planned in proportion to revenue. Given the shift of revenue structure toward the faster growing retail sector, a slight decrease in average payment terms of trade payables and receivables is anticipated. The expected decline in revenue of the Pharmacy Solutions division during the fiscal year 2015 will lead to a temporary reduction of net working capital.

Corresponding effects on net debt, which result from the anticipated changes in net working capital, have been considered accordingly.



### 5.3.10 Capital expenditure

The following chart depicts the development of capital expenditure as well as depreciation and amortisation of the Celesio Group in the fiscal years 2011 to 2018:



Source: Celesio AG, KPMG analysis.

Capital expenditure in continuing business activities in the fiscal years 2011 to 2013 relate to the acquisition and opening of new pharmacies as well as to continuing operations. The high level of capital expenditure in fiscal year 2011 was mainly due to the acquisition of Oncoprod, the expansion of operations in Sweden as well as capital expenditure in central IT projects. In the fiscal years 2012 and 2013, the capital expenditure volume dropped substantially and was lower than the level of depreciation and amortisation.

In the detailed planning period, a significant rise of capital expenditure level is expected compared to the fiscal years 2012 and 2013. In particular, this is due to the acquisition of the remaining shares of Oncoprod, as well as planned modernisations of the European pharmacy network and the planned implementation of new inventory management systems in self-owned and external pharmacies. In recent years, it was further observed that the level of capital expenditure in some countries was significantly below depreciation. Thus, in the forecasting period management anticipates a higher capital expenditure level regarding continuing operations compared to previous years, to ensure competitiveness of the Celesio Group in the future. As a result, capital expenditure are expected to increase to approx. €170 million in the last planning year, corresponding to 0.8% of revenue.



### 5.3.11 Net financial liabilities

The plan net financial liabilities of the Celesio Group for the fiscal years 2014 to 2018, compared to the fiscal years 2011 to 2013, are presented in the following table:

Celesio Group - Net financial liabilities								
Jan 1 - Dec 31 in € m.	Actual			FC	Planning			
	2011	2012	2013	2014	2015	2016	2017	2018
Bonds	1,776	1,916	1,084	1,057	1,043	1,130	616	603
Liabilities to financial institutions	279	156	155	130	70	60	48	38
Pension provisions	276	345	337	339	337	337	337	337
Other interest-bearing liabilities	17	13	9	13	11	9	9	9
Financial liabilities	2,348	2,430	1,585	1,538	1,461	1,536	1,010	986
Cash and cash equivalents	448	524	451	423	562	769	405	571
<b>Net financial liabilities</b>	<b>1,900</b>	<b>1,906</b>	<b>1,134</b>	<b>1,116</b>	<b>899</b>	<b>766</b>	<b>605</b>	<b>415</b>

Source: Celesio AG, KPMG analysis.

Net financial liabilities of the Celesio Group comprise financial liabilities as well as cash and cash equivalents. Financial liabilities mainly consist of bonds, liabilities to financial institutions, pension obligations and other interest-bearing liabilities.

The total outstanding convertible bonds of Celesio AG were converted into equity before the valuation date. Conversions occurred until 6 May 2014. To ensure comparability, these were adjusted for fiscal years 2011 to 2013. The forecasting of existing bonds was performed on the basis of duration and current financing conditions. The refinancing of bonds maturing in the year 2017 is scheduled to come from operative cash flows.

Liabilities to financial institutions mainly consist of long-term bilateral credit lines. The decline in the detailed planning period is based on intended repayments.

Pension obligations of the Celesio Group comprise defined contribution as well as defined benefit plans. The majority of contribution plans relate to entities in the United Kingdom, Norway and Germany. In accordance with the assumptions of the Celesio Group, a generally constant development of pension obligations is assumed in the plan.

As a result, in conjunction with anticipated retained earnings, a significant reduction of net financial liabilities is expected in the planning period from €1,134 million in the fiscal year 2013 to €415 million in the planning year 2018.



### 5.3.12 Sustainable result

Celesio Group's business units are spread across Europe, some of them located in countries suffering from high burden of public debt in the aftermath of the European credit crisis. Despite recent signs of economic recovery in some of the business units' domestic markets (e.g. France, Spain, Portugal and Ireland), public deficits in these countries are still above the 3.0% deficit threshold of national GDP in 2014, hence violating the critical deficits level set by the Treaty of Maastricht. High levels of governmental debt keep pressuring national budgets of European countries in upcoming years, making public health care spending subject to further austerity measures as already seen in some of the Celesio Group's home markets (e.g. France or Ireland).

In light of European demography, healthcare provision will, as in recent years, be a high priority issue going forward. While the overall European population is shrinking by trend, the number of elderly people will increase due to higher overall life expectancy. However, the latter development is expected to compensate decreasing population numbers and stimulate volume growth in the European pharmaceutical markets. In order to ensure the financial sustainability of social systems, healthcare spending is expected to be further restricted by federal agencies imposing limitations on revenue and trade margins growth of pharmaceutical wholesalers.

Celesio Group's expected revenue growth throughout the planning period reflects the aforementioned market expectations, in conjunction with the uncertainty regarding the impacts of upcoming regulatory interventions recently set in motion by some European countries. Considering price regulations in pharmaceutical wholesale markets, it is rather unlikely to see pharmaceutical wholesalers passing on inflation-based increases in operating expenses by means of higher selling prices in coming years. Taking these assumptions, management region-specific expectation of local business units as well as measures for cost reduction to reduce increasing public deficits into account, a sustainable revenue level has been set at a total of €22.4 billion, constituting a 1% increase over the expected revenue in the last planning year 2018.

Celesio Group's financial planning carries considerable upside potential from optimising the product portfolio along with leveraging potential in the procurement strategy, both expected to overcompensate pressure on gross profit margins currently anticipated from regulatory interventions coming with future consolidations of governmental finances. Intense market competition at all stages of the pharmaceutical value chain, aggravated by further regulatory intervention resulting in overall decelerating revenue growth, will sustainably diminish gross profit margins. Seizing scale efficiencies requires high revenue volumes usually being achieved by granting discounts, hence putting additional pressure on gross profit margins in the market. We anticipate the Celesio Group to achieve a sustainable gross profit margin of 11.9%, taking its geographically diversified business operations, initiated efficiency improvements as well as the absolute size of enterprise into account. This margin level exceeds gross profit margins achieved throughout the planning period from 2014 to 2018 averaging 11.8%.



In order to realise the planned revenue growth and considering the implementation of the related optimisation measures, a necessary increase in operating expenses (in particular personnel costs and expenses for IT) is reflected within the detailed planning period. These required cost increases, especially in the area of personnel expenses, along with the inflation-caused increase in fixed costs, overcompensate the planned efficiency gains in operating costs at the beginning of the detailed planning period. Within the further course of the detailed planning period, operating costs remain largely stable in relation to revenues, whereby planned efficiency improvements in combination with fixed cost degression compensate the inflation-based cost increases. For the sustainable period, we also assume that further efficiency improvements and the exploitation of further opportunities within the wholesale and retail business will allow to at least partly offset the inflation-caused declines of the EBITDA margin. We therefore assume a sustainable EBITDA margin of 2.9%, which again lies above the average expected margin of Celesio AG (2.8%) as well as above the weighted average expected margin of the peer group (2.7%) within the planning period from 2014 to 2018 (cf. section 2.5.3).

Taking the Celesio Group's operating non-current asset structure, its investment cycle as well as expected replacement costs into account, depreciation and amortisation has been set at a sustainable ratio of 0.7% (in % of revenue), being in line with the average respective ratio of comparable peer companies.

Finally, a sustainable EBIT margin of 2.2% results, which equals the average EBIT margin of the planning period.

For the purpose of determination of sustainable income tax, the anticipated applicable nominal tax rate in 2019 was applied in accordance with currently available information. A tax loss, if relevant and applicable, has been deducted in accordance with current foreign tax regulation. The sustainable income tax considers deductible tax losses carried forward if a sustainable use after 2019 is likely, in particular if sufficient tax loss carry forwards exist and the earnings forecasts allow for a deduction of losses.

The sustainable group result of €349 million exceeds the expected average group result of the planning period.



## 6 Discount rate

In order to value a company, anticipated future net cash flows are discounted to the effective date of valuation at an appropriate discount rate. This discount rate is based on the (projected) rate of return on a comparable alternative investment. From an economic point of view, the discount rate reflects an investor's alternative, which entails comparing the investor's return on an investment in a specific company with a return on an alternative equity investment. In this case, the valuation has been performed applying the discounted earnings approach (equity approach).

The following table summarises the parameters of the discount rate:

Cost of equity		
Parameter	Source	Value
Risk-free rate	■ German Federal Bank (Deutsche Bundesbank)	■ 2.50%
Unlevered beta factor	■ Celesio AG	■ 0.72
Market risk premium	■ Recommendations by IDW/empirical studies (Tax-CAPM)	■ 5.50%
Unlevered cost of equity	■ Unlevered cost of equity within the planning period 2014 - 2018 (after personal tax)	■ 5.80%
Levered cost of equity	■ (Bandwidth of) Levered cost of equity in the planning period 2014 - 2018 and sustainable (2019 ff.; after personal income tax, before growth rate)	■ 5.86% - 6.14% ■ 5.89%
Sustainable growth rate	■ The sustainable growth rate accounts for inflationary growth and company-specific efficiency expectations	■ 1.00%



Applying the equity approach, the discount rate (cost of equity) represents the return on an alternative investment with business risks equivalent to those of the entity subject to valuation. The discount rate applied to the company's cash flows should be equivalent in terms of its maturity, assessed risk and taxation (IDW S 1, section 114). When determining alternative returns capital market returns for investments (such as an equity investment portfolio) are particularly considered. These returns can be divided into a risk-free rate and a risk premium required by investors to compensate business risk associated with the investment.

The determination of the cost of capital applied for valuation purposes is based on observable market returns. With market returns being impacted by the cyclicity of the capital markets, the risk-free rate and risk premium as components of the required return are influenced as well. Investors are concerned with market returns in real terms; therefore the risk-free rate directly reflects the investors' expectations about the future inflation rate. The analysis of capital market data over a certain period of time allows for the measurement of inflation related effects on the risk-free rate at a certain reference date. Effects resulting from the economic cycle, however, have an impact on the risk-free rate as well as on the required risk premium. An objective, transparent and statistically valid risk premium can however only be determined based on long-term data of historical market returns. The determination of risk premia based solely on the latest available market information contains conceptual flaws as there is only limited transferability of the short-term parameters for the purposes of long-term oriented company valuations and is therefore not applied in practice. Despite the presence of cyclical outliers observed regularly in the past, the application of long-term historical data for the determination of risk premia in course of empirical analyses show that – on average – market returns lie in a fairly stable range over time.

Since the beginning of the financial and economic crisis in 2008/2009 followed by the (sovereign) debt crisis starting in 2011, equity markets have seen high losses and increased volatility both in 2008 and the second half of 2011. This has led to a significant decrease of the risk-free rate.

With continuing historical lows of the risk-free rate, equity markets first moved sideways in comparison to summer 2011 and since 2013, driven by liquidity, have reached and in parts even exceeded the pre-crisis levels. Hence, applying the current risk-free rate in business valuations without further considerations of the impact of the recent capital market crisis on the parameters of the discount rate, such as the risk premium, could result in distortions of equity values.



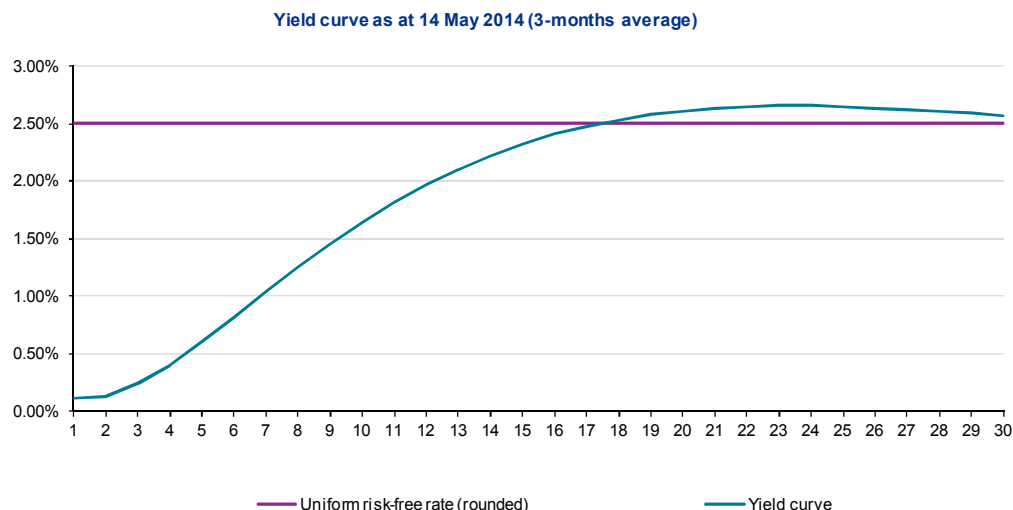
Therefore, in addition to the usual steps necessary for the derivation of the cost of equity, further analyses of individual parameters have to be performed. Our analyses have taken into account the reference by the IDW's Special Committee on Business Valuation ([*Fachausschusses für Unternehmensbewertung und Betriebswirtschaft*], hereinafter referred to as "FAUB") dated 19 September 2012 regarding the impact of the financial crisis on the determination of the discount rate.

## **6.1 Risk-free rate**

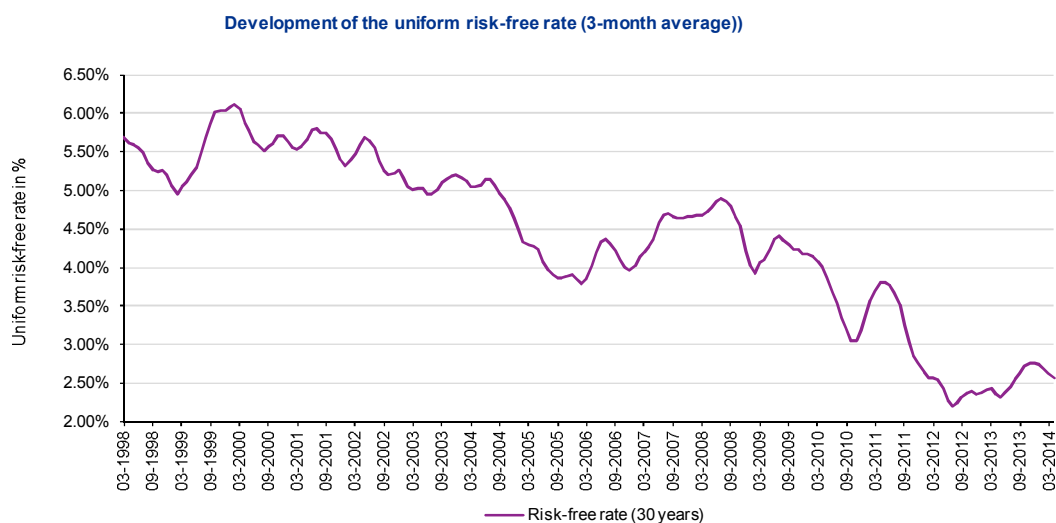
According to (Tax-) capital asset pricing model (hereinafter referred to as "CAPM") the risk-free rate represents a risk-free alternative investment with maturity equivalent to the term of the business subject to valuation. In general, equivalent maturity is ensured by discounting the cash flows of each period at the corresponding term with the equivalent interest rate. However, depending on the length of the forecast period and the underlying growth rate for the subsequent period (so-called terminal value) this approach requires the derivation of individual internal rates of return for each period. For practical purposes a uniform risk-free rate over the entire period, i.e. starting with the first forecasted year, may be derived from the yield curve and subsequently applied for valuation purposes.

The determination of the risk-free rate can be based on the government bond yield curve. The objective estimation of the yield curve can be based on the regression parameters published by the German Bundesbank. These allow for the derivation of a yield curve based on empirical data over a period of 30 years. The zero bond rate derived for a term of 30 years is generally accepted as a reasonable sustainable estimate for a yield curve with an indefinite term. The correspondingly determined uniform risk-free rate based on the Deutsche Bundesbank yield curve data for the period 15 February 2014 to 14 May 2014 amounts to 2.55%. This data was rounded to quarter-percentage points to smooth short-term market fluctuations and possible estimation errors, particularly for long-term returns, and set to 2.50%.





As the chart below illustrates, the risk-free rate has declined to a historically low level since the introduction of Euro notes and coins on 1 January 2002.



For a discussion on the impact of the current capital market situation on the derivation of the discount rate, please see the following section in regard to the risk premium.

Interest income of an individual based in Germany is taxed at a nominal income tax rate of 25.0% plus solidarity surcharge (withholding tax). This results in a risk-free rate after personal income tax of 1.84%.

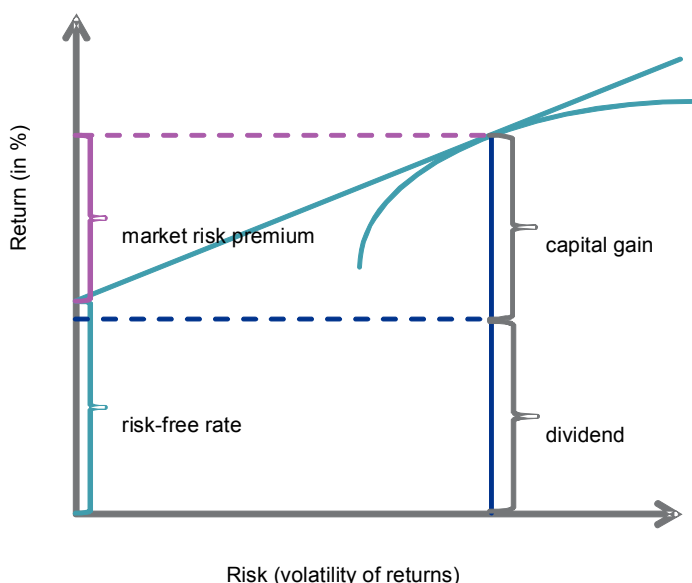


## 6.2 Risk premium

When objectively determining the equity value, the risk premium should be determined based on the general market behavior rather than on subjective risk tendencies of individual investors. Investing in any business is associated with a certain level of risk (investor risk) for which an investor would require additional compensation. This risk premium can be determined based on CAPM and Tax-CAPM from empirically derived stock returns.

The CAPM is a capital market model that depicts the cost of capital and risk premiums without implications from personal income tax. According to CAPM, the risk premium is comprised of the general market risk premium and the company-specific beta factor.

The market risk premium results from the difference between the return on a representative market portfolio in equity shares and a risk-free investment, as shown in the following chart:



As stock returns and risk premia are affected by income taxes, the Tax-CAPM however is a more realistic explanation of the empirically observed stock returns. The Tax-CAPM extends the CAPM equation by including the different effects of personal income tax in Germany related to income from interest, dividends and capital gains. The discount rate according to the Tax-CAPM model is derived from the risk-free rate and the risk premium, each after adjustments for income tax. Thus, the risk premium after income tax is the product of the company-specific beta and the market risk premium after income tax.



### ***Market risk premium***

The empirically observable risk premium of the market portfolio is dependent on the time period under observation and the applicable tax regime.

Upon consideration of the prevailing tax regime in 2005, IDW (cf. IDW Fachnachrichten, Nr. 1-2/2005) initially recommended a market risk premium in the range of 5.0% to 6.0%. According to simulation analyses performed in the context of the German corporate tax reform introduced in 2008 the average market risk premium after personal income tax amounted to 4.5%. Hence, after the introduction of the German withholding tax rate the FAUB recommended the application of a market risk premium after personal income tax in a range between 4.0% and 5.0%.

Due to the financial and debt crisis the observable interest rate level has reached a historical low. Therefore, the application of a market risk premium derived solely from historical data excluding adjustments for the currently low interest level would *ceteris paribus* imply an overall decrease in the long-term return required by investors. Despite the financial crisis however, there is no reasonable indication of investors lowering their expectation on return in the long-term. This is also reflected in the planning of Celesio AG that does not reflect such lowered sustainable expectations on level of return.

Assuming a stable level of (real) expected returns, there are two possible interpretations of the currently low interest rate level regarding the investors' expectations in the context of the financial crisis. On the one hand, disregarding the decisiveness of investment possibilities at the valuation date, the current interest rate level can be presumed as distorted at present. On the other hand, it might be also reasonable to assume that investors would require a higher risk premium as compared to the average long-term returns required in the past. It is not possible to establish an exact and theoretically sound separation and measurement of these two alternatives; therefore the implications for the cost of capital are to be assessed in total.

As at 19 September 2012 the FAUB updated its recommendation "Hinweise des FAUB zur Berücksichtigung der Finanzmarktkrise bei der Ermittlung des Kapitalisierungszinssatzes in der Unternehmensbewertung" regarding the derivation of the cost of capital in the context of the financial crisis. According to the publication, the recommended market risk premium before considering personal income tax ranges from 5.5% to 7.0% and from 5.0% to 6.0% net of personal income tax, accordingly.



To achieve a higher level of ascertainment regarding the size of the assessed market premium we performed a further analysis. Our analysis is based on the assumption of stable expected returns in the long run as well as a minimum interest rate level of 2.00% to 2.50% for (risk-free) German government bonds in real terms. Thus, the risk premium to be applied in the context of the financial crisis can be derived as the sum of the long-term interest rate level in real terms and the inflation expectations less the respective risk-free rate derived from the yield curve for German government bonds. Considering a risk-free rate of 2.00% to 2.50% in real terms, an expected inflation of around 1.75% as well as an interest rate of 2.50%, the additional risk premium to be considered amounts to 1.25% to 1.75% on top of the average market risk premium of 5.00% (before personal income tax), in total 6.25% to 6.75%. Considering the derived bandwidth of the market risk premium before personal income tax and of the recommended bandwidth of the market risk premium after personal income tax by FAUB we applied a market risk premium after personal income tax of 5.50% for the valuation of Celesio AG.<sup>35</sup>

In order to obtain the company specific risk premium, according to the CAPM and the Tax-CAPM, the market risk premium is multiplied by the so-called beta factor which accounts for industry and company specific risks.

### ***Beta factor***

As Celesio AG is a publicly listed company, historical beta factors of Celesio AG are observable on capital markets. As at 31 March 2014 we calculated beta factors over the last five individual years (weekly observations) and over the most recent five-year period starting on 1 April 2009 (monthly observation) by means of regression compared to the CDAX. The analysis was based on capital market data and financial information provided by S&P Capital IQ.

Levered beta factors							
Name	2014	2013	2012	2011	2010	Average 2010-2014	5-year period 31 March 2014
Celesio AG	0.53	0.92	0.94	0.85	0.71	0.79	1.05

Source: S&P Capital IQ, KPMG analysis.

The observable levered beta factor of Celesio AG in the period from 1 April 2009 to 31 March 2014 is between 0.53 and 0.94; the average is 0.79. Over the five-year period the observable levered beta factor of Celesio AG is 1.05.

To account for changes in the capital structure of Celesio AG over time the observable levered beta factors were transferred into unlevered beta factors.

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<sup>35</sup> The method of reconciliation is applied by Zeidler/Schöniger/Tschöpel, FB 2008, pp. 276-288.



Unlevered beta factors						
Name	2014	2013	2012	2011	2010	Average 2010-2014
Celesio AG	0.48	0.70	0.74	0.61	0.62	0.63

Source: S&P Capital IQ, KPMG analysis.

An analysis of the unlevered beta factors based on one-year periods as well as based on the share price performance reveals that the unlevered beta factor for the year 2014 of 0.48 is biased due to the acquisition of Celesio AG by McKesson Corp. Already on 8 October 2013 the German media reported that McKesson Corp. is in negotiations concerning the acquisition of Celesio AG.<sup>36</sup> As a consequence the share price of Celesio AG increased significantly (we refer to section 8). In the following weeks and months further significant share price increases were observable in the share price performance of Celesio AG. The analyses indicate that the stock price performance of Celesio AG since October 2013 is not initiated by general market trends but is to a certain degree decoupled from the market development. In addition, a negative t-test and a low coefficient of determination in the order of 0.02 for the one-year period 2014 indicate a low statistical validity in the regression analysis. Therefore, we excluded the beta factor which is based on the one-year period 2014 and adjusted the 5-year period beta factor for developments from October 2013 onwards.

Unlevered beta factors						
Name	2013	2012	2011	2010	Average 2010-2013	5-year period (adjusted) 31 March 2014
Celesio AG	0.70	0.74	0.61	0.62	0.67	0.77

Source: S&P Capital IQ, KPMG analysis.

The unlevered beta factors which are observable over one-year periods between 2010 and 2013 are in a sufficiently close bandwidth and reveal an average beta factor of 0.67. Analyses with regard to historical share price performances, trading volumes and bid-ask-spreads do not indicate a restricted share's liquidity. Therefore, the observable beta factor over the period 2010 until 2013 represents an appropriate basis to derive the risk premium.

While one-year beta factors offer the advantage that changes in the capital structure can be considered promptly, beta factors which are calculated over a period of five years show a higher statistical quality and are therefore more adequate to project the operational risk of Celesio AG. The beta factor which is computed over a period of five years is 0.77 (adjusted).

On the basis of our analyses a beta factor of 0.72 is determined, which is the arithmetic mean of the average beta factor of the four individual one-year periods of 0.67 and of the beta factor over the five-year period of 0.77 (adjusted).

<sup>36</sup> Cf. Gerhard Bläske: Win-win-Situation, Comment in: Börsen Zeitung, no. 193 as at 9 October 2013, p. 11.



For verification purposes we compared the unlevered beta factor of Celesio AG with the unlevered beta factors of peer group companies. As at 31 March 2014 the peer group companies which are presented in section 2.5.3 show the following unlevered beta factors by regression compared to the broadest local stock market index:

Unlevered beta factors							
Name	2014	2013	2012	2011	2010	Average 2010-2014	5-year period 31 March 2014
Mediq NV	n/a	n/a	0.57	0.63	0.66	0.62	0.61
Oriola-KD Corporation	0.38	0.62	1.00	1.05	0.61	0.73	0.75
Galenica Ltd.	0.73	0.87	0.80	0.53	0.48	0.68	0.61
McKesson Corporation	0.85	0.59	0.84	0.65	0.95	0.78	0.84
UDG Healthcare plc	0.56	0.30	0.62	0.37	0.55	0.48	0.81
Cardinal Health, Inc.	0.78	0.72	0.83	0.69	1.04	0.81	0.69
AmerisourceBergen Corporation	0.76	0.61	0.78	0.76	0.78	0.74	0.80
Profarma S.A.	0.66	0.34	0.60	0.69	0.85	0.63	0.96
Median	0.73	0.61	0.79	0.67	0.72	0.71	0.77
<b>Mean</b>	<b>0.67</b>	<b>0.58</b>	<b>0.76</b>	<b>0.67</b>	<b>0.74</b>	<b>0.68</b>	<b>0.76</b>

Note: n/a = not available

Source: S&P Capital IQ, KPMG analysis.

The peer group analysis verifies the original beta factor of Celesio AG in the order of 0.72. In addition, further analyses show no significant change in the beta factor of the peer group between October 2013 and March 2014. Thus, there are no indications that significant developments in the market and competitive environment are left ignored because of the adjustments in the beta analysis.

In view of the analyses, we deem an unlevered beta factor of 0.72 to be appropriate for the valuation of Celesio AG. Multiplied by the market risk premium of 5.50%, the operating risk premium of Celesio AG amounts to 3.96% (prior to adjustment for the period-specific financing structure of Celesio AG).

### ***Financing structure***

Finally, the unlevered discount rate was transferred into period-specific levered discount rates using the future capital structure which arises from the business plan of Celesio AG.



### 6.3 Growth rate

The medium and long-term forecasts of Celesio AG for the period 2014 to 2018 reflect the anticipated increase of income and expenses as well as of balance sheet items. Therefore, a discount for growth in the discount factor is not required for this period. In the years 2019 and afterwards (perpetuity period), the balance sheet items and items of the profit and loss statement will continue to develop, thus resulting in correspondingly higher annual net income distributable to the shareholders. The sustainable growth rate (also called terminal value growth rate) is accounted for as part of the discount factor.

The annual net income generated throughout the perpetuity period is notionally assumed to be fully attributed to the company's shareholders instead of being retained within the company for the purpose of financing future operating growth. In general, when earnings are retained, they are not part of the cash flow to equity in the year of retention. The positive value effect of retained earnings therefore results from the operating growth through the reinvestment of the company's net income, which is translated into growth of future dividend payments. Hence, operational growth from retained earnings should not be considered additionally in the derivation of the sustainable growth rate. Alternatively, the terminal value growth should be adjusted to reflect the additional operating growth resulting from reinvestment of the company's earnings when discounting dividend payments only. When discounting the dividends to the shareholders only, a sustained growth rate for the dividends of 4.61% should be applied. Both methods will produce identical results.

The value of the fictitiously attributable dividends in the terminal value phase will correspond to the value created by additional operating growth through the earnings retention in perpetuity as long as Celesio AG generates a sustainable level of return sufficient to cover the company's cost of capital. Thus, the majority of the growth due to the investment of retained earnings is already allocated to the shareholders by the direct attribution of the positive value effect from earnings retention.

Hence, the terminal value growth applied should merely account for temporary above-average growth effects due to unusual market and industry conditions or specific company events as well as inflation-related growth, as described below.

As Celesio AG operates in highly regulated markets, as well as due to the significant pressure on prices and margins in the pharmaceutical distribution sector, it is highly unlikely that excess returns can be sustainably generated in the long term.



The inflation-related growth was determined based on the current demographic, regulatory and industry-specific conditions as well as based on the cost structure and development of Celesio AG. Due to the anticipated cost pressure in the healthcare systems and the resulting regulatory interventions in the healthcare markets, (price-) competition will continue to be strong with price pressure remaining at its current levels. Passing on inflation-related cost increases will be only possible to a very limited extent due to the high degree of regulation in the market. Efficiency gains from restructuring activities will most likely be only partially able to compensate for this trend and therefore only contribute to maintaining a long-term level of sustainable profitability. This corresponds to the expectations of Celesio AG, and is also supported by results of empirical analyses on historical data, which demonstrate that companies in Germany have only partly succeeded in passing on inflationary cost increases by means of price increases. Taking these analyses into account, a terminal growth rate of Celesio AG of 1.00% was applied. Thus, in order to finance the inflation-related growth of assets and liabilities in perpetuity, a proportionate retention of earnings in the terminal value year is accordingly taken into account.

The period-specific discount rates for Celesio AG applied in the derivation of discounted earnings are exhibited in the following section.



## 7 Equity value

### 7.1 Discounted earnings

The determination of discounted earnings takes the consolidated net profit of Celesio AG as a basis. To derive the net earnings received for the respective year the net profit of Celesio AG is reduced by the effective income tax. The net earnings received are thereupon discounted with the relevant period specific discount rate to determine discounted earnings of Celesio AG (excluding special items) as follows:

Celesio AG						
Jan 1 - Dec 31 in €m	FC 2014	2015	Planning 2016 2017 2018			Sustainable 2019 ff.
<b>Group result</b>	<b>204</b>	<b>246</b>	<b>302</b>	<b>334</b>	<b>368</b>	<b>349</b>
Profit retention	138	160	188	200	221	12
Value added from profit retention	-	-	-	-	-	197
Effective income tax on profit retention	-	-	-	-	-	33
Value added from dividend distribution	66	86	113	133	147	140
Income tax on dividend distribution	17	23	30	35	39	37
<i>Payout ratio</i>	<i>32.5%</i>	<i>35.0%</i>	<i>37.5%</i>	<i>40.0%</i>	<i>40.00%</i>	<i>40.00%</i>
<b>Net earnings received</b>	<b>49</b>	<b>63</b>	<b>83</b>	<b>98</b>	<b>108</b>	<b>267</b>
Net earnings received	49	63	83	98	108	267
Present values as at 31.12.	4,631	4,852	5,056	5,255	5,454	-
<i>Discount rate</i>	<i>6.06%</i>	<i>6.14%</i>	<i>5.90%</i>	<i>5.88%</i>	<i>5.86%</i>	<i>4.89%</i>
Present value factor applicable to the year	0.9429	0.9421	0.9443	0.9445	0.9446	20.4636
Present values as at 01.01.	4,413	4,631	4,852	5,056	5,255	5,454
<b>Discounted earnings as at 1 January 2014</b>	<b>4,413</b>					

Celesio AG						
Jan 1 - Dec 31 in €m	FC 2014	2015	Planning 2016 2017 2018			Sustainable 2019 ff.
<i>Risk-free rate after income tax</i>	<i>1.84%</i>	<i>1.84%</i>	<i>1.84%</i>	<i>1.84%</i>	<i>1.84%</i>	<i>1.84%</i>
<i>Market risk premium after income tax</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>
Unlevered beta factor	0.72	0.72	0.72	0.72	0.72	0.72
Present values as at 01.01.	4,413	4,631	4,852	5,056	5,255	5,454
Net financial position as at 01.01.	1,134	1,116	899	766	605	415
<i>Debt-equity ratio</i>	<i>25.71%</i>	<i>24.09%</i>	<i>18.53%</i>	<i>15.15%</i>	<i>11.52%</i>	<i>7.61%</i>
Levered beta factor	0.77	0.78	0.74	0.73	0.73	0.74
<i>Risk premium</i>	<i>4.22%</i>	<i>4.30%</i>	<i>4.06%</i>	<i>4.04%</i>	<i>4.02%</i>	<i>4.05%</i>
<i>Growth rate</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1.00%</i>
<b>Discount rate</b>	<b>6.06%</b>	<b>6.14%</b>	<b>5.90%</b>	<b>5.88%</b>	<b>5.86%</b>	<b>4.89%</b>

During the detailed forecast period a gradual increase of the payout ratio from 32.5% to 40.0% was applied according to the forecast of Celesio AG. For the years 2019 onwards, a payout ratio of 40.0% was assumed. This payout ratio is oriented on the average payout ratio observable for comparable companies (peer group).



Since the retention of profits in the subsequent forecast period – to the extent they are not required to finance future growth – as well as the resulting future accretion can also be represented through the virtual direct attribution of the retained amounts to the shareholders, for simplification reasons the retained amounts were attributed directly to the shareholders as value added from profit retention in the subsequent forecast period.

Dividends are currently subject to a nominal tax rate of 25.0% plus solidarity surcharge (withholding tax).

Value increases generated from earnings retention as well as increases in value resulting from the earnings retention for inflation related terminal value growth are taxed at an effective tax rate of 12.5% (half of the nominal withholding tax rate) plus solidarity surcharge.

As a result of so-called growth retention – equivalent to the growth rate relative to book values of growing assets and liabilities at the end of the detailed forecast period – the fact that balance sheet growth associated with long term growth expected for investments and surpluses has to be financed is taken into account. These retained earnings to finance growth are therefore not included in the increase in value contributed by retained earnings attributed directly to shareholders.

The net earnings received resulting from the value impacts of retention and of distribution (less income tax) were capitalised using the period-specific discount rate.

Discounted earnings as at 1 January 2014 in an amount of €4,413 million have been accumulated to the valuation date (15 July 2014) applying the discount rate.



## 7.2 Special items

The Celesio AG has several minor participations, which are not consolidated and therefore not reflected in the Celesio Group planning. In order to ensure the completeness of contents of the equity value those companies were reflected as separately valued assets. The following table depicts the components of the separately valued assets of Celesio AG:

Celesio Group - Separately valued assets			
Participations	Participation Celesio Group	Book value of Equity (€000)	Equity value (€000)
Nensi d.o.o., Ljubljana/Slovenia	35.0%	50.0	17.5
Sens AS, Oslo/Norway	32.0%	5,112.9	1,636.1
Company Chemists Association Limited, Milton Keynes/UK	27.1%	-10.4	-
Datacare Datenpflege des Pharmagroßhandels Ges.m.b.H., Wien/Austria	36.7%	109.1	40.0
Datapharm, Paris/France	38.9%	107.9	42.0
Service de la Repartition Pharmaceutique, Paris/France	39.5%	86.6	34.2
<b>Separately valued assets (in €000)</b>			<b>1,769.8</b>

The separately valued assets, which comprise of the above listed minor participations, have been valued based on the effective percentage of shares. Therefore, only the proportional equity value was considered in the sum of the separately valued assets of Celesio AG (apart from Company Chemists Association Limited, Milton Keynes/United Kingdom, as a negative book value of equity is reported). The special items amount to approx. €2 million.

## 7.3 Equity value

The equity value of Celesio AG is determined as follows:

Equity value of Celesio AG	
	in €m
Discounted earnings	4,413
Special items	2
Equity value as at 1 January 2014	4,414
Accumulation factor	1.032
<b>Equity value as at 15 July 2014</b>	<b>4,556</b>

Celesio AG's equity value determined as at 1 January 2014 amounts to €4,414 million and was accumulated at the discount rate for 196 days. Hence, the resulting equity value of Celesio AG as at the valuation date is €4,556 million.



## 7.4 Equity value per share

The equity value per share of Celesio AG is derived from the determined equity value and relevant number of shares as follows:

Value per share of Celesio AG	
Equity value as at 15 July 2014 (in €m)	4,556
Number of shares outstanding	203,220,932
<b>Value per share (in €)</b>	<b>22.42</b>

As a consequence of the conversion of the bond 2014 and the bond 2018 the number of shares amounts to 203,220,932. Therefore, the value per share amounts to €22.42 as at the valuation date.

## 7.5 Plausibility assessment on the basis of multiples

In addition to the discounted earnings the multiple approach is often applied for business valuations. The multiple approach is a capital market oriented valuation which, similarly to discounted earnings, is based on the company's earnings. The multiple approach, however, applies simplified multiples of earnings variables, such as EBITDA, EBIT, net profit, and in individual cases of revenue. The multiples are derived from comparative price determinants observable for listed comparable companies (peer group companies). The multiple determined from the comparable companies captures the relation of the value of the company (e.g. enterprise value) to its earnings (e.g. EBIT, EBITDA) or to revenue.

Thus, the resulting value is a product of a multiple derived from a group of comparable listed companies and the corresponding earnings/revenue of the company subject to valuation.

In order to assess the plausibility of the equity value of Celesio AG – in accordance with IDW S 1, section 7.5 – industry specific multiples based on observable stock market prices of comparable companies (so called trading multiples) were derived.<sup>37</sup> For this purpose, revenue, EBITDA and EBIT of the comparable companies were applied.

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<sup>37</sup> Mediq NV is excluded from the analysis as the majority of Mediq NV is held by Advent International Corporation, Boston/USA, since January 2013 and no revenue, EBITDA and EBIT estimates are available. Galenica Ltd. was not included in the analysis as the business model of Galenica Ltd. also includes the manufacturing of pharmaceuticals which is more profitable than the distribution of pharmaceuticals.



The multiples of the peer companies were derived from current publicly available financial information and analysts' estimates regarding revenue, EBITDA and EBIT for the years 2014 to 2015.

The entity value of the comparable companies was determined based on the market capitalisation (market value) and by adding the net financial position and the unaffiliated minority interest. An overview of the multiples derived for the peer companies is presented in Appendix 5 (Source: Capital IQ).

The determined multiples were then applied to the equivalent forecast figures of Celesio AG for the years 2014 to 2015 (i.e. revenue, EBITDA, EBIT). The following table gives an overview of the market value of equity for Celesio AG resulting from the application of the comparable trading multiples. First, the entity value of Celesio AG was determined. Then, the market value of equity of Celesio AG was calculated by deducting the net financial position and the unaffiliated minority interest.

Market value of equity of Celesio AG		
	2014 Estimate	2015 Estimate
Revenue of Celesio AG	21,581	20,774
EBITDA of Celesio AG	528	556
EBIT of Celesio AG	399	416
Net financial position of Celesio AG	1,134	1,134
Minorities Celesio AG	34	34
Special items	2	2
<b>Market value of equity based on revenue multiples</b>	<b>€m</b>	<b>€m</b>
25% quartile	3,596	3,045
<b>Average</b>	<b>4,865</b>	<b>4,376</b>
75% quartile	4,592	4,319
<b>Market value of equity based on EBITDA multiples</b>		
25% quartile	3,199	2,832
<b>Average</b>	<b>3,556</b>	<b>3,181</b>
75% quartile	3,925	3,660
<b>Market value of equity based on EBIT multiples</b>		
25% quartile	3,013	2,738
<b>Average</b>	<b>3,286</b>	<b>2,809</b>
75% quartile	3,528	3,136
<b>Bandwidth of averages of on average</b>	2,809 to 4,865 <b>3,679</b>	

Source: S&P Capital IQ; KPMG-analysis



Based on the average market multiples the market value of equity of Celesio AG ranges from €2,809 million to €4,865 million, on average €3,679 million.

The bandwidths of the equity value per share are as follows.

Market value of the Celesio AG share		
	2014 Estimate	2015 Estimate
<b>Number of shares of Celesio AG</b>	<b>203,220,932</b>	
	€	€
<b>Market value per share, based on revenue multiples</b>		
25% quartile	17.70	14.98
<b>Average</b>	<b>23.94</b>	<b>21.53</b>
75% quartile	22.60	21.25
<b>Market value per share, based on EBITDA multiples</b>		
25% quartile	15.74	13.93
<b>Average</b>	<b>17.50</b>	<b>15.65</b>
75% quartile	19.31	18.01
<b>Market value per share, based on EBIT multiples</b>		
25% quartile	14.83	13.47
<b>Average</b>	<b>16.17</b>	<b>13.82</b>
75% quartile	17.36	15.43
Bandwidth of average per share of <b>on average</b>	13.82 to 23.94 <b>18.10</b>	

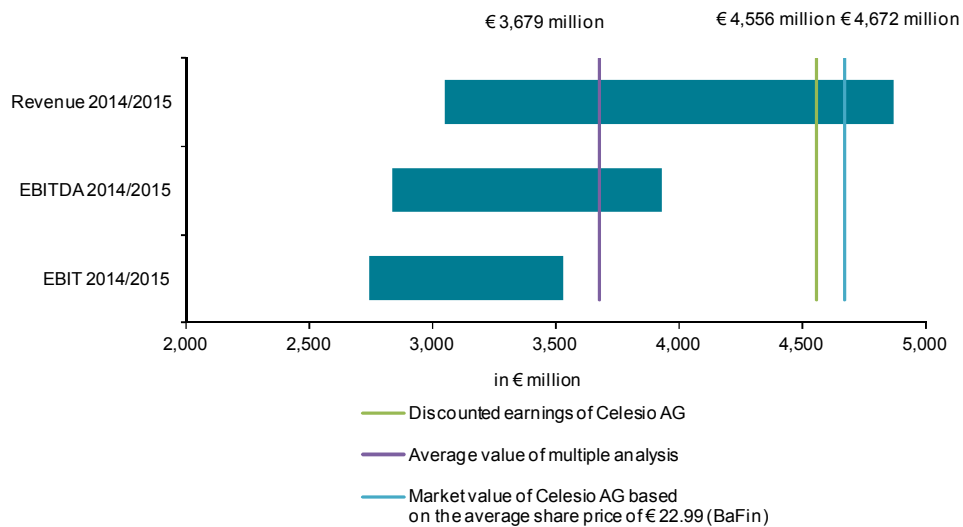
Source: S&P Capital IQ; KPMG analysis

Based on the average market multiples the market value of equity per share ranges from €13.82 to €23.94, on average €18.10.

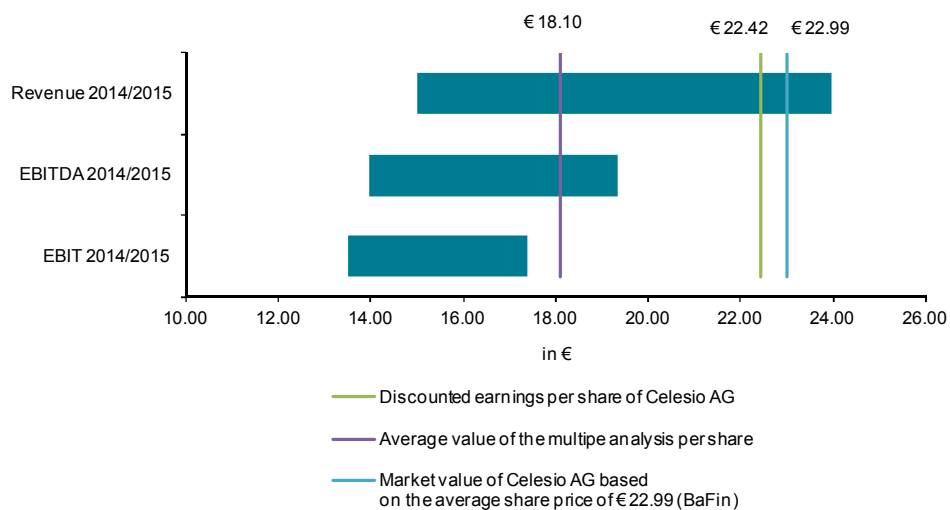


The following charts show the equity value of Celesio AG which was derived in accordance with IDW S 1 applying the discounted earnings, in comparison to the bandwidth of equity values which were derived applying the multiple approach.

#### Market value of equity of Celesio AG



#### Market value per share of Celesio AG





As a result of the comparative market valuation it is to be noted that the fundamental equity value (determined in accordance with IDW S 1) in the amount of €22.42 per share is above the range of equity values per share derived from multiples of comparable companies based on EBITDA and EBIT. Considering revenue multiples, Celesio AG's discounted earnings per share lie within the bandwidth of comparable market valuations.

Based on the comparative market valuation there is no indication that the determined equity value of Celesio AG is not appropriate in comparison to the current market environment or that the underlying business plan is not an adequate basis for the derivation of the recurring compensation payment and the one-off cash compensation payment.

Thus, the plausibility check applying multiples does not lead to any indications that the equity value determined on the basis of discounted earnings would not be appropriate in order to determine the one-off cash compensation payment.



## 8 Share price analysis

In light of the ruling by the BVerfG dated 27 April 1999<sup>38</sup> the market price of the company's shares has to be compared against the value per share determined based on the discounted earnings for the purposes of determining the one-off cash compensation payment. In accordance with the BVerfG's Order, an existing market price may not be left unconsidered when determining the one-off cash compensation payment. Accordingly, the share price generally forms the floor for adequate compensation, since the shareholders should receive no less than what they would receive in case of a free divestment decision. However, below-market price compensation would be possible in exceptional cases, where the share price does not reflect the fair value of the shares. The BVerfG's ruling was specified by an Order by the Federal Supreme Court (Bundesgerichtshof "BGH") dated 12 March 2001.<sup>39</sup> That Order once again clarifies that the share price is not considered to be the floor for adequate compensation if it does not reflect the fair value of the shares. This may be the case, in accordance with the BGH's Order, if no trading of the company's shares has taken place for a long period of time, if individual outside shareholders are not in a position to sell their shares at the market price given the illiquidity of the market or if the share price has been manipulated.

As no limited trading in the shares of Celesio AG has been observed in the present case, as indicated above, there are no indications that individual shareholders were not in a position to sell their shares at the market price. There is also no information suggesting that the share price has been manipulated. However, after the announcement<sup>40</sup> of the intention to enter into a domination and profit and loss transfer agreement, which was published on 23 January 2014, a significant increase in the Celesio AG share price was observable. Until now the share price is on a high level when compared to the recent history.

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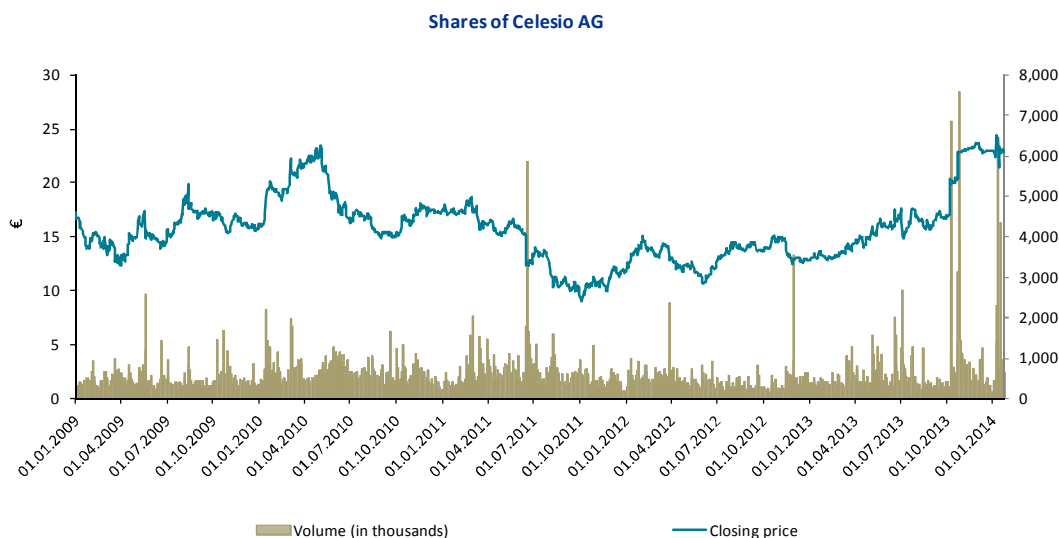
<sup>38</sup> Cf. Case No. 1 BvR 1613/94, BVerfGE 100, 289 et seq.

<sup>39</sup> Cf. Case No. II ZB 15/00, ZIP 2001, pp. 734-737.

<sup>40</sup> Cf. announcement of Celesio AG dated 23 January 2014 concerning the decision to make a voluntary public takeover offer pursuant to section 10 para. 1 in conjunction with section 29 para. 1, 34 of the German Securities Acquisition and Takeover Act.



The chart below shows the development of share prices for Celesio AG for the time period between 1 January 2009 and 22 January 2014. It can be seen that significant price movements have occurred in the beginning of October 2013 due to press releases regarding a possible takeover by McKesson Corp. (cf. section 6.2).



Source: Capital IQ, KPMG analysis.

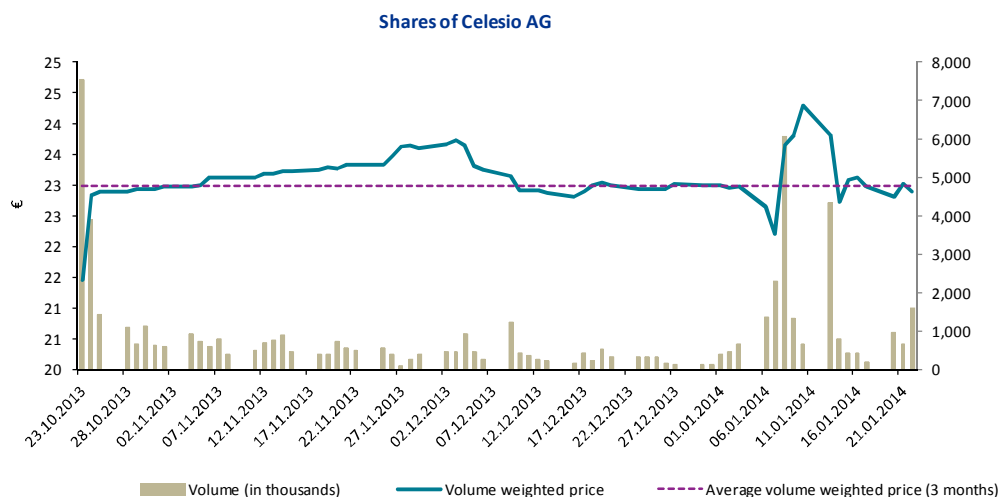
In accordance with the BGH's Order dated 12 March 2001<sup>41</sup>, the determination of the market price is generally to be based on a reference price indicating the average price over a period of three months unless certain factors object such a method. Calculation of the average price is designed to eliminate potential manipulative effects and temporary distortions. The BGH originally designated as the reference period a period of three months, ending on the date of the shareholder meeting in which the relevant measure was adopted. However, this reference period was criticised in the literature and by some lower courts, citing various aspects. By Order dated 19 July 2010, the BGH amended its Order dated 12 March 2001 so that now the underlying share price is generally to be calculated as the weighted average price in the three-month reference period prior to the date when the structural measure was announced. However, the BGH has qualified the applicability of the aforementioned reference period by ruling that, in exceptional cases, the market price is to be determined by projecting the general or industry-typical value trend, with due regard for the performance of the share price since then, if an extended period of time has passed between the date on which the structural measure was announced and the date of the shareholder meeting and the share price performance indicates that an adjustment would be appropriate.

<sup>41</sup> Cf. BGH ZIP 2001, 734.



On this basis, the period relevant to the determination of Celesio AG's average share price is the three month period ending on and including 22 January 2014. The volume weighted average share price determined in accordance with section 31 para. 7 WpÜG in conjunction with section 5 para. 3 WpÜG-Angebotsverordnung is determined by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*], hereinafter referred to as "BaFin") and amounts to €22.99 per share.

The share price development from 23 October 2013 to 22 January 2014 is presented in the following chart:



Source: Capital IQ, KPMG analysis.

A projection of the share price development until the day of the general meeting is not required as the period between the announcement of the structural measure on 23 January 2014 and the expected day of the general meeting on 15 July 2014 is less than 6 months. According to case law this period is not a longer period [*längerer Zeitraum*] within the meaning of the jurisdiction of the BGH.<sup>42</sup>

Since the average volume weighted price for the shares of Celesio AG in the amount of €22.99 lies above the proportional equity value it has to be considered as the minimum for the one-off compensation payment to be offered in accordance with the jurisprudence of the Supreme Court.

<sup>42</sup> Cf. Superior Court ([Oberlandesgericht], OLG) Stuttgart, ruling dated 5 June 2013, AktZ 20 W 6/10, Tz. 250 (juris); OLG Stuttgart, ruling dated 4 May 2011, AktZ. 20 W 11/08, AG 2011, p. 560 et seq.



## 9 One-off cash compensation payment and recurring compensation payment

### 9.1 One-off cash compensation payment according to section 305 of the German Stock Corporation Act (AktG)

According to section 305 AktG, a domination and profit and loss transfer agreement must include the obligation of the dominating party to acquire the shares of an outside shareholder upon request in return for an adequate one-off cash compensation payment as specified in the contract. According to the jurisprudence of the BVerfG, the market price is the lower compensation limit.

The offered consideration in the amount of €23.50 per share of Celesio AG as stated in the voluntary public takeover offer of Dragonfly GmbH & Co. KGaA (cf. section 2.2) does not have a legal significance for the determination of the one-off cash compensation payment.<sup>43</sup>

As Celesio AG's discounted earnings in the amount of €22.42 per share is below the relevant average share price of Celesio AG the one-off cash compensation payment per share has to be derived from the average share price of €22.99.

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<sup>43</sup> By its decision on 27 April 1999 the BVerfG (file number 1 BvR 1613/94, BVerfGE 100, 289 et seq.) noted that the actual price paid by the dominant shareholder for the shares in the controlled company may not be considered when determining the value of the share ownership in order to calculate the appropriate one-off cash compensation payment in accordance to section 305 AktG, since this price regularly does neither relate to the "true" value of the share ownership of the outside shareholder, nor to the fair value of the shares. The subjective considerations of a shareholder, who is willing to accept excessive prices within the course of a measure in accordance with corporate law, are of no importance to third parties. This opinion is adopted by the prevailing view in legal literature as well as in decision made by the highest court and is transferable to the determination of the one-off cash compensation in regard to the conclusion of a domination and profit and loss transfer agreement. A similar decision was taken by the Court of Justice of the European Union (Europäischer Gerichtshof or "EuGH") on 15 October 2009 (EuGH Rs. C-101/08, AG 2009, S. 821 et seq.). According to the EuGH, the Community law does not include any general principle of law under which outside shareholders are protected by an obligation of the dominant shareholder, when acquiring or exercising control of a company, to acquire their shares under the same conditions as those agreed upon when a shareholding conferring or strengthening the control of the dominant shareholder was acquired.



## **9.2 Recurring compensation payment according to section 304 of the German Stock Corporation Act (AktG)**

According to section 304 AktG, a domination and profit and loss transfer agreement must arrange for an adequate compensation for outside shareholders by way of a recurring payment (annual compensation payment) related to shares in ordinary share capital. According to section 304 para. 2 sentence 1 AktG, the recurring compensation payment must be at least equal to the amount of the annual payment which could be distributed to an individual share as an average portion of net income according to the past profitability of the company and its future expected profitability under consideration of adequate depreciation and amortisation but without allocation to retained earnings.

In a domination agreement without a profit and loss transfer obligation (so-called isolated domination agreement) the dominating party must guarantee a certain annual portion of profit (so-called guaranteed dividend) to the outside shareholders in accordance with section 304 para. 1 sentence 2 AktG to be determined following the rules of the recurring compensation payment. In the present case, the profit and loss transfer agreement should not be applied to the current financial year 2014 according to the draft of the DPLTA ("draft DPLTA", cf. Appendix 4; sections 1, 2 para. 3 and 4 para. 1 and 4). Dragonfly GmbH & Co. KGaA therefore guarantees that it will pay to the outside shareholders of Celesio AG in respect of the fiscal year 2014 a certain guaranteed dividend (cf. section 4 para. 1 draft DPLTA). The obligation to transfer the annual profit applies for the first time to the entire profits generated in the fiscal year of Celesio AG beginning on 1 January 2015 (cf. section 2 para. 3 draft DPLTA). As of the effectiveness of the profit and loss transfer the outside shareholders of Celesio AG receive the recurring compensation payment which replaces the guaranteed dividend.

The following table shows the net profit of Celesio AG as well as the profit per share for the fiscal years 2011 to 2013.

Celesio Group			
	2011	2012	2013
Net profit/loss (in €m)	5.8	-149.0	166.4
Earnings per share - basic (in €)	0.01	-0.92	0.94
Earnings per share - diluted (in €)	0.01	-0.92	0.92

*Source: Audited consolidated financial statements as at 31 December 2011, 31 December 2012 and 31 December 2013.*



By order dated 21 July 2003, the BGH specified that outside shareholders must be guaranteed the expected distributable average gross earnings per share less German corporate income tax applicable to dividends at the respective applicable tax rate payable by the company as (fixed) compensation. In particular, the decision states that operating income consists of income before corporate income tax from which corporate income tax at the rate specified by law must be deducted. Furthermore, according to the BGH, the recurring compensation payment must be calculated applying the fully risk adjusted discount rate used to determine the equity value. Assets valued separately – especially non-operating assets – must not be taken into account when determining the guaranteed dividend.

In our view, parts of this decision which go beyond the specifics of the case that was decided – for which the offset procedure for corporate income tax on personal income tax [*Anrechnungsverfahren*] was applicable until 31 December 2000 – do not apply. The future profitability of Celesio AG (which can be expected to fluctuate) is represented in the equity value of the company in a concentrated form, which represent payments from the company to the shareholders under consideration of their timing and with the inclusion of assets valued separately as well as non-operating assets. Contrary to the method outlined by the BGH described above, we do not believe that it is reasonable to permanently withhold assets from the shareholders by failing to include non-operating assets. Therefore, in order to determine the fixed compensation payment required by law, the recurring compensation payment was calculated as an annuity of the Celesio AG equity value as at 15 July 2014. This approach ensures that non-operating assets are included when calculating the amount of the recurring compensation payment.

The above decision of the BGH also fails to take into account that the recurring compensation payment – at least during the term of the contract – is basically guaranteed so that an annuity at the fully risk-adjusted discount rate (before tax) is not appropriate. In case of a domination and profit and loss transfer agreement there is, in principle, the risk that the contract may be terminated and the risk of non-payment (credit risk), so that future recurring compensation payments are not entirely risk-free. There is also a risk that the profitability of the company will be reduced during the term of the contract, so that the shareholder will own shares in a company of diminished value after the end of the contract.



In order to exclude these risks, the draft DPLTA between Celesio AG and Dragonfly GmbH & Co. KGaA includes a provision in section 5.6 specifying that, upon termination of the affiliation agreement, the claim of the minority shareholders for a one-off cash compensation payment in the agreed amount of €22.99 is renewed. Therefore, in this particular case, the conclusion of the affiliation agreement completely eliminates entrepreneurial risk for the minority shareholders. At the time the affiliation agreement is terminated, the shareholders have the option to demand the same amount of one-off cash compensation offered when the DPLTA was concluded or, alternatively, to remain shareholders and once again participate in the entrepreneurial risk of Celesio AG. The risk position of the minority shareholders after the conclusion of the DPLTA therefore corresponds to that of a holder of a corporate bond or, specifically, a share convertible bond (reverse convertible bond). Since the recipient of the recurring compensation payment only bears the risk of default on the part of the debtor – here, due to the unrestricted comfort letter (cf. section 7 of the domination agreement) ultimately McKesson Corp. – it is appropriate to determine the discount rate under consideration of the credit risk (credit rating) of McKesson Corp.

The interest rate applied to calculate the annuity (annuity factor) results from the sum of the risk-free rate and a reasonable risk premium for the credit risk (credit rating).

To objectively determine the risk premium we used the USD denominated corporate bond “SR NT 4.883%44” (CUSIP: 581557BC8) issued by McKesson Corp. on 5 March 2014 and maturing on 15 March 2044. As at 9 May 2014, the bond had a credit spread of 1.2% (average since the issuance on 5 March 2014) when compared to the USD denominated US government bond “3.625%02/15/44” (CUSIP: 912810RE0) issued by the United States Department of The Treasury on 18 February 2014 and maturing on 15 February 2044. The selection of the bonds described above assures that currency conditions (when comparing bond yields in USD) and maturity conditions (when comparing bond yields as well as related to the valuation of Celesio AG) are congruent. Actual risk assessments of rating agencies for McKesson Corp. were included in our analysis. Considering the risk-free rate of 2.5% and the credit spread of 1.2% the interest rate (pre income tax) is 3.7%.

Since interest payments from corporate bonds are subject to income tax of the recipient, the risk premium is reduced by income tax in the amount of 25.0% (withholding tax) plus the solidarity surcharge (5.5% on the income tax rate), in total 26.375%, in order to derive a discount rate after personal income tax which is equivalent to the bond. Thus, the relevant interest rate is 2.724%.



Celesio AG's consolidated earnings before tax are not in their total amount subject to domestic corporate income tax. The expected average pre-tax income available for distribution must be separated into a component subject to domestic corporate income tax and a component not subject to domestic corporate income tax according to the requirements of the BGH. This allocation was made using an alternative calculation of the Celesio AG equity value by taking into account or, respectively, not taking into account domestic corporate income tax plus the resulting solidarity surcharge resulting in a separation of the Celesio AG equity value into a component subject to domestic corporate income tax (plus the solidarity surcharge) and a component not subject to domestic corporate income tax.

Since the recurring compensation payment is subject to personal income tax in the hands of the minority shareholders, the calculated recurring compensation payment (net of personal income tax) must be increased by the personal income tax burden of 26.375% (incl. solidarity surcharge). Finally, the resulting net recurring compensation payment (before personal income tax burden) must be increased by corporate income tax plus the solidarity surcharge in order to establish the gross recurring compensation payment.

The calculation of the adequate annual compensation payment (guaranteed dividend) is illustrated below.

Determination of recurring gross compensation payment (before corporate income tax and solidarity surcharge)				
		Share of appropriate recurring compensation payment		
		with bearing German corporate income tax and solidarity surcharge	without bearing German corporate income tax and solidarity surcharge	Total
Equity value as at 15 July 2014	€m	4	4,552	4,556
multiplied with an annuity factor of 2.724% (net of personal income tax)	€m	0	124	124
Number of shares	m	203.2	203.2	203.2
Recurring compensation payment per share (net of personal income tax, corporate income tax and solidarity surcharge)	€	0.00	0.61	0.61
Personal income tax	26.375%	0.00	0.22	0.22
Net recurring compensation payment per share (before personal income tax, net of corporate income tax and solidarity surcharge)	€	0.00	0.83	0.83
Corporate income tax incl. solidarity surcharge	15.825%	0.00	0.00	0.00
Gross recurring compensation payment per share (before personal income tax, before corporate income tax and solidarity surcharge)	€	0.00	0.83	0.83



Therefore, the annual gross compensation payment according to section 304 AktG is equal to €0.83 per share (pre-tax income per share) less the amount of corporate income tax payable by Celesio AG. At the time the domination and profit and loss transfer agreement is concluded, the applicable corporate income tax rate is 15.825% (incl. solidarity surcharge). Due to the very little proportion of Celesio Group earnings, which are subject to domestic corporate income tax, a deduction of €0.00 results. Therefore, the net recurring compensation payment is equal to the gross recurring compensation payment.

In spite of a higher level of safety, the recurring compensation payment is above the dividends paid by Celesio AG in the years 2011 to 2013 in the amount of €0.25 to €0.30 per share.



## 10 Concluding remarks

The conclusion of our expert opinion on the equity value of Celesio AG as well as on the amounts of the recurring compensation payment and the one-off cash compensation payment according to section 304 AktG and section 305 AktG can be summarised as follows:

- The equity value of Celesio AG as at 15 July 2014 amounts to approx. €4,556 million and therefore to €22.42 per share.
- For the three-month period from 23 October 2013 to 22 January 2014, the average share price is €22.99. This amount is higher than the calculated value per share. Therefore, the average share price is relevant in order to determine the amount of the one-off cash compensation payment. The amount of the adequate one-off cash compensation payment according to section 305 AktG is €22.99 per share.
- The adequate recurring gross compensation payment (guaranteed dividend respectively) according to section 304 AktG is €0.83 per share (pre-tax income per share). In this case, the adequate recurring gross compensation payment is equal to the recurring net compensation payment.

We have prepared this expert opinion on the basis of the documents made available to us, the information provided to us as well as the results of our own investigations.

Munich, 14 May 2014

This English version serves only as an explanatory note and shall not be signed by us.

In case of any inconsistencies between the German and English version of our expert opinion, the German version shall prevail.



## Appendices



## Appendix 1: List of abbreviations

%	percent
€	Euro
€m	Euro million
>	bigger than
AAH	AAH Pharmaceuticals Ltd., Coventry/United Kingdom
ABDA	Bundesvereinigung deutscher Apothekenverbände (Federal Association of German Pharmacists)
ACT	Actuals
Aewige	Aewige Ärztliche Wirtschaftsgesellschaft m.b.H., Vienna/Austria
AktG	Aktiengesetz (German Stock Corporation Act)
Alliance Boots GmbH	Alliance Boots GmbH, Zug/Switzerland
AmerisourceBergen Corp.	AmerisourceBergen Corporation, Chesterbrook/USA
approx.	approximately
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BGH	Bundesgerichtshof (Federal Supreme Court)
bn	billion
BPI	Bundesverband der pharmazeutischen Industrie e.V.
BRL	Brazilian Real
Brocef Holding N.V.	Brocef Holding N.V., Amsterdam/Netherlands
BVerfG	Bundesverfassungsgericht (German Federal Constitutional Court)
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model



Cardinal Health Inc.	Cardinal Health Inc., Dublin/USA
CDAX	Composite DAX
Celesio AG	Celesio AG, Stuttgart/Germany
Celesio Finance B.V.	Celesio Finance B.V., Amsterdam/Netherlands
Celesio Group	Celesio AG and its subsidiaries, associated companies and participations
cf.	confer
CGU	cash generating unit
Convertible bond 2014	Convertible bonds issued by the Celesio Finance BV as at 29 October 2009 with due date 29 October 2014
Convertible bond 2018	Convertible bonds issued by the Celesio Finance BV as at 7 April 2011 with due date 7 April 2018
CS	Segment Consumer Solutions of Celesio Group
CSRP	Chambre Syndicale de la Répartition Pharmaceutique (French association of pharmaceutical wholesalers)
CUSIP	Committee on Uniform Security Identification Procedures
DAX	Deutscher Aktienindex (German Stock Index)
DCF	Discounted Cash Flow
DPC	Distribuzione per Conto Audit
DPLTA	Domination as well as profit and loss transfer agreement
draft DPLTA	Draft of the domination as well as profit and loss transfer agreement dated 14 May 2014 (cf. Appendix 4)
Dragonfly GmbH & Co. KGaA	Dragonfly GmbH & Co. KGaA, Frankfurt am Main/Germany
e.g.	exempli gratia (Latin for “for example”)
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
EIU	The Economist Intelligence Unit Limited, London/United Kingdom



EPN	European Pharmacy Network, “Lloyds”
etc.	et cetera
et seq.	and the following
EU	European Union
EuGH/ECJ	Europäischer Gerichtshof (Court of Justice of the European Union)
existing shares	Shares already existing as at 31 December 2013
f./ff.	and the following
FAUB	IDW’s Fachausschuss für Unternehmensbewertung und Betriebswirtschaft (Technical Committee for Business Valuation and Economics)
FC	Forecast
FED	Federal Reserve System
Franz Haniel & Cie. GmbH	Franz Haniel & Cie. GmbH, Duisburg/Germany
FtB-recharge	Front-to-Back-recharge
FTE	Full-time equivalent
Galenica Ltd.	Galenica Ltd., Bern/Switzerland
GBP	British pound
GDP	Gross Domestic Product
GEHE GmbH	GEHE Pharma Handel GmbH, Stuttgart/Germany
GERS	Groupement pour l’Élaboration et la Réalisation de Statistiques
GKV	Gesetzliche Krankenversicherung (Statutory health insurance)
Herba Chemosan	Herba Chemosan Apotheker-AG, Vienna/Austria
HGB	Handelsgesetzbuch (German Commercial Code)
HOM	Evolution Homecare
HRB	Handelsregister Abteilung B (Commercial Register section B)



HTA	National Health Technology Assessments
IAS	International Accounting Standards
i.e.	id est (Latin for “that is”)
IDW	Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf (Institute of Public Auditors in Germany, Incorporated Association)
IDW S 1	Standard S 1 “Principles for the Performance of Business Valuations” as amended by 2 April 2008
IFRS	International Financial Reporting Standards
IMS Belgium 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – Belgium
IMS Brazil 2014	IMS Health – IMS Market Prognosis 2014-2018 Latin America – Brazil
IMS Denmark 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – Denmark
IMS France 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – France
IMS Germany 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – Germany
IMS Health (or IMS)	IMS Health Incorporated, Danbury/USA (provider of information and services for the pharmaceutical and healthcare industry)
IMS Italy 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – Italy
IMS Norway 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – Norway
IMS Portugal 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – Portugal
IMS Sweden 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – Sweden
IMS UK 2014	IMS Health – IMS Market Prognosis 2014-2018 Europe – UK
incl.	including



IPF	Institut für pharmaökonomische Forschung (Institute for pharmaceutical research)
IPP	Intelligent Prescription Picking, project under the strategic realignment of Celesio Group
ISIN	International Securities Identification Number
IT	Information Technology
Kemofamacija	Kemofarmacija d.d.
KPI	key performance indicators
KPMG	KPMG AG Wirtschaftsprüfungsgesellschaft
LTP	Long-term period
m	million
McKesson Corp.	McKesson Corporation, San Francisco/USA
McKesson Group	McKesson Corp. and its subsidiaries
MDAX	Mid-Cap-DAX
Mediq NV	Mediq N.V., Utrecht/Netherlands
MOP	Mail-Order Pharmacy
n/a	not available
n/m	not meaningful
New shares	Shares issued in 2014
NHS	National Health Service
NMD	Norsk Medisinaldepot AS
No./Nr.	Number
NOK	Norwegian Krone
NoMA	Norwegian Medicines Agency
Ø	average
OCP	Office Commercial Pharmaceutique
OCP Portugal	OCP Portugal S.A.



OEP	Operational-Excellence-Programm, project under the strategic realignment of Celesio Group
OLG	Oberlandesgericht (Superior Court)
Oncoprod	Oncoprod Distribuidora De Produtos Hospitalares E Oncológicos S/A, Sao Paulo/Brazil
ONDAM	Office National de Dépenses d'Assurances Maladies
OPR	Optimised Pharmacy Replenishment, project under the strategic realignment of Celesio Group
Oriola Corp.	Oriola-KD Coporation, Espoo/Finland
OTC	Over-the-counter products
p./pp.	page/pages
p.a.	per annum
PPA	Purchase Price Allocation
Panpharma	Panpharma Distribuidora de Medicamentos Ltda, Goiânia/Brazil
para.	paragraph
para-pharmaceuticals	other medications that are mainly not limited to sales in pharmacies
PHOENIX KG	PHOENIX Pharmahandel GmbH & Co. KG, Mannheim/Germany
PPRS	Pharmaceutical Price Regulation Schemes
Profarma S.A.	Profarma Distribuidora de Produtos Farmacêuticos S.A., Rio de Janeiro/Brazil
PS	Segment Pharmacy Solutions of Celesio Group
ref. to	reference to
RP	Retail Pharmacies
S&P Capital IQ	S&P Capital IQ, New York/USA, a division of Standard & Poor's Financial Services LLC, New York/USA
Sanodat	Sanodat Informatik Gesellschaft m.b.H., Vienna/Austria
Sanova	Sanova Pharma GesmbH, Vienna/Austria



Santa Cruz Ltda.	Distribuidora De Medicamentos Santa Cruz Ltda., Osasco/ Brazil
sec.	section
SEK	Swedish Krona
Shares of Celesio AG	Existing shares and new shares of Celesio AG
t	time
Tax-CAPM	Tax Capital Asset Pricing Model
TFR	Tarif Forfaitaire de Responsabilité (French reference pricing system)
TiC	Top-in-Class-Procurement, project under the strategic realignment of Celesio Group
SGB	Sozialgesetzbuch (German Social Code)
TMJ	Tjellsen Max Jenne A/S
TV	Terminal Value
UDG Healthcare plc	UDG Healthcare plc, Dublin/Ireland
UK	United Kingdom
USA	United States of America
USD	US Dollar
US GAAP	United States Generally Accepted Accounting Principles
VAT	value-added tax
VBP	Value-Based-Pricing
vs.	versus
WACC	Weighted Average Cost of Capital
WKN	German security code number
WPO	Wirtschaftsprüferordnung (Act on the Code of Professional Practice for German Public Auditors)
WpÜG	Wertpapiererwerbs- und Übernahmegesetz (Securities Acquisition and Takeover Act)



## Appendix 2: Historic data adjustment

In the course of our analysis of the actuals for 2011 to 2013 we adjusted the figures for extraordinary one-offs, which are deemed to be non-recurring. We also adjusted for discontinued operations to enable comparability of the reported actuals with the planning basis for 2014 ff.

The following tables illustrate the main adjustments on group level, for both operating segments Consumer Solutions (CS) and Pharmacy Solutions (PS) as well as for the group holding. Selected items will be subsequently described in further detail.

Celesio Group - Historical data adjustment									
Jan 1 - Dec 31 in €m	Reported Actuals			Adjustments			Adjusted Actuals		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
<b>Revenue</b>	<b>22,153</b>	<b>22,271</b>	<b>21,408</b>	<b>-762</b>	<b>-651</b>	<b>-100</b>	<b>21,391</b>	<b>21,620</b>	<b>21,308</b>
Growth in %	n/a	0.5%	-3.9%				n/a	1.1%	-1.4%
Cost of materials and services	-19,818	-19,846	-19,058	724	610	94	-19,094	-19,236	-18,964
<b>Gross profit</b>	<b>2,335</b>	<b>2,425</b>	<b>2,350</b>	<b>-37</b>	<b>-41</b>	<b>-6</b>	<b>2,298</b>	<b>2,384</b>	<b>2,344</b>
Gross profit margin	10.5%	10.9%	11.0%				10.7%	11.0%	11.0%
Personnel expenses	-1,254	-1,271	-1,247	39	47	17	-1,215	-1,224	-1,229
Other income	249	247	220	-33	-24	-4	216	223	216
Other expenses	-835	-859	-790	56	41	9	-779	-817	-781
<b>EBITDA</b>	<b>495</b>	<b>543</b>	<b>533</b>	<b>24</b>	<b>23</b>	<b>16</b>	<b>520</b>	<b>566</b>	<b>549</b>
EBITDA margin	2.2%	2.4%	2.5%				2.4%	2.6%	2.6%
Depreciation and amortisation	-187	-172	-126	65	39	1	-123	-134	-125
<b>EBIT</b>	<b>308</b>	<b>370</b>	<b>407</b>	<b>89</b>	<b>62</b>	<b>18</b>	<b>397</b>	<b>432</b>	<b>424</b>
EBIT margin	1.4%	1.7%	1.9%				1.9%	2.0%	2.0%

Source: Celesio AG, KPMG analysis.

Consumer Solutions - Historical data adjustment									
Jan 1 - Dec 31 in €m	Reported Actuals			Adjustments			Adjusted Actuals		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
<b>Revenue</b>	<b>3,297</b>	<b>3,464</b>	<b>3,412</b>	<b>-57</b>	<b>-48</b>	<b>-</b>	<b>3,240</b>	<b>3,416</b>	<b>3,412</b>
Growth rate	n/a	5.1%	-1.5%				n/a	5.4%	-0.1%
Cost of materials and services	-2,174	-2,265	-2,233	47	33	-	-2,127	-2,232	-2,234
<b>Gross profit</b>	<b>1,123</b>	<b>1,199</b>	<b>1,179</b>	<b>-10</b>	<b>-14</b>	<b>-</b>	<b>1,113</b>	<b>1,184</b>	<b>1,178</b>
Gross profit margin	34.1%	34.6%	34.5%				34.3%	34.7%	34.5%
Personnel expenses	-612	-615	-611	14	18	4	-597	-597	-607
Other income	47	63	38	-7	-20	-1	40	43	36
Other expenses	-384	-372	-341	35	12	1	-349	-360	-340
<b>EBITDA</b>	<b>174</b>	<b>275</b>	<b>264</b>	<b>33</b>	<b>-4</b>	<b>4</b>	<b>207</b>	<b>271</b>	<b>268</b>
EBITDA margin (in % of revenue)	5.3%	7.9%	7.7%				6.4%	7.9%	7.8%
Depreciation and amortisation	-66	-67	-61	10	4	1	-56	-63	-60
<b>EBIT</b>	<b>108</b>	<b>208</b>	<b>203</b>	<b>43</b>	<b>-1</b>	<b>5</b>	<b>151</b>	<b>207</b>	<b>208</b>
EBIT margin (in % of revenue)	3.3%	6.0%	5.9%				4.6%	6.1%	6.1%

Source: Celesio AG, KPMG analysis.



Pharmacy Solutions - Historical data adjustment									
Jan 1 - Dec 31 in €m	Reported Actuals			Adjustments			Adjusted Actuals		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
<b>Revenue</b>	<b>18,857</b>	<b>18,808</b>	<b>17,996</b>	<b>-705</b>	<b>-603</b>	<b>-100</b>	<b>18,152</b>	<b>18,205</b>	<b>17,896</b>
Growth rate	n/a	-0.3%	-4.3%				n/a	0.3%	-1.7%
Cost of materials and services	-17,645	-17,582	-16,825	678	577	94	-16,968	-17,005	-16,731
<b>Gross profit</b>	<b>1,212</b>	<b>1,226</b>	<b>1,171</b>	<b>-27</b>	<b>-26</b>	<b>-6</b>	<b>1,185</b>	<b>1,200</b>	<b>1,165</b>
Gross profit margin	6.4%	6.5%	6.5%				6.5%	6.6%	6.5%
Other income	275	269	250	-31	-12	-3	243	257	247
Other expenses	-482	-530	-476	25	37	5	-457	-494	-471
Personnel expenses	-587	-614	-592	14	25	9	-573	-589	-582
<b>EBITDA</b>	<b>418</b>	<b>351</b>	<b>354</b>	<b>-20</b>	<b>23</b>	<b>6</b>	<b>399</b>	<b>374</b>	<b>359</b>
EBITDA margin (in % of revenue)	2.2%	1.9%	2.0%				2.2%	2.1%	2.0%
Depreciation and amortisation	-108	-89	-52	51	31	-	-57	-59	-52
<b>EBIT</b>	<b>310</b>	<b>262</b>	<b>301</b>	<b>32</b>	<b>54</b>	<b>6</b>	<b>342</b>	<b>315</b>	<b>307</b>
EBIT margin (in % of revenue)	1.6%	1.4%	1.7%				1.9%	1.7%	1.7%

Source: Celesio AG, KPMG analysis.

Holding - Historical data adjustment									
Jan 1 - Dec 31 in €m	Reported Actuals			Adjustments			Adjusted Actuals		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
<b>Revenue</b>	<b>-2</b>	<b>-1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-2</b>	<b>-1</b>	<b>-</b>
Cost of materials and services	2	1	-	-	-	-	2	1	-
<b>Gross profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other income	-72	-85	-68	6	7	-	-67	-77	-68
Other expenses	31	43	27	-4	-7	2	26	36	29
Personnel expenses	-55	-42	-44	10	5	4	-45	-38	-40
<b>EBITDA</b>	<b>-97</b>	<b>-84</b>	<b>-85</b>	<b>12</b>	<b>5</b>	<b>7</b>	<b>-85</b>	<b>-79</b>	<b>-78</b>
Depreciation and amortisation	-13	-16	-13	3	5	-	-10	-11	-13
<b>EBIT</b>	<b>-110</b>	<b>-100</b>	<b>-98</b>	<b>14</b>	<b>9</b>	<b>7</b>	<b>-95</b>	<b>-90</b>	<b>-91</b>

Source: Celesio AG, KPMG analysis.

## Revenue

With respect to revenue, the entire adjustments are explained by discontinued operations from the view of 1 January 2014 which are, however, classified as continuing operations in the annual reports (2012 and 2013) for the years 2011 to 2013. Thus, the adjustments are complementary to “discontinued operations” (cf. annual reports 2012 and 2013) already considered in the reported actuals. The adjustments concern the sold operations in PS Ireland, PS Czech Republic, CS Czech Republic as well as the distribution business for pharmacy and laboratory equipment (Rudolf Spiegel GmbH).

Celesio Group - Revenue adjustment			
in €m	2011	2012	2013
Discontinued Operations	-762	-651	-100
Other Adjustments	-	-	-
<b>Total</b>	<b>-762</b>	<b>-651</b>	<b>-100</b>

Source: Celesio AG, KPMG analysis.



### **Cost of materials and services**

Other than adjustments made for cost of materials and services in relation to the discontinued operations (cf. "Revenue"), major adjustments concern obsolete stock in the CS segment.

Celesio Group - Cost of materials adjustment			
in €m	2011	2012	2013
Discontinued Operations	721	612	94
Other Adjustments	4	-2	-0
<b>Total</b>	<b>725</b>	<b>610</b>	<b>94</b>

Source: Celesio AG, KPMG analysis.

### **Other income**

Other than adjustments made for other income in relation to the discontinued operations (cf. "Revenue"), adjustments concern mainly profits from disposal of fixed assets as well as company shareholdings.

Celesio Group - Other income adjustment			
in €m	2011	2012	2013
Discontinued Operations	-7	-6	-1
Other Adjustments	-26	-19	-3
<b>Total</b>	<b>-33</b>	<b>-24</b>	<b>-4</b>

Source: Celesio AG, KPMG analysis.

Major one-off items are as follows:

- Sale of a storage for PS Norway (€21.4 million) in 2011
- Sales of pharmacies in the Czech Republic (€6.6 million) in 2012
- Sale of associated companies in the pharmacy business in the United Kingdom (€6.0 million) in 2012
- Profit from an earn-out agreement with Oncoprod (€2.7 million) in 2012
- Sale of a branch in France €1.4 million in 2012

### **Other expenses**

Other than adjustments made for other expenses in relation to the discontinued operations (cf. "Revenue"), adjustments made concern penalties arising from early termination of contracts, expenses for a reassessment according to IFRS 5 as well as income from the release of restructuring provisions.



Celesio Group - Other expenses adjustment			
in €m	2011	2012	2013
Discontinued Operations	22	21	3
Other Adjustments	34	21	6
<b>Total</b>	<b>56</b>	<b>41</b>	<b>9</b>

Source: Celesio AG, KPMG analysis.

Major one-off items within the segment CS are as follows:

- Termination of contracts for the pharmacy business in Sweden (2011: €12.6 million/2012: €1.8 million), United Kingdom (2011: €5.3 million/2012: €5.8 million) and Belgium (2012: €0.9 million)
- Closure costs in 2011 for the healthcare web presence Wellwide (€3.6 million) as well as for a branch in Sweden (€2.1 million)
- Income from the release of restructuring provisions (2012: €11.5 million/2013: €2.1 million)
- Restructuring costs (2012: €4.0 million), in particular for United Kingdom
- Expenses from the disposal of assets related to the EPN-Program (2012: €0.8 million/2013: €2.0 million)

Major one-off items within the segment PS are as follows:

- Termination of contracts (2011: €5.4 million), in particular in United Kingdom (€3.6 million) and Germany (€1.2 million)
- In 2012 reassessment under IFRS 5 of the expected profit from disposal PS Ireland (€10.6 million) and PS Czech Republic (€6.6 million)
- Restructuring costs (2011: €0.7 million/2012: €2.9 million/2013: €0.7 million)
- Profit from disposal of PS Czech Republic (€1.3 million) in 2012
- Income from the release of restructuring provisions (2012: €0.8 million/2013: €0.5 million)

Major one-off items within the other adjustments on group level in 2013 are related to legal and consulting expenses for the preparations of the planned takeover of Celesio AG by McKesson Corp. (€2.9 million).



### **Staff costs**

Other than adjustments made for staff costs in relation to the discontinued operations (cf. “Revenue”), adjustments concern mainly restructuring costs with respect to OEP, in particular expenses for termination agreements to employees as well as for the continued implementation of efficiency improvements, notably in Italy.

Celesio Group - Personnel expenses adjustment			
in €m	2011	2012	2013
Discontinued Operations	15	21	4
Other Adjustments	23	26	14
<b>Total</b>	<b>39</b>	<b>47</b>	<b>17</b>

Source: Celesio AG, KPMG analysis.

### **Depreciation and amortisation**

The adjustments for depreciation and amortisation are made up as follows:

Celesio Group - Depreciation and amortisation adjustment			
in €m	2011	2012	2013
Discontinued Operations	2	1	0
Other Adjustments	62	38	1
<b>Total</b>	<b>65</b>	<b>39</b>	<b>1</b>

Source: Celesio AG, KPMG analysis.

Other than adjustments made for depreciation and amortisation in relation to the discontinued operations (cf. “Revenue”), adjustments comprise:

- Extraordinary amortisation of goodwill for PS Portugal (2011: €23.3 million), Denmark (2011: €13.6 million) and Slovenia (2012: €20.0 million) as well as Rudolf Spiegel GmbH (2012: €0.9 million)
- Impairment of intangible assets, in particular for IT systems (2012: €13.6 million)
- Impairment of SAP documentation for business processes and systems (SAP Blueprint) (2011: €5.4 million)
- Amortisation of intangible assets in Denmark (2011: €7.4 million)
- Depreciation of tangible assets due to Pharmacy closures, in particular in the United Kingdom and Sweden (2011: €7.9 million/2012: €2.8 million)
- Expenses arising from the cancellation of local infrastructure projects, in particular in Germany and Sweden (2011: €4.7 million)



## Appendix 3: Country specific market and business plan analyses

### Germany

#### *Market and competition*

According to estimates by “IMS Health – IMS Market Prognosis 2014-2018 Europe – Germany” (“IMS Germany 2014”), sales in the **German pharmaceutical market** in 2013 are generated with pharmacies (85.5%), hospitals (13.5%) and other customers (1%).

The German pharmacy market is characterised by pharmacy cooperations. In total, there are 20,622 pharmacies<sup>44</sup> in Germany according to information by the Federal Union of German Associations of Pharmacists, of which about 65% participate in at least one cooperation.<sup>45</sup> Cooperations can be clustered into horizontal cooperations, vertical cooperations as well as brand-partnership concepts. In vertical cooperations, pharmacies are connected to a pharmaceutical wholesaler on the basis of a cooperation model. As at 31 December 2013, approx. 11% of the German pharmacies participate in GEHE GmbH’s vertical cooperation model “gesund leben”.<sup>46</sup> Horizontal cooperation models mainly comprise purchasing unions that aim to achieve savings on prices paid to pharmacy wholesalers and pharmaceutical manufacturers from bundling of purchasing volumes of pharmacies.

The development of the pharmaceutical wholesale market is primarily driven by the development of the prices of pharmaceuticals as well as by the volumes of prescription and prescription-free pharmaceuticals sold.

Prices for pharmaceuticals are mainly determined by the statutory health insurance system which covers approx. 86.6% of the population.<sup>47</sup>

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<sup>44</sup> Cf. Federal Union of German Associations of Pharmacists, press release as at 7 May 2014.

<sup>45</sup> Cf. IMS Germany 2014, p. 114.

<sup>46</sup> Cf. IMS Germany 2014, p. 115.

<sup>47</sup> Cf. GKV-Spitzenverband, “Kennzahlen der gesetzlichen Krankenversicherung“, March 2014, p. 23.



In 2011, private expenditure on pharmaceutical products was funded by the statutory health insurance (approx. 57%), by private households and non-profit organisations (approx. 14%), by private health insurance (approx. 9%), by taxes (approx. 5%), by employers (approx. 4%) and the remaining approx. 11% predominantly by accident insurance and by pension insurance.

For the period from 2014 to 2018, EIU estimates an average inflation rate of 1.7% p.a. and an average nominal GDP growth of 3.2% p.a. for Germany.<sup>48</sup> IMS Germany 2014 estimates that the entire pharmaceutical market in Germany will grow by 3.5% p.a. on average from 2014 to 2018, which is driven by an estimated volume growth of 1.5% and an estimated price growth of 1.9%.<sup>49</sup>

The main factors influencing the market for pharmaceuticals are demographic change and population aging, the pricing policy and mandatory discounts on ex-factory prices (sales prices) set by pharmaceutical manufacturers, cost-benefit evaluation of products as well as the price freeze on patented pharmaceuticals (so-called "price moratorium") imposed by the statutory health insurance system.<sup>50</sup>

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<sup>48</sup> Cf. Economist Intelligence Unit, April 2014; KPMG analysis.

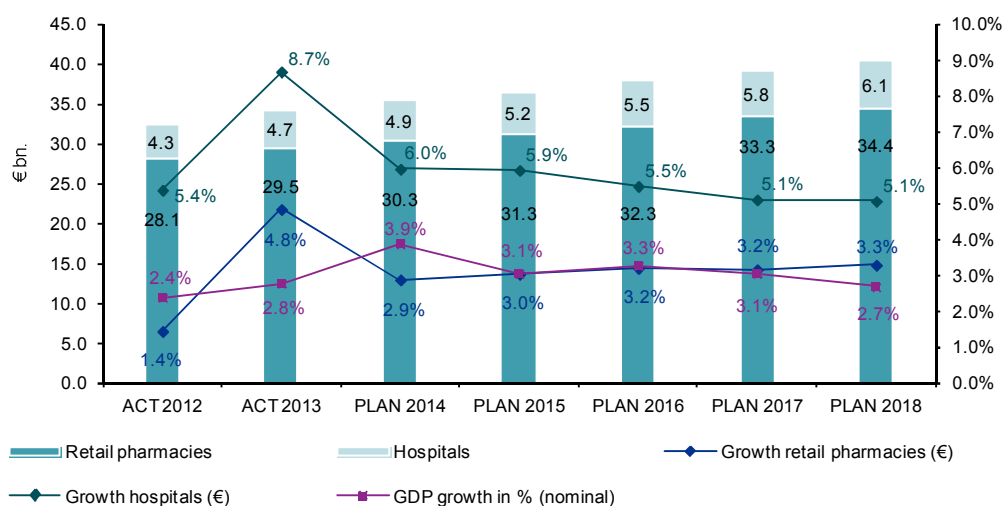
<sup>49</sup> Cf. IMS Germany 2014, p. 13 ff.

<sup>50</sup> Cf. IMS Germany 2014, p. 7 ff.



The following chart shows the historical and projected development of GDP and the market development of pharmaceutical products sold to pharmacies and hospitals during the years 2012 to 2018:

**Market development of retail pharmacies and hospitals**



Source: IMS Germany 2014, market volume at ex-manufacturer price level, KPMG analysis

For the period 2003 to 2013, the market for pharmaceutical products grew by 3.9% p.a. on average compared to an average nominal GDP growth of 2.9% p.a.<sup>51</sup> With an average growth rate of 3.9% p.a., the pharmacy segment grew marginally stronger than the hospital segment with an average growth rate of 3.8% p.a. Based on the report IMS Germany 2014, the pharmacy segment is expected to grow by 3.1% on average and the hospital segment is expected to grow by 5.5% p.a. on average from 2014 through 2018. Overall, the market for pharmaceutical products in Germany is expected to grow by an average growth rate of 3.5% p.a. slightly above the estimated nominal GDP growth of 3.2% for the period 2014 to 2018.

<sup>51</sup> Cf. IMS Germany 2014, p. 16 ff.



In Germany, approx. 84% of pharmaceutical products are distributed by wholesalers.<sup>52</sup> The distribution of pharmaceutical products in Germany is mainly characterised by single independent pharmacies. Producer- and wholesaler-dependent pharmacy-chains as well as exclusive supply agreements between wholesalers and pharmacies are prohibited in Germany.<sup>53</sup> Wholesalers of pharmaceutical products attempt to increase revenue and customer loyalty by providing additional sales support to pharmacies. Furthermore, within fee-based cooperation concepts, pharmacies are provided with marketing services as well as standardised shop and IT concepts. Cooperation fees payable by pharmacies are reduced, if the agreed cooperation arrangement has been sufficiently implemented by the pharmacy. The market entry of low-cost competitors that offer a reduced service level (e.g. AEP GmbH) did not result in significant changes in market shares of established pharmaceutical wholesalers so far. Sales of prescription drugs by retailers other than pharmacies are prohibited in Germany.<sup>54</sup>

Revenue and profits of pharmaceutical wholesalers are directly linked to ex-factory prices of pharmaceutical manufacturers via a regulated **price system**.

Prices for pharmaceuticals, which are reimbursed by the public health care system, are determined by the Central Association of the Statutory Health Insurance (“Spitzenverband Bund der Krankenkassen”) in negotiations with pharmaceutical manufacturers. Since 1 April 2014, pharmaceutical manufacturers are obliged to grant a discount of 7.0% on their ex-factory price for patented prescription drugs which are not subject to any fixed-price agreements.<sup>55</sup> Additional mandatory rebates on ex-factory prices are to be granted for prescription generics in the amount of 10.0% and for prescription-free drugs in the amount of 6.0%.<sup>56</sup> Newly-introduced pharmaceuticals can be sold at the ex-factory price for a period of at least six months. Thereafter, the price determination is carried out by the so called “Gemeinsamen Bundesausschuss” by means of a cost benefit assessment which considers the effectiveness of the newly-introduced drug.<sup>57</sup> Pharmaceuticals which have been approved before 1 January 2011 are not subject to this cost benefit assessment.<sup>58</sup>

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<sup>52</sup> Cf. IMS Germany 2014, p. 112.

<sup>53</sup> Cf. IMS Germany 2014, p. 76.

<sup>54</sup> Cf. Pharmaceutical Distribution Act: Gesetz über den Verkehr mit Arzneimitteln (AMG), para. 43.

<sup>55</sup> Cf. Summary of '14. SGB V-Änderungsgesetz as at 27 March 2014, [http://www.aok-gesundheitspartner.de/bund/apotheke/gesetze/index\\_11485.html](http://www.aok-gesundheitspartner.de/bund/apotheke/gesetze/index_11485.html) as at 5 May 2014.

<sup>56</sup> Cf. IMS Germany 2014, p. 90.

<sup>57</sup> Cf. <https://www.g-ba.de>: Gemeinsamer Bundesausschuss G\_BA:Verfahrensablauf der frühen Nutzenbewertung von Arzneimitteln mit neuen Wirkstoffen nach § 35a SGB V as at 13 February 2012.

<sup>58</sup> Cf. [http://www.aok-gesundheitspartner.de/bund/apotheke/gesetze/index\\_11485.html](http://www.aok-gesundheitspartner.de/bund/apotheke/gesetze/index_11485.html) as at 5 May 2014.



The pricing of distribution services charged by pharmaceutical wholesalers is linked to the ex-factory price of pharmaceutical manufacturers and is regulated by a price scale. For prescription drugs, the wholesaler charge consists of a fixed amount of €0.70 per packaging unit plus a mark-up of 3.15% on the ex-factory price of the manufacturer (in total a maximum of €38.50). Discounts granted to pharmacies by wholesalers are only given on the mark-up of 3.15%. Discounts on the fixed amount of €0.70 per packaging unit are not permitted. The wholesaler charge for prescription-free pharmaceuticals is not subject to regulations.

Since 2012, the pharmaceutical wholesale market is characterised by intense price competition which has led to a deterioration of wholesale margins and to an increase of discounts granted to pharmacies.<sup>59</sup> Price competition between pharmaceutical wholesalers takes the form of discounts on the regulated drug prices. Foreign mail-order pharmacies likewise have to comply with the German pharmaceutical price regulation (“Arzneimittelpreisverordnung”).<sup>60</sup>

The future development of prices for pharmaceutical products in Germany is impacted by the prolongation of the price moratorium for prescription drugs until 31 December 2017 and by the regulations on mandatory rebates on ex-factory prices of pharmaceutical manufacturers.<sup>61</sup> As a consequence of the low price level of pharmaceuticals compared to international peer markets and due to the reduction of mandatory manufacturer rebates on patented prescription drugs, Celesio AG is not expecting any further decline in prices within the period from 2014 to 2018. With respect to generics, an increase in the market volume is expected, among other reasons, due to expiring patent protections for various pharmaceuticals.<sup>62</sup>

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<sup>59</sup> Cf. Handelsblatt edition as at 28 February 2014: “Rabattschlacht im Pharmahandel”.

<sup>60</sup> Cf. IMS Germany 2014, p. 91 f.

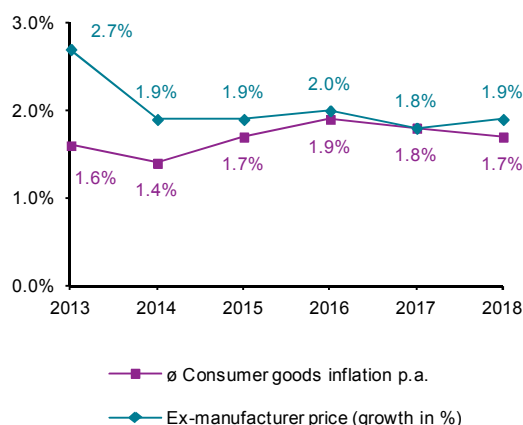
<sup>61</sup> Cf. Deutscher Bundestag – Wissenschaftliche Dienste Nr. 46/13: Herstellerabschläge und Preismoratorium für Arzneimittel in der GKV.

<sup>62</sup> Cf. IMS Germany 2014, p. 29.



Despite the price restrictions from the prolongation of the price moratorium until 31 December 2017, IMS Germany 2014 projects an increase in ex-factory prices per standard packing unit for pharmaceuticals in excess of projected inflation rates (based on a general consumer goods price index), see chart below:

**Consumer goods inflation compared to pharmaceutical prices in Germany**



Source: IMS Germany 2014, EIU.

The pharmaceutical wholesale market in Germany is dominated by five competitors. According to company information, GEHE GmbH had an average market share of approx. 16% in 2013. Major competitors are PHOENIX Pharmahandel GmbH & Co KG (market share approx. 28%), NOWEDA eG Apothekergenossenschaft (approx. 17%), Alliance Healthcare Deutschland AG (approx. 15%) and Sanacorp Pharmahandel GmbH (approx. 15%).

### ***Business plan analysis***

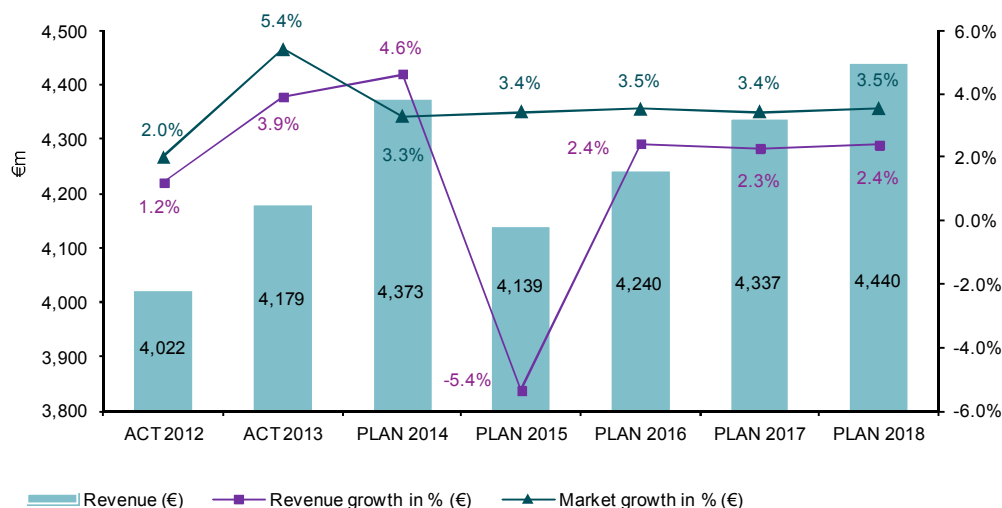
Celesio Group operates within the pharmaceutical wholesale business in Germany by supplying pharmacies and hospitals through its subsidiary GEHE GmbH. The product range comprises patented prescription drugs, generics as well as non-prescription drugs and other pharmacy products.

Under its cooperation concept “gesund leben”, GEHE GmbH generates royalty payments from contractual agreements with approx. 2,315 pharmacies, while granting discounts to the participating pharmacies for meeting specific sales targets. By further developing cooperation concepts, GEHE GmbH intends to strengthen customer loyalty, to stabilise and further increase market shares, and to generate revenues with cooperation related services.



The following chart depicts the (projected) development of the revenue of GEHE GmbH as well as the expected revenue growth rates and market growth rates for the years 2012 to 2018:

**Revenue compared to market growth (PS Germany)**



Source: Celesio AG, IMS Health, KPMG analysis.

According to projections by IMS Germany 2014, the German market for pharmaceutical products is expected to grow by 3.5% p.a. on average from 2014 to 2018. On the basis of an expected price-driven market growth of 1.7% p.a. and assuming an almost unchanged market share of approx. 16.0%, the management of GEHE GmbH projects an increase in revenue by 1.2% p.a. on average from €4.179 million to €4.440 million through 2018.

Due to the intended reduction of pharmacy discounts and the resulting customer migration a decline in market share and revenue is expected in 2015. Contrary to IMS estimates, GEHE GmbH is not expecting an increase of the market size in terms of the number of pharmaceutical products sold from 2014 to 2018, since the market size did not increase in 2013 and in Q1 2014 according to company information. With respect to the future market development, GEHE GmbH expects that negative effects from the consolidation of health care budgets and from the decrease in population size and positive effects from the expected increase of the per capita consumption of pharmaceutical products due to the aging of the population will overall result in a constant market size.

GEHE GmbH projects that the increases in prices and the resulting growth of market volume and revenue in 2013 und 2014 will lead to a growth in market volume from 2015 to 2018 below market forecasts.

A considerable proportion of the projected revenue growth for years after 2015 is expected to come from the planned extension of existing pharmacy cooperations as well as from the estab-



ishment and subsequent increase of sales of own brand products. Additionally, the same rate of market volume growth for patented prescription pharmaceuticals, prescription and non-prescription generics as well as for further non-pharmacy-restricted pharmaceuticals respectively is assumed. GEHE GmbH's market projections reflect an increase in the proportion of patented prescription drugs.

The **gross margin** decreased considerably in 2013, mainly due to an increase in wholesale discounts which are currently on a very high level. For 2014 to 2018, an increase in gross margin is projected from a reduction in the level of discounts. In the light of uncertainties about the projected slow-down in competitive discounting, the afore mentioned demographic effects and sustained reductions in public spending, the projected increase in gross margin appears ambitious.

Positive effects on earnings are expected to arise from strategic initiatives, especially from pharmaceutical manufacturer services, inventory logistic services to pharmacies, the extension of cooperation concepts and the distribution of own brands, as well as the optimisation of warehouse logistics.

From 2014 to 2018, **personnel expenses** are assumed to remain almost constant. Upward pressure on personnel expenses due to inflation, labor agreements and increased staff expenses from the implementation of strategic initiatives are expected to be offset by reduced staff expense due to the optimisation of warehouse logistics.

**Other operating income** primarily comprises remuneration for sales support services to pharmaceutical manufacturers as well as license fees from cooperation pharmacies. In 2014 to 2018, other operating income is projected to grow, mainly due to strategic initiatives in pharmaceutical manufacturer services and increased license fees from cooperation pharmacies.

**Other operating expenses** mainly consist of expenses for maintenance, transport services, IT as well as marketing- and sales-related expenses. The business plan reflects an expected increase in other operating expenses as a result of an inflation-driven increase in transport costs as well as additional marketing costs for the implementation of strategic initiatives. Savings in IT costs are projected to have a positive effect on other operating expenses. Price-driven increases in communication and marketing expenses are expected to be offset by efficiency improvements.



Projected **capital expenditure** is mostly related to the implementation of an automated warehousing and commissioning system as well as to reinvestments in warehouse logistics and IT systems. **Depreciation** is expected to increase slightly from 2015 to 2018 and corresponds to the amount of replacement investment in IT projected plus depreciation on planned investments.

**Working Capital** is projected to increase at a rate below the rate of revenue growth from 2014 to 2018. Capital commitments shows seasonal variations due to the business model. A reduction in capital commitments is expected to be achieved mainly by enhanced inventory turnover as a result of optimised warehouse logistics and inventory management systems as well as by extended payment terms with suppliers.

## United Kingdom

### *Market and competition*

Celesio AG operates in the United Kingdom in the wholesale market (through its subsidiary AAH Pharmaceuticals Ltd., Coventry/United Kingdom (hereinafter referred to as “AAH”), as well as in the retail market with its own brand of pharmacies (Lloydspharmacy).

The **pharmaceutical market** in the United Kingdom comprises the pharmacy and hospital segments. The largest costumers for pharmaceutical products are pharmacies, which generally obtain their products through wholesalers; hospitals, on the other side are supplied directly by the pharmaceutical manufacturers. Wholesalers only act as logistics service providers on behalf of hospitals.

The development of Celesio Group’s retail segment in the United Kingdom (Lloydspharmacy) is mainly driven by the development of the retail pharmacy market. Service contracts for hospitals or prisons are increasing in importance. The retail pharmacy market also serves as reference market for the wholesale segment. In addition and due to their role as logistics service providers, pharmaceutical wholesalers are also impacted by the development of the hospital market, although to a lesser extent. In the British health care system, costs for prescription drugs are covered by the National Health Service (“NHS”). Patients receive their medication free of charge in pharmacies. The NHS acts as the buyer and therefore is the largest purchaser of prescription drugs in the United Kingdom. This constitutes its regulatory power in price setting for drugs. In principle, the NHS is an independent organisation; however, its budget is set by the UK Department of Health and hence is dependent on the allocation within the central government. Price regulation by the NHS is organised in the so-called Pharmaceutical Price Regulation Schemes (“PPRS”). A PPRS is usually valid for five years. The current PPRS came into effect in 2014. In principle, price setting is in the remit of the pharmaceutical manufacturers. Participation in PPRS is strictly speaking voluntary, however in practice it is a



mandatory prerequisite for reimbursement by the NHS. With the 2014 PPRS the so-called value-based-pricing (“VBP”) concept was introduced. According to the VBP the NHS sets price caps for patented pharmaceuticals. These caps are based on the benefit of the medication for patients (e.g. additional value compared to existing pharmaceuticals) and by considering the profit margin of pharmaceutical manufacturers. If the manufacturer selling price is higher than the price limit, the NHS only reimburses the higher drug prices if the producer reasonably justifies its pricing publicly. The reimbursements for generics must not exceed the price of the original medication.

At pharmacy level, price regulation has theoretically no effect because pharmacies get reimbursed by the NHS for the manufacturer selling price for medications plus a dispensing fee for supplying drugs to patients. The dispensing fee can be regarded as a substitute for the trading margin. In practice, pharmacies can generate an additional margin through negotiation of discounts with wholesalers on manufacturer selling prices. The additional margin is de facto a substantial source of income for pharmacies. Generics in particular are subject to significant discounts. However so called Category M Clawbacks oblige pharmacists to repay an average of 9% to 10% of generics discounts to the Department of Health.<sup>63</sup> Hence cuts to reimbursement prices through the NHS have a significant impact on pharmacy income.

The purchase and sales prices of wholesalers are not subject to regulation. Wholesalers negotiate their purchase prices directly with pharmaceutical manufacturers. The sales prices in turn are negotiated with pharmacies. According to IMS<sup>64</sup>, the average trading margin (after discounts) ranges between 2.0% and 2.5%. The low margin is due to NHS’ goal of limiting the EBIT margin of producers to a maximum of 6%<sup>65</sup> (resulting in limited scope for pricing) as well as the high level of competition between wholesalers which leads to discounts for pharmacies.

Prices of non-prescription drugs are rarely regulated by the NHS. Price setting and achievable margins depend on individual contracts between pharmacies, wholesalers and producers.

Hospitals are divided into geographical buying syndicates by the NHS and obtain drugs directly from producers. Prices are subject to individual negotiations or tender procedures. In general, hospitals mainly dispense patented drugs as opposed to pharmacies who tend to sell a larger share of generics. Therefore price levels are considerably higher. Hospitals obtain pharmaceuticals at better conditions than pharmacies because of their ability to negotiate directly with producers.

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<sup>63</sup> Cf. IMS Health – IMS Market Prognosis 2014-2018 Europe – United Kingdom (“IMS UK 2014”), p. 105.

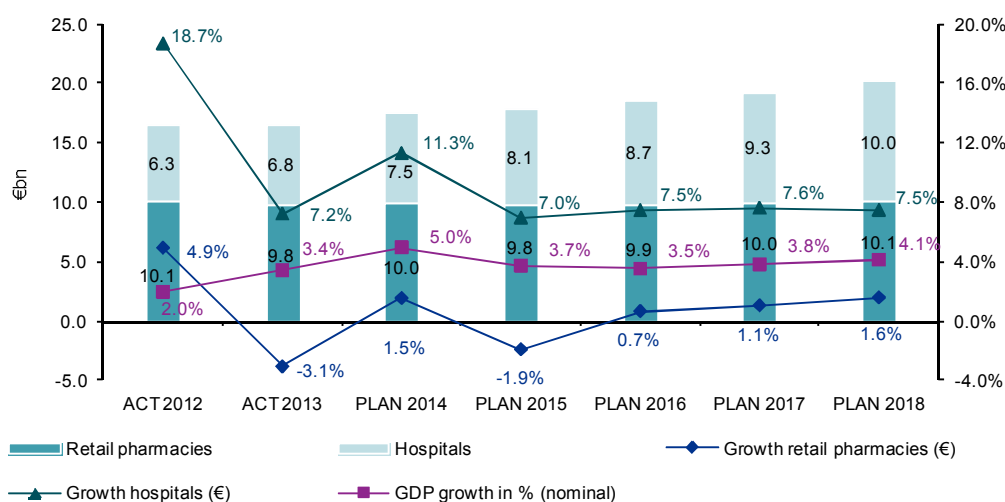
<sup>64</sup> Cf. IMS UK 2014, p. 127.

<sup>65</sup> Cf. The Pharmaceutical Price Regulation Scheme 2014; Department of Health; December 2013; London; Sec. 8.12.



The following chart is based on the IMS Health – IMS Market Prognosis 2014-2018 Europe – UK (“IMS UK 2014”) and shows the past and expected future development of nominal GDP as well as the pharmacy and hospital market development for the years 2012 to 2018:

#### Market development of retail pharmacies and hospitals



Source: IMS UK 2014, Market volume at ex-manufacturer price level, KPMG analysis.

Due to the recovery from the sovereign debt crisis, the Gross Domestic Product on average increased by 2.0% and 3.4%, respectively, in the years 2012 and 2013. After an expected growth of 5.0% in 2014 due to an expected increase of the overall investment levels, the EIU predicts an average annual growth of approx. 3.8% for the years 2015 through 2018, which is essentially based on the assumption of an improving consumer climate.<sup>66</sup>

<sup>66</sup> Economist Intelligence Unit, Viewswire Data Tool – Key economic forecasts for 82 countries, 24 March 2014.



The following table summarises the market development in the United Kingdom, measured in British Pound and Euro accordingly:

Market Development United Kingdom								CAGR
in m	ACT 2012	ACT 2013	PLAN 2014	PLAN 2015	PLAN 2016	PLAN 2017	PLAN 2018	2014-2018
<b>Retail pharmacies</b>								
in GBP	8,226	8,354	8,250	8,156	8,211	8,298	8,430	0.2%
Growth in %		1.6%	-1.2%	-1.1%	0.7%	1.1%	1.6%	
in €	10,149	9,839	9,991	9,801	9,867	9,971	10,130	
Growth in %		-3.1%	1.5%	-1.9%	0.7%	1.1%	1.6%	0.6%
<b>Hospitals</b>								
in GBP	5,112	5,743	6,216	6,701	7,201	7,750	8,330	
Growth in %		12.3%	8.2%	7.8%	7.5%	7.6%	7.5%	7.7%
in €	6,307	6,764	7,528	8,052	8,653	9,313	10,010	
Growth in %		7.2%	11.3%	7.0%	7.5%	7.6%	7.5%	8.2%
<b>Total Market</b>								
in GBP	13,338	14,097	14,466	14,857	15,412	16,048	16,760	3.5%
in €	16,456	16,602	17,519	17,853	18,520	19,284	20,140	3.9%

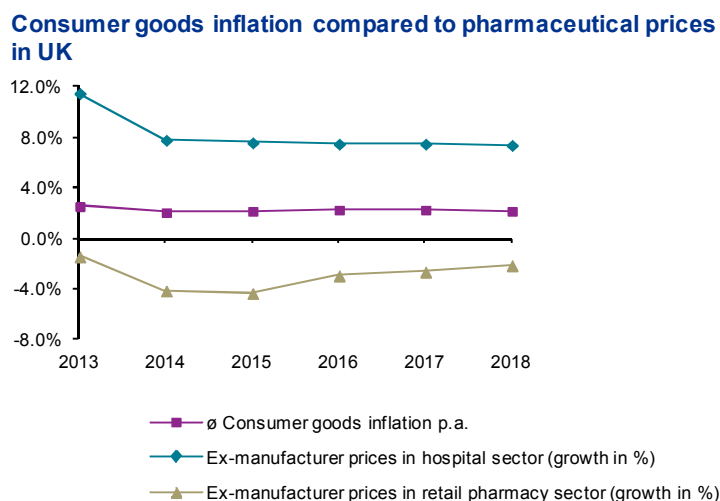
Source: IMS UK 2014, KPMG analysis.

Market volume in the **pharmacy market** in the United Kingdom measured in local currency declined in 2012 due to price pressure following a 2.0% cut in the government budget. Due to the government's policy of imposing price pressure, a continuation of the recent development was initially projected for 2013. However, price cuts were smaller than anticipated, which led to a market growth of 1.6%. Due to the reform of the NHS and the expiry of several pharmaceutical patents, IMS expects growing price pressure for the years 2014 and 2015 which will ultimately lead to a declining market. In particular the boost in generics' sales and the decision of the NHS not to increase their budget for patented drug reimbursements for 2014 and 2015 will be the key factors in this development. From 2016 onwards, IMS predicts growth in sales volumes in the market.

The volume of the **hospital market** grew by 10.9% and 12.3% in 2012 and 2013, respectively. This development is primarily based on the underlying pharmaceuticals' price development which is attributed, among other things, to cost intensive treatments with patented drugs in hospitals. A lower market volume growth rate measured in manufacturer selling prices of 8.2% is expected for 2014. According to IMS UK 2014, this is primarily caused by a steady NHS budget for patented pharmaceuticals in 2014 and 2015. This can be expected to lead to high price pressure for hospitals' suppliers. In addition, it can be expected that due to the restructuring of the NHS in 2014, the size of hospitals' buying syndicates will increase triggering the expectation of lower purchase prices. Overall this development is expected to result in slightly declining annual growth rates of 7.5% from 2016 onwards. Due to the expansion of NHS' budget for patented drugs as at 2016, the negative price effects are expected to be compensated.



The following chart depicts the projected development of pharmaceutical prices on the pharmacy and hospital market in relation to the anticipated consumer products' inflation rate in the United Kingdom:



Source: IMS UK 2014, KPMG analysis.

The price development in the pharmacy market reflects the impact of the price policy implemented by the NHS as explained above. On the contrary, price developments in the hospital market reflect the impact of using prescription and patented medications, with a considerably higher price level. However, even here the effect of the frozen NHS budget for patented drugs in 2014 and 2015 is observable. No long term correlation is discernible between the price development of pharmaceuticals on the pharmacy market and the overall development of prices.

**Competition** within the **pharmacy market** is mainly seen amongst the leading pharmacy chains. The largest pharmacy chain in United Kingdom is Alliance Boots GmbH (market share 2013: 24%), followed by Lloydspharmacy (market share 2013: 14%). Other smaller chains operate on a more regional basis. A market share of approx. 42% is represented by independent pharmacies.

The competitive environment of pharmacies depends on their location. For pharmacies close to health centres (e.g. Lloydspharmacies) a critical success factor is the availability of prescription medicines and waiting time for dispensing. For pharmacies in city centres which focus on a retail approach (e.g. Alliance Boots GmbH) a broad product range especially of para-pharmaceutical products, interior and service offerings represent a more important factor. The large pharmacy chains endeavour to enhance their appeal to the customer by means of differentiated shop concepts.



In the **wholesale industry** competitive advantages are generated by negotiating contracts with pharmaceutical producers (in particular RWM and Solus – cf. section 2.5.1). The market leader is Alliance Boots GmbH, which is 45% owned by the US-based pharmacy chain “Walgreens”. Celesio AG is, through its subsidiary AAH the second largest wholesaler in the United Kingdom.

In recent years, supermarket chains entered the retail pharmacy market by negotiating direct distribution contracts with pharmaceutical manufacturers. The pharmaceutical wholesale industry has suffered significant losses in market share as a result.

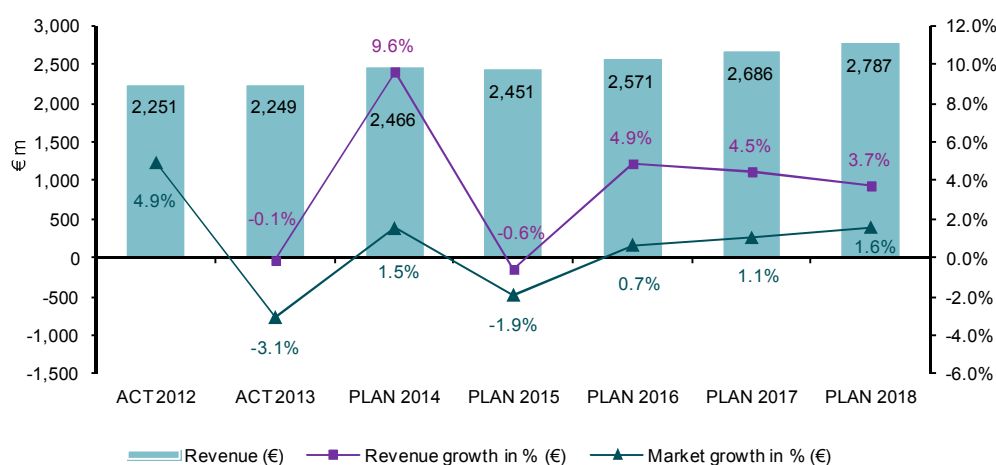
### *Business plan analysis*

#### *Consumer Solutions United Kingdom*

United Kingdom is the most important market for the Celesio Group within the Consumer Solutions division. The Celesio Group operates a retail pharmacy chain under the brand name “Lloydspharmacy” (segment Retail Pharmacies, “RP”). In the mail-order pharmacy (“MOP”) segment, Celesio Group offers online medical advice under the brand name Dr. Thom and an online store for non-prescription drugs and medical accessory products under the brand name “Betterlife”. Under the name Evolution Homecare (“HOM”), Celesio Group offers home nursing products.

The following chart depicts revenue figures for the Consumer Solutions divisions for the years 2012 to 2018 as well as revenue and market growth rates.

**Revenue compared to market growth (CS United Kingdom)**



Source: Celesio AG, IMS UK 2014, KPMG analysis.



In addition the following table shows the development of revenue measured in British Pound and Euro.

Revenue								
in m	ACT 2012	ACT 2013	PLAN 2014	PLAN 2015	PLAN 2016	PLAN 2017	PLAN 2018	CAGR 2014-2018
Revenue (GBP)	1,825	1,909	2,036	2,040	2,140	2,236	2,319	
Revenue growth in % (GBP)		4.6%	6.6%	0.2%	4.9%	4.5%	3.7%	4.0%
Revenue (€)	2,251	2,249	2,466	2,451	2,571	2,686	2,787	
Revenue growth in % (€)		-0.1%	9.6%	-0.6%	4.9%	4.5%	3.7%	4.4%

Source: Celesio AG, KPMG analysis.

The increase in revenue measured in Euro in 2012 by 5.5% compared to 2011 can be fully attributed to exchange rate effects. Revenue measured in British Pound for the respective year declined by 1.4%. Due to the strong growth of hospitals' service revenue, total revenue performed slightly better than the overall market (in GBP -2.0%).<sup>67</sup>

The 0.1% decline in revenue in 2013 was again driven by exchange rate effects. Revenue measured in British Pounds increased by 4.6% which resulted, on the one hand, from the conclusion of service contracts with hospitals within the RP segment; on the other hand the NHS allocated new contingents of patients to the HOM segment. Both factors impacted service revenue, but also increased pharmaceutical revenue.

Revenue growth of 9.6% in Euro is projected for 2014 (in British Pounds: 6.6%). This revenue growth is assumed to be mainly generated by new service contracts with hospitals. Additionally, product presentation in pharmacies is assumed to be improved by modernising the Lloydspharmacy stores as part of the expansion of the international pharmacy business and piloting the EPN project (cf. section 2.4.4). In this context, Lloydspharmacy offers patients and consumers comprehensive services and advice. The expansion of the European pharmacy network concept and the accompanying services is projected to lead to growth in the OTC products segment (e.g. body care products).

In 2015 revenue growth is expected to slow down resulting from the forecasted decline of the retail pharmacy market and the impact of government action. The negative development of the foreign exchange rate leads to an expected revenue decline in Euro currency.

An average annual revenue growth of 3.1% (in Euro) is estimated from 2015 to 2018. It is expected that the growth of service revenue with hospitals will slow down. However, the anticipated revenue growth as a result of the implementation of the EPN initiative is expected to impact the Consumer Solutions segment positively in the planning period. In addition, positive effects are expected by closer integration of wholesale and retail business and the resulting synergies.

<sup>67</sup> Cf. IMS UK 2014, p. 16.



Furthermore, long waiting times in pharmacies should be reduced by means of process optimisation, improved home delivery services as well as the acceptance of digital prescriptions. So far long waiting times compared to other European nations are common in British pharmacies due to a time consuming dispensing process. It is therefore expected that shorter dispensing times generate a competitive advantage and will lead to an increase in the number of redeemed prescriptions per pharmacy and thus overall market share.

Compared to the past the product mix in the retail pharmacy segment is expected to change in the planning period for two reasons. Due to the expiration of several patents, the share of generics in the prescription drug segment is expected to increase significantly during the planning period. In addition due to the fast growing business of hospital service contracts, the share of service revenue to total revenue shall increase by 2018. Other important growth drivers are non-prescriptive drugs as well as parapharmaceuticals.

The revenue share of the online branch MOP in relation to total revenue of CS United Kingdom is expected to increase until 2018 by using advertising campaigns to raise the level of customer awareness.

In the HOM segment no significant revenue growth is expected.

Based on our understanding we regard the projected revenue development as a rather ambitious scenario given the overall market development and the high level of competitive pressure, in particular due to supermarket chains entering the pharmacy market.

In the years 2011 and 2012 the **gross profit margin** remained stable, but declined slightly in 2013. Celesio Group expects the decline to continue from 2014 to 2018. This is caused by price adjustments by the NHS, and due to lower margins in the fast growing business of service contracts with public institutions such as hospitals. This margin decline should partly be compensated by an increase in the relative share of generics sold by Lloydspharmacy which have higher margins compared to patented drugs. In 2015 the aforementioned shift in the product mix is expected to cause a slight gross profit increase. Later in the planning period this positive effect is offset by the increased revenue from low margin hospital contracts. Additionally, revenue of parapharmaceuticals are projected to increase as part of the EPN initiative to revise the product portfolio (e.g. introduction of own brands) and product presentation. Furthermore, a positive impact of the procurement initiative Top-in-Class Procurement (cf. section 2.4.4) as well as a growing revenue share of the online segment is also projected to contribute to a stabilisation of gross profit.



**Other operating income** mainly comprises rental income as well as income from data delivery to the market research company IMS. In the year 2012 proceeds from disposal of unprofitable pharmacies resulted in a significant one-off increase in other operating income compared to the previous year. Given the one-off nature of this type of transaction, other operating income fell in 2013 back to the 2011 level. However, in 2014 the additional sale of pharmacies is expected again to generate an increase in other operating income. In 2015, other operating income is expected to fall significantly due to the absence of these one-off effects. Furthermore, the renegotiations of contracts with market research provider IMS and the subsequent lower income from data delivery, are projected to lead to a reduction in other operating income.

**Other operating expenses** comprise besides the so-called FtB-recharge (cf. section 5.3.1), mainly rental expenses and expenses for self-owned property. In 2013, other operating expenses fell, primarily because of non-recurring costs related to the integration of the United Kingdom Consumer Solutions and Pharmacy Solutions divisions in 2012. From 2014 onwards, an increase in other operating expenses is projected due to advertising and marketing expenses as part of the implementation of the EPN initiative in the United Kingdom. Overall, Celesio Group expects a steady increase in other operating expenses in the planning period 2014 to 2018 partly due to a planned project to revise the IT infrastructure in 2015, which is expected to lead to higher recurring IT related expenses. The FtB-recharge included in other operating expenses is consolidated in the group planning.

**Personnel expenses** mainly comprise salaries and wages. Despite inflation related wage adjustments of 2.0% p.a., Celesio expects a decline in the personnel expenses ratio for the planning period 2014 to 2018 compared to the years 2011 to 2013. This goal should be mainly attributable to the successful implementation of measures for operational effectiveness, e.g. automating the dispense procedure in pharmacies.

Major planned **capital expenditure** comprise the modernisation of Lloydspharmacy stores which are to be redesigned as part of the EPN initiative until 2018. It is expected that a high level of capital expenditure is necessary for the redesign of pharmacies in 2014. Besides, IT replacement investments as well as investments in the IT infrastructure are necessary on a large scale. In the years 2015 to 2018, therefore, a significantly lower level of constant capital expenditure is expected. As a result of the planned investments in 2014, the depreciation level will increase significantly through 2015. Due to the lower capital expenditure levels in the years 2016 to 2018, a steady decrease in depreciation is expected through 2018.

Overall, the increase in revenue will lead to an increase in **working capital**. Due to an assortment optimisation project commenced in 2013, a reduction of the inventory range is anticipated through 2018 which is projected to reduce the level of working capital. In addition, the increase in the proportion of hospital services within revenue is projected to lead to longer debtor payment terms. Creditor payment terms are projected to be shorter.

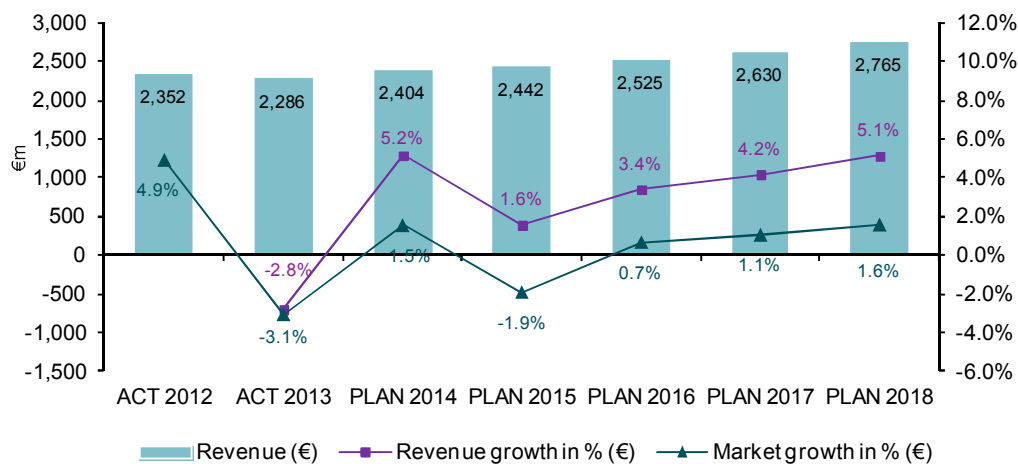


***Pharmacy Solutions United Kingdom***

The wholesale subsidiary AAH supplies the 1,569 Celesio owned Llodypharmacy branches as well as independent pharmacies or pharmacies integrated into supermarkets. Furthermore, AAH performs logistics services in the supply chain between pharmaceutical producers and hospitals, which negotiate direct contracts bypassing wholesalers.

The following chart illustrates the **revenue** of the Pharmacy Solutions segment for the years 2012 to 2018 as well as revenue and market growth rates:

### Revenue compared to market growth (PS United Kingdom)



Source: Celesio AG, IMS United Kingdom 2014, KPMG analysis.

In addition, the following table depicts the development of revenue in British Pound and Euro.

Revenue								
in m	ACT 2012	ACT 2013	PLAN 2014	PLAN 2015	PLAN 2016	PLAN 2017	PLAN 2018	CAGR 2014-2018
Revenue (GBP)	1,906	1,941	1,985	2,032	2,101	2,189	2,301	
Revenue growth in % (GBP)		1.8%	2.3%	2.4%	3.4%	4.2%	5.1%	3.5%
Revenue (€)	2,352	2,286	2,404	2,442	2,525	2,630	2,765	
Revenue growth in % (€)		-2.8%	5.2%	1.6%	3.4%	4.2%	5.1%	3.9%

Source: Celesio AG, KPMG analysis.



In the year 2012, revenue measured in British Pounds declined by 12.0% compared to 2011. Due to currency exchange effects, the revenue decline in Euro only amounts to 5.8%. The major cause for the downward trend was a lost tender with the pharmaceutical manufacturer MSD Sharp & Dohme. Revenue of that manufacturer's products ceased. In 2013, revenue in Euro further declined by 2.8%, which was caused by currency exchange effects. Revenue in British Pound grew by 1.8%, which was caused by granting lower rebates and expanding market share in the generics segment. Revenue growth before rebates was significantly lower due to the expiration of patents and subsequent substitution by cheaper generics as well as the loss of a major client, The Co-operative Group Ltd.

For 2014, revenue is expected to grow by 5.2% in Euro and 2.3% in British Pound. In the light of the 1.2% (GBP) projected retail pharmacy market growth – which represents the most important market for the wholesale sector in the United Kingdom – this above market growth is driven mainly by the increased market share in the generics segment and the impact of two Solus contracts with pharmaceutical manufacturers acquired at the beginning of 2014. In the years 2015 to 2018, an average annual revenue growth rate of approx. 3.8% (in Euro) is projected. At the same time the so called value based pricing concept ("VBP") which was introduced by the NHS in 2014 is expected to cause increased price pressure in the medium term, adversely impacting revenue growth. The revenue growth rate is expected to exceed the market growth rate, as AAH aims to grow its market share.

The past product mix is projected to shift to a higher share of cheaper generics due to the expiration of several patents.

We believe that the projected revenue development is reasonable, given the expected market development and competitive position of AAH.

The **gross profit margin** improved from 2011 to 2012 because the loss of the MSD Sharp & Dohme contract led to lower sales of patented prescription drugs. As a result, high margin generics and parapharmaceutical products increased as a proportion of total revenue. In 2013, margins could further be improved due to optimisations in the rebates' structure as well as a higher proportion of generics. The gross profit margin is projected to improve further in 2014. This is primarily caused by the one-off effect supply restrictions on the part of manufacturers of generics, which is expected to allow higher margins. For the years 2015 to 2018, the gross profit margin is projected to decrease slightly due to high pressure from customers and suppliers, which cannot be compensated for by improved procurement terms.



**Other operating income** mainly comprises rental income and income from data provision to the market research company IMS Health Inc. In 2012, other operating income declined due to lower rental income as a result of the disposal of property. This decline continued in 2013 due to the renegotiation of the contract with IMS. In 2014, a slight improvement of other operating income is projected from the reversal of accruals. Furthermore, an impact is anticipated from the provision of pharmaceutical related logistics services to hospitals (so called Fee-For-Service Model, cf. section 2.5.1).

In the years 2015 to 2018 no significant change in the level of other operating income is expected. The FtB-recharge (cf. section 5.3.1) included in other operating income is consolidated in the group planning.

**Other operating expenses** increased in 2012 compared to 2011 due to advisory and restructuring costs related to the integration of the United Kingdom Consumer Solutions and Pharmacy Solutions divisions. The restructuring process was completed in 2013 leading to a significant decline in restructuring costs and lower other operating costs overall compared to 2012. As no restructuring costs are foreseen for 2014, a further slight decrease in other operating expenses is projected, despite an anticipated increase in transportation costs resulting from the new Solus contract with Ferring Pharmaceuticals Ltd. From 2015 onwards, other operating expenses are expected to increase, primarily caused by the implementation of process optimisation initiatives (especially End to End Network Optimisation, cf. section 2.4.4) which require for example an extension of warehouse capacity. In 2016 an increase of selling and other costs is projected due to a marketing initiative to increase supplier loyalty.

Due to the revenue decline in 2012 as well as the process optimisations implemented, **personnel expenses** decreased by 6.5% and 2.7% in 2012 and 2013, respectively.<sup>68</sup> In the year 2014 a significant decline in the personnel expense ratio is projected from implementation of a number of efficiency improvement measures (e.g. combining the warehouses of the Retail Pharmacies, Mail-order pharmacies and Homecare segment; automation of warehouse processes). In 2015 to 2018 these measures are planned to continue and the savings are intended to exceed inflation-driven increases to wage costs, resulting in slightly lower personnel expense ratios. The number of employees is projected to be stable.

In 2012 and 2013, AAH's warehouses and IT systems were extensively modernised, which lead to relatively high **capital expenditure** compared to earlier years. Celesio Group expects this modernisation to be completed by the end of 2014. As a consequence a significantly lower level of capital expenditure from 2015 to 2018 is projected. Based on the high investments in 2014, the **depreciation** level will increase correspondingly. From 2015 to 2018 depreciation is projected to remain at the 2014 level.

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<sup>68</sup> On an adjusted basis a slight increase in personnel expenses results in 2013 (cf. Appendix 2).



In 2014 to 2018 an overall decline of the **working capital** ratio to revenue is projected. This is mainly due to an inventory optimisation project which already started in 2013 and which is intended to continuously improve the inventory turnover ratio through 2018. Compared to the years 2011 to 2013, Celesio does not project significant changes in creditor and debtor payment terms in 2014 to 2018.

## France

### *Market and competition*

The **French pharmaceutical market** consists of retail pharmacies and hospitals. The market share of wholesalers in the French pharmaceutical distribution market was 63.4% of the total market volume in 2012 (refer to IMS Health – IMS Market Prognosis 2014-2018 Europe – France, hereinafter "IMS France 2014"). 36.6% of the pharmaceutical market is supplied directly by the drug manufacturers. Only 0.4% of the total drug volume distributed by the French wholesalers goes to the hospital segment.<sup>69</sup> 22,706 retail pharmacies were operating in the French pharmacy market in 2012. Pharmacy chains are not permitted.<sup>70</sup>

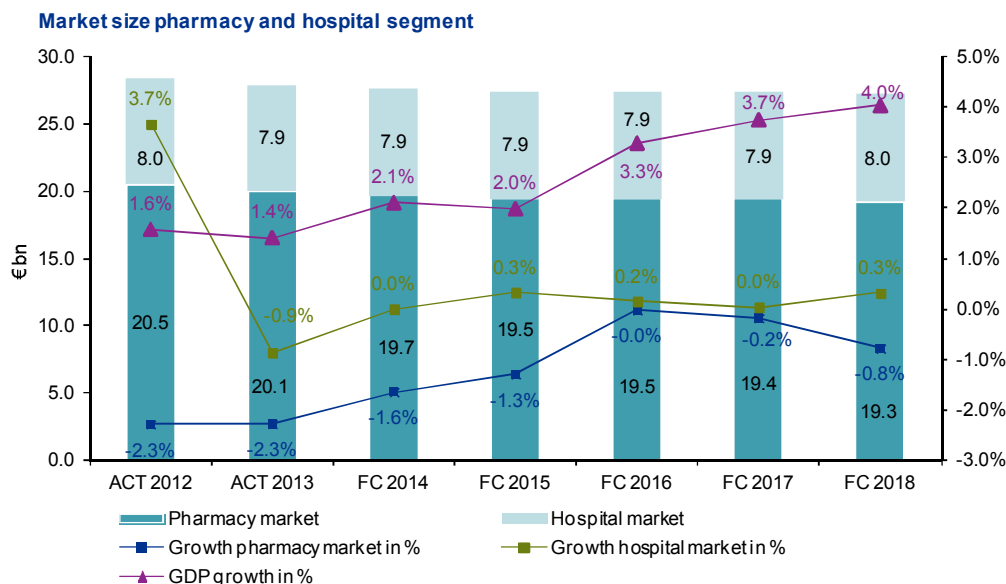
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<sup>69</sup> Cf. IMS France 2014, p. 103.

<sup>70</sup> Cf. IMS France 2014, p. 105.



The following chart shows the historical and projected development of French nominal GDP and the segment breakdown by retail pharmacies and hospitals for the years 2012 to 2018:



Source: The Economist Intelligence Unit, Viewswire Data Tool - Key economic forecasts for 82 countries, 23 April 2014, IMS France 2014, Market volume in manufacturer prices.

According to forecasts by the EIU an average growth of French nominal GDP of 3.0% p.a. is projected for the 2014 to 2018.<sup>71</sup> IMS France 2014<sup>72</sup> projects an average decrease of the French pharmaceutical market of -0.9% p.a. for the period 2014 to 2018. Demographic change (population ageing) results in an increasing demand for drugs and consequently in a growing pharmaceutical and healthcare market. However, government price cuts and increased competition from lower-priced generic drugs bring competitive pressure.<sup>73</sup>

<sup>71</sup> GDP nominal, Source: EIU, Viewswire Data Tool - Key economic forecasts for 82 countries, 23 April 2014.

<sup>72</sup> Deviating from IMS France the Groupement pour l'Élaboration et le Réalisation de Statistiques (GERS) provides more detailed market analysis and statistics. For the years 2012 and 2013 GERS recorded respective market growth of the wholesale sector excluding Para-pharmacy of -2.2% and -3.0%.

<sup>73</sup> Cf. IMS France 2014, p. 12.



The French pharmaceutical market is subject to a multitude of regulatory controls which affect the **remuneration structure of the wholesale and retail sector**. Since 2012, Celesio's French wholesale subsidiary Office Commercial Pharmaceutique ("OCP") has received a statutory pre-determined margin of 6.68% of the manufacturer selling price, but capped at maximum €30.06 per package.<sup>74</sup> Similarly, price reductions are also regulated by law, limiting discounts for wholesalers to 2.5% on the manufacturer selling price. The regulation of price reductions does not apply for generics and original drugs classified under the reference pricing system (Tarif Forfaitaire de Responsabilité, "TFR"). Original drugs under TFR are off-patent products that are included in the TFR list so that their reimbursement by the social security is based on the reference price of the corresponding generics. Those products are subject to a maximum permissible price discount of 17%.<sup>75</sup>

Additionally, margins for retail pharmacies are state-regulated (declining margin system) with respect to the maximum markup, which ranges from 6.0% (manufacturer selling price of over €150) to 26.1% (manufacturer selling price up to €22.90) of the manufacturer selling price. On top of that, a fixed amount of €0.53 is added per package sold.<sup>76</sup>

Within the next few years, the growth in demand for pharmaceutical and healthcare products in France due to demographic changes as described above will be offset by governmental savings measures, besides fierce competition due to generics. The French government is currently endeavouring to decrease the social security deficit in 2014 by cutting health expenditure, which total €2.4 billion. €1.6 billion is to be saved merely by means of price reductions on pharmaceutical products in outpatient care.<sup>77</sup>

In February 2014, additional budgetary measures in an amount of €50 billion were announced by the French government for the years 2015 to 2017. Of this the total savings announced for healthcare amount to €23 billion.<sup>78</sup> Savings of €3.5 billion are planned for drug area by 2017 to be achieved mainly through price reductions on reimbursed medicines in France.<sup>79</sup> The projection by IMS France 2014 was published before the French government had detailed the austerity measures in April 2014; the development of the pharmaceutical market will be significantly adversely affected by the budgeted saving measures.

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<sup>74</sup> This regulation only applies to drugs reimbursed by the social security; Source: Chambre Syndicale de la Répartition Pharmaceutique, Réglementation des Prix, 23 April 2014.

<sup>75</sup> Cf. Chambre Syndicale de la Répartition Pharmaceutique, Réglementation des Prix, 23 April 2014.

<sup>76</sup> Cf. IMS France 2014, p. 83.

<sup>77</sup> Cf. Projet de loi de Financement de la Sécurité Sociale 2014, Ministère des Affaires Sociales et de la Santé.

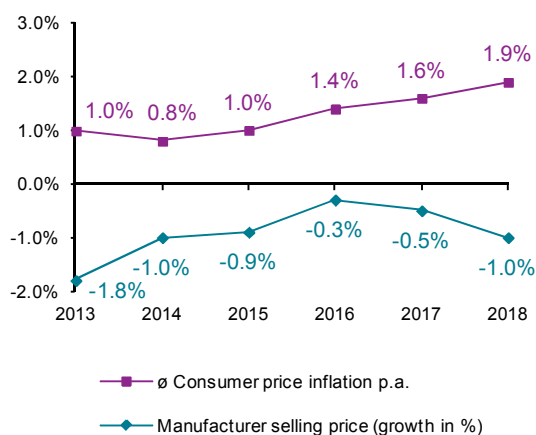
<sup>78</sup> Cf. Les Echos, "50 milliards d'économies : les pistes du gouvernement", 7 April 2014.

<sup>79</sup> Cf. Les Echos, "Nous allons faire 10 milliards d'économies sans aboutir à un système de sante « low cost »", 25 April 2014/ 26 April 2014.



The chart below depicts the expected retail-price development of pharmaceutical products compared with the average overall price development for the years 2013 to 2018:

**Consumer price inflation and drug prices in France**



Source: IMS France 2014, The Economist Intelligence Unit, Viewswire Data Tool - Key economic forecasts for 82 countries, 23 April 2014.

In the light of the projected market development for pharmaceutical products, it is expected that drug prices will not increase to the same extent as the general inflation rate, but rather decrease. In contrast to IMS France 2014, OCP expects a significantly more negative trend in drug prices due to the austerity measures in the pharmaceutical market as detailed in April 2014 (cf. section “France – Market and competition”).

In 2013, OCP was market leader in French pharmaceuticals with a market share of 33.9%. The main competitors were Réseau Pharmacien CERP<sup>80</sup> with a market share of 31.3%, Alliance Healthcare Répartition SAS (24.2%) and PHOENIX Pharma SAS (8.0%).<sup>81</sup>

<sup>80</sup> Original Name: Centre d'Etude de la Répartition Pharmaceutique, founded 1961.

<sup>81</sup> Cf. IMS France 2014, p. 103.



## Business plan analysis

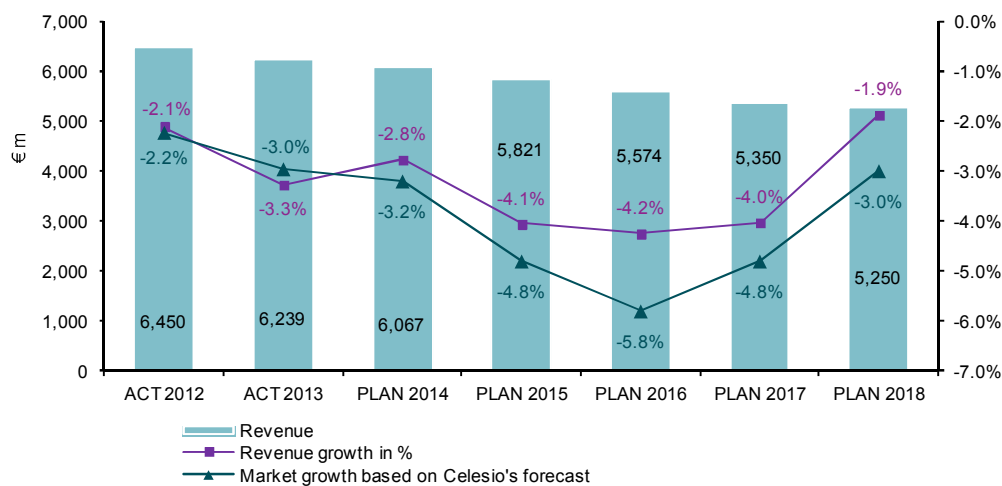
### Pharmacy Solutions France

France represents the most important wholesale market for the Celesio Group operating through its subsidiary OCP. OCP generally procures drugs approved in France and other products sold in pharmacies directly from manufacturers. Their main customers are private pharmacies as well as hospitals and pharmacies engaged in procurement cooperation. OCP's product portfolio covers primarily branded drugs, OTC products and generics. Additionally, OCP provides pharmacy services in marketing, warehouse management and product range design.

In the past two fiscal years 2012 and 2013, the **revenue** of OCP was negatively affected by the increasing substitution of patented drugs by less expensive generics. Furthermore, increased competition, which forced OCP to grant higher discounts to pharmacies reduced revenue. This trend is expected to continue from 2014 to 2018 and thus, lead to a further decline in revenue.

The following chart shows the revenue projected of the wholesale business in France for the years 2014 to 2018, compared to 2012 and 2013:

Revenue compared to market growth (PS France)



Source: Celesio AG, Groupement pour l'Élaboration et le Réalisation de Statistiques, KPMG Analysis.

OCP uses a different data source (not IMS France 2014) for its projections for the French pharmaceutical market. OCP derived its market forecast from data of the Groupement pour l'Elaboration et la Réalisation de Statistiques ("GERS").

In particular, the French pharmaceutical market is considered to be increasingly affected by significant government austerity measures. OCP anticipates a continuous decline in



government-regulated prices for reimbursed drugs, following a reduction of ONDAM targets<sup>82</sup> in the year projected. In addition, Celesio Group is expecting an increase in the volume of direct deliveries from drug manufacturers to pharmacies, at the expense of OTC wholesalers. For the retail segment, Celesio Group anticipates an average annual decline of -4.3% p.a. for 2014 to 2018. On the basis of these market forecasts and reflecting the compensating effects targeted from its own strategic measures, Celesio Group expects a decline of **revenue** of -3.4% p.a. on average which is somewhat lower than the projected overall market downturn. The below average fall in revenues implies an increase in the market share of OCP in France from 34.2% in 2014 to 34.9% in 2018.

A shift in the product mix is projected for 2014 to 2018, resulting from the increasing prescription of generics which is encouraged by the French government. As a consequence the proportion of branded drugs is expected to decrease in favor of generics.

In the light of the strong negative impact on the market of austerity measures announced by the French government and given the leading market position of OCP and the actual historical results we regard the projected revenue of OCP as reasonable.

**Gross profit margin** declined from 2009 until 2012 due to increased market competition, pressure from the system of scaled reductions in margin and the introduction of a new margin system in 2011.<sup>83</sup> OCP achieved a moderate recovery in gross profit margin in 2013. The reasons for the recovery, despite negative developments in revenue were the measures successfully implemented to improve efficiency, the generation of benefits through optimised procurement and increases in cooperation pharmacy memberships. In 2014, the Celesio Group projects a further slight increase in gross profit margin. From 2015 onwards, OCP plans a continuous increase in gross profit margin. This is mainly driven by the assumption that the French association of pharmaceutical wholesalers CSRP (Chambre Syndicale der la Répartition Pharmaceutique), will succeed in persuading the government to introduce a regulation assisting pharmaceutical wholesalers, the anticipated change in the product mix and strategic measures to be implemented in the procurement process.

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<sup>82</sup> The ONDAM (Office National de Dépenses d'Assurances Maladies) is the organisation responsible for applying the French government's directives in terms of annual growth of the budget for health.

<sup>83</sup> The new margin system bears consequences for the wholesalers' middle price segment, for which OCP has a particularly wide product range.



As a consequence of the government austerity measures announced in February 2014 and given the expected decline of the pharmaceutical market in France as discussed above, the French pharmaceutical wholesaler association CSRP started negotiations on the remuneration structure of pharmaceutical wholesalers. In particular, CSRP proposed an increase in the regulated margin for generics from €0.30 to €0.50 per pack. Due to the uncertainty regarding the government's future decision, Celesio assumed a margin increase to €0.40 per pack when deriving the gross profit for its projections.

In addition, Celesio Group expects that the optimised procurement process in the course of the TiC initiative (cf. section 2.4.4) and further process optimisation measures in the warehouse management and transportation will positively influence the gross margin of OCP.

The **other operating income** primarily consists of income from support services to pharmacies. In 2009 to 2013, other operating income developed in line with revenue. OCP projects the ratio of other operating income compared to revenue to increase in 2014 to 2018 and thus to increase slightly in absolute figures. This increase is to come mainly from OCP offering of additional support services to pharmacies (e.g. online training to pharmacies or services to promote sales).

The slight increase of other operating income is compensated by increasing **other operating expenses** during the projection period. In 2009 to 2013, other operating expenses developed in line with revenue. However OCP expects the ratio of other operating expenses compared to revenue to increase moderately within the next few years. In particular, IT expenses and lease rental charges for warehouses and a continuous rise in transport costs is projected. The reason for the increase in transport costs is, besides inflationary price increases, the introduction of the more stringent European regulation Good Distribution Practice<sup>84</sup>, which will lead to higher fees for external transport.

OCP projects a steady increase in **personnel expenses** relative to revenue in 2014 to 2018. The years 2009 to 2012 saw moderate increases in personnel expenses in relation to revenue. The projected increase is mainly due to inflation related wage increases that may not be fully offset by continuous optimisation of OCP's operating business. Additionally, the planned increase of the marketing workforce planned in 2014 and 2015 in order to enhance OTC's market share will increase the share of personnel expenses to revenue.

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<sup>84</sup> Cf. Guidelines of 7 March 2013 on Good Distribution Practice of Medicinal Products for Human Use (2013/C 68/01).



Major **capital expenditure** during the planning period are related to the modernisation of IT systems and the renovation and extension of warehouse capacities. The planned investment ratio of 0.2% of revenue slightly exceeds the corresponding ratio in 2012 and 2013, but still ranges at the lower end of a reasonable bandwidth of comparable entities within the Celesio Group. The capital expenditure undertaken by OCP are primarily replacements. **Depreciation** is projected slightly below the level of 2013.

Regarding **working capital**, OCP projects stable payment terms and inventory turn in 2014 to 2018. Payment terms for trade payables are projected based on 2012. Due to the expected deterioration in pharmacies' liquidity, a moderate increase in payment terms for trade receivables is projected. Additionally, a slight improvement in stock turnover is projected as a result of a number of optimisation measures planned. Although inventory turn moderately worsened from 2012 to 2013 owing to operative inefficiencies, it remained, compared with other subsidiaries of Celesio AG, at a very high level.

## Austria

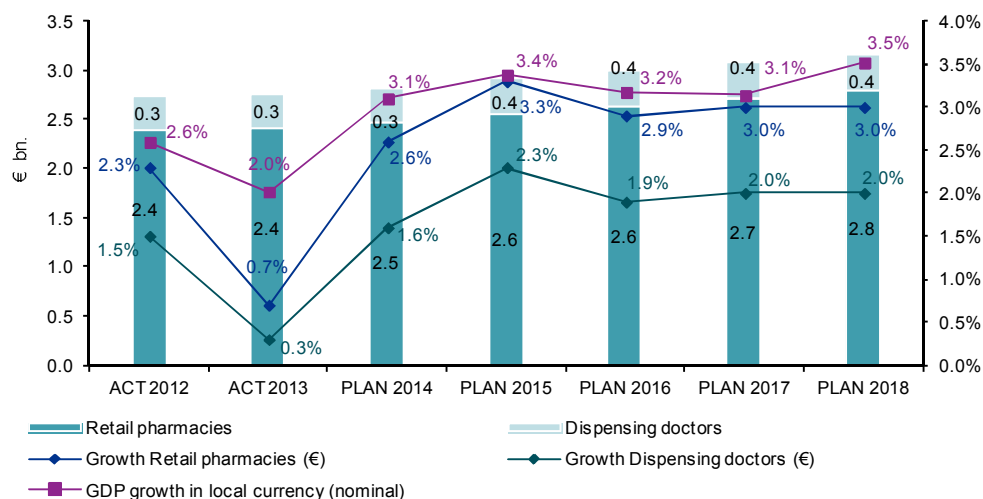
### *Market and competition*

The Austrian **pharmaceutical market** consists of retail pharmacies, hospitals (which procure their products primarily via direct delivery from the pharmaceutical manufacturers) and dispensing doctors (in-house pharmacies of practicing physicians). A total of eight pharmaceutical full-line wholesalers operate in the Austrian market, constituting a comparably high penetration rate compared to other European countries. In Austria, wholesalers are legally permitted to acquire stakes in retail pharmacies. However, equity participations implicitly have to be structured as silent partnerships relinquishing the entire control over the business to the pharmacists, regardless of the participation quota.



The chart below depicts the development of nominal GDP as well as the (projected) market volumes for retail pharmacies and dispensing doctors over the period 2012 to 2018:

#### Market development of dispensing doctors and retail pharmacies



Source: Celesio AG, EIU, KPMG analysis.

Based on the above and expectations of Celesio Group, the Austrian pharmaceutical market will grow on average by 2.8% p.a. (defined as revenue volumes of national pharmaceutical wholesalers to retail pharmacies and dispensing doctors) for the years 2014 to 2018.

Despite a saturated and stable market environment, the Austrian pharmaceutical market is projected to expand in the future, due to the introduction of innovative products and the increasing demand for pharmaceuticals and health care services from an aging.<sup>85</sup> The EIU anticipates the overall Austrian economy, measured by nominal GDP, to experience an average growth of 3.3% p.a. over the period 2014 to 2018.

<sup>85</sup> Cf. Pharmig – Facts and figures 2013, p. 48.



In Austria, the **pricing of pharmaceuticals** on wholesale level is regulated by the Federal Ministry of Health. Depending on the product's price level, the wholesaler's mark-up on ex-manufacturer prices is limited to a range between 7.0% and 15.5% for reimbursed products and 9.0% and 17.5% for products not covered by the reimbursement system of federal health insurances. Margins of retail pharmacies are regulated by government authorities also. Depending on the product's price level, the mark-up on the pharmacy purchase price is set at a range between 3.9% and 37.0% for reimbursed products and 12.5% and 55.0% for non-reimbursed products. Furthermore, an additional surcharge for clients with private health insurance shall not exceed 15.0% of the pharmacy purchase price. Overall, in comparison with other European countries, prices of pharmaceutical products are comparably low in Austria.<sup>86</sup>

Price discounts are only subject to regulations at the retail pharmacy level. In particular cases, if revenue volumes of reimbursed drugs exceed a specified revenue level, pharmacists are obliged to grant health insurance funds a fixed discount on a percentage basis. In 2013, the federal government, the state government and members of the federal health insurance passed a health care act according to which the development of public health care expenses through 2016 should not exceed the nominal growth of GDP. This alignment of public health expenses to general economic developments is intended to yield savings in the amount of €3.4 billion by 2016.<sup>87</sup>

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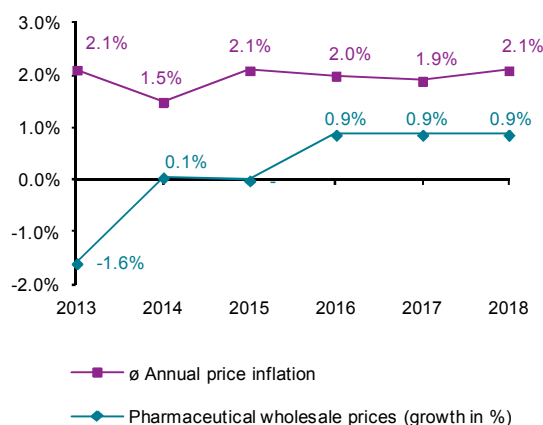
<sup>86</sup> Cf. Health portal of the Austrian federal health ministry (Gesundheit.gv.at), as at 8 March 2013 (Call date: 1 May 2014).

<sup>87</sup> Cf. Bundesministerium für Gesundheit, Die Gesundheitsreform 2013, as at March 2014.



The chart below depicts the expected retail price development of pharmaceutical products compared to the average annual consumer price inflation for the years 2013 to 2018.

**Price inflation and pharmaceutical prices in Austria**



*Source: Forecasts of pharmaceutical wholesale prices are based on local management estimations; EIU.*

According to estimates of EIU, the expected inflation rates for the years 2013 to 2018 range between 1.5% p.a. and 2.1% p.a. averaging a level of about 2.0% p.a. Due to the pressure on pharmaceutical selling prices across Europe it is not expected that drug prices will increase in line with general inflation rates in Austria.

Through its wholesale subsidiary Herba Chemosan Apotheker-AG, Vienna/Austria (“Herba Chemosan”), Celesio AG holds a leading position in the Austrian pharmaceutical distribution market (market share of 43% in 2012), followed by its largest competitors Kwizda Pharmahandel GmbH, Vienna/Austria (20%), PHOENIX Arzneiwarengroßhandlung GmbH, Vienna/Austria (19%), Jacoby GM Pharma GmbH, Hallein/Austria (12%), and L. Kögl Pharma GmbH, Innsbruck/Austria (3%).



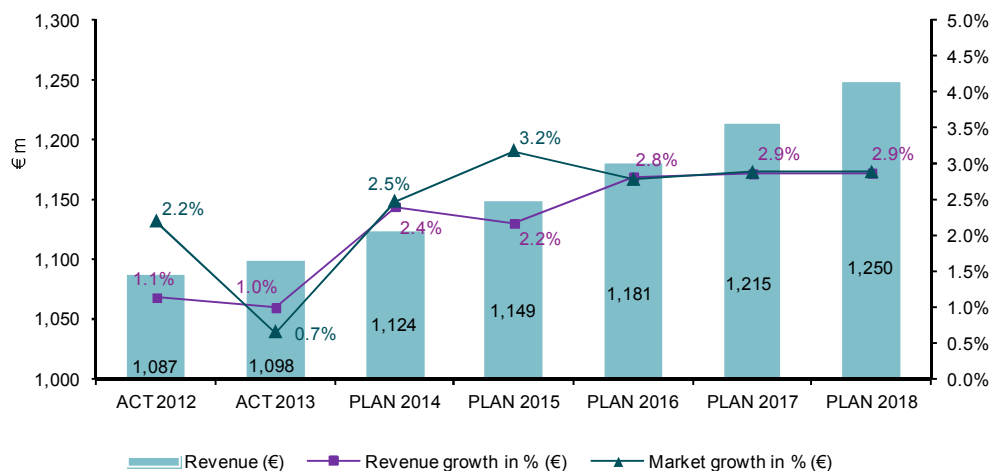
## ***Business plan analysis***

### ***Pharmacy Solutions Austria***

Through its wholesale subsidiary, Herba Chemosan, Celesio AG is the leading pharmaceutical wholesaler and service provider in Austria, according to company information. In 2013, Herba Chemosan delivered pharmaceutical products to more than 89.0% of Austria's pharmacies. Herba Chemosan's range of products and services also includes the marketing of healthcare products for foreign and domestic companies and various IT-related services for pharmacies, both offered by the Herba Chemosan subsidiary Sanova Pharma GesmbH, Vienna/Austria ("Sanova"), and the business division Sanodat. Herba Chemosan also holds shares in retail pharmacies and serves dispensing doctors via Aewige Ärztliche Wirtschaftsgesellschaft m.b.H., Vienna/Austria ("Aewige").

The chart below depicts the revenue development of Celesio Group's PS segment in Austria as well as the corresponding revenue and market growth rates for the years 2012 to 2018:

**Revenue compared to market growth (PS Austria)**



Source: Celesio AG, KPMG analysis.

According to projections of the local management of Celesio Group, the Austrian pharmaceutical market will grow on average by 2.8% p.a. in 2014 to 2018, exceeding the growth seen in 2012 and 2013 (2.2% and 0.7%, respectively). In the light of a traditionally stable market environment, the local management bases its expectations on industry-wide market growth and respective main drivers (cf. section "Austria – Market and competition"). Prevailing market shares are not expected to significantly shift in the future. Several strategic projects (e.g. the expansion of the range of services offered and the introduction of innovative marketing measures) are planned to strengthen the market position in the long-run.



In Austria, the pharmacy solution division reported a moderate increase in revenue of 1.1% and 1.0% for 2012 and 2013 respectively. Despite increases in revenue volume generated in core business with retail pharmacies and dispensing doctors, generic competition put high pressure on selling prices of patent protected products in 2013. From 2014 onwards, a similar level of pressure on selling prices of patent protected pharmaceuticals as that seen in 2013 is not expected, since new patent protected products are anticipated to be launched in the Austrian market in the year 2014 and thereafter.

However, market competition and the regulatory environment will continue to put manufacturer and wholesale prices under pressure so that the positive development of consumer prices may not be applied for the pharmaceutical market.

After a moderate increase in **gross margin** from 2012 to 2013, partially resulting from increasing gross profit margins of the subsidiary Sanova, Celesio Group expects a decrease in gross margins for the years 2014 to 2018, because of a market-wide shift to product categories that generate lower gross margins.

**Other operating income** mainly comprises proceeds from marketing and IT services as well as other income directly related to revenue (e.g. income generated from provision of sales figure data). Other operating income is planned in a stable ratio (as % of revenue) throughout the planning period.

**Other operating expenses** comprise primarily costs of transport, IT and advertising. In contrast to 2012 and 2013, other operating expenses in relation to revenue are projected to decrease slightly due to the modernisation of IT systems, improvements in operational efficiency and planned savings in external consulting fees.

**Personnel expenses** include salaries and wages as well as transfers to pension provisions and are projected to develop in line with revenue. Inflation related wage adjustments are expected to be partially compensated by efficiency enhancement measures.

In 2014, the majority of projected **capital expenditure** comprise modernisations in the logistics centre in Vienna, various IT projects and participations in pharmacies. After 2015, replacement and maintenance investments (e.g. with regard to IT, transport fleet and business equipment) are expected at a constant level throughout the remaining planning period. During the planning period 2014 to 2018, **depreciation** is marginally above the level of the investment rate.

**Investment income** from shares in retail pharmacies is projected by applying the percentage shareholding to the net result of the respective pharmacy.



In the years 2014 through 2018 the **working capital** level is expected to decline slightly in relation to revenue, compared to previous years. This is mainly due to a planned programme of coordinated and tailored deliveries by pharmaceutical manufacturers to reduce inventory levels and by a reduction of customer payment terms. The additional liquidity generated will be used for the settlement of trade payables.

## Norway

### *Market and competition*

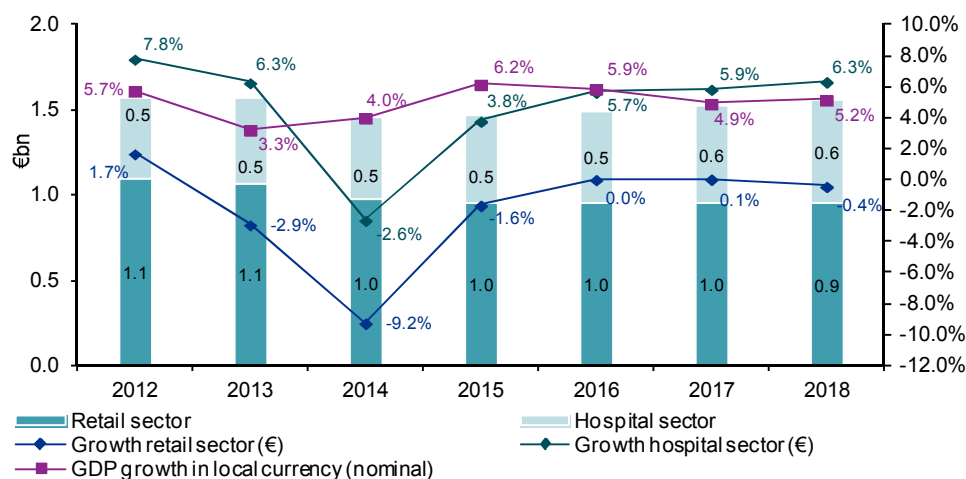
The **pharmaceutical market in Norway** comprises the retail sector and the hospital sector. Pharmacies procure their products generally directly from wholesalers and represent the largest customer-base for pharmaceutical products. Regarding public hospitals there are two tender offers (one for the internal hospital dispensaries and one with the external hospital dispensaries) documented in two exclusive contracts between the Norwegian authorities (on behalf of the hospital) and the wholesaler. The contracts are usually awarded in a tender offer process and are valid for four years including two possible renewal options for another year. This contract authorises the wholesaler as the exclusive logistic service provider for all Norwegian hospitals.

The development of Celesio Group's wholesale and retail activities in Norway is mainly driven by the development of the overall retail pharmacy market. The Celesio Group operates through its Norwegian subsidiary Norsk Medisinaldepot AS ("NMD") and its pharmacy chain Vitusapotek. In addition, given NMD's role as exclusive supplier to public hospitals, the development of the hospital sector is also a relevant driver.

The chart below depicts the historical and projected development of nominal GDP as well as the trend for the retail and hospital sector for the years 2012 to 2018 (data is provided by the IMS Health – IMS Market Prognosis 2014-2018 Europe – Norway ("IMS Norway 2014")):



### Market volume retail and hospital sector



Source: IMS Norway 2014, KPMG analysis.

In 2012 and 2013 Norwegian nominal GDP grew at annual growth rates of about 5.7% and 3.3%, respectively. However, the forecast data of the EIU shows that GDP growth rates are expected to increase for 2014 to 2018 due to the recovery of the global economy. Additionally, the anticipated devaluation of the Norwegian Krone against the Euro (increase in exports) as well as a slightly increasing inflation rate (stimulating domestic demand) is expected to foster economic growth.<sup>88</sup>

The following table illustrates the market development of both sectors in Norway (retail and hospital) in local currency and Euro respectively:

<sup>88</sup> Cf. Economist Intelligence Unit, Viewswire Data Tool - Key economic forecasts for 82 countries, 24 March 2014.



Market Development Norway								CAGR 2014-2018
in m	2012	2013	2014	2015	2016	2017	2018	
<b>Retail sector</b>								
in NOK	8,188.0	8,181.0	8,069.0	8,054.0	8,056.0	8,061.0	8,028.0	
growth rate in %		-0.1%	-1.4%	-0.2%	0.0%	0.1%	-0.4%	-0.4%
in €	1,095.6	1,064.0	965.7	950.0	950.2	950.8	946.9	
growth rate in %		-2.9%	-9.2%	-1.6%	0.0%	0.1%	-0.4%	-2.3%
<b>Hospital sector</b>								
in NOK	3,552.0	3,884.0	4,111.0	4,330.0	4,576.0	4,844.0	5,151.0	
growth rate in %		9.3%	5.8%	5.3%	5.7%	5.9%	6.3%	5.8%
in €	475.3	505.2	492.0	510.7	539.8	571.4	607.6	
growth rate in %		6.3%	-2.6%	3.8%	5.7%	5.9%	6.3%	3.8%
<b>Total Market</b>								
in NOK	11,752	12,077	12,192	12,396	12,645	12,918	13,192	1.8%
in €	1,573	1,571	1,459	1,462	1,492	1,524	1,556	-0.2%

Source: IMS Norway 2014, KPMG analysis.<sup>89</sup>

In 2013 volumes in the **retail sector** fell by 0.1% in local currency terms according to IMS Norway 2014. This decrease is due to price reductions of 1.5%, net of 1.4% higher revenue volumes. The stagnation projected by IMS Norway 2014 from 2014, is also mainly driven by price reductions, offset by increasing volumes. Pressure on prices will intensify once less-expensive biosimilar products are approved by the Norwegian authorities. A similar impact on prices of pharmaceutical products will be generated by the implementation of the National Health Technology Assessments (“HTA”) and the revision of the pricing of drugs with an elapsed patent protection. The HTA mainly regulates prices of expensive drugs. It is not expected that increasing revenue volumes will completely offset the loss in decreasing prices.

<sup>89</sup> Total market volume is calculated by summing up the retail market, sector hospital sector and an unaudited sector (increasing from NOK12 million to NOK13 million) in the period 2013 to 2018.



The size of the **hospital sector** increased in 2013 by 9.3% primarily due to price factors. In contrast volume growth is expected to be the main driver of growth in 2014 to 2018 according to IMS Norway 2014. This is mainly because the government plans to increase access to private healthcare providers to offer certain services (such as diagnosis services) in order to eliminate backlogs in the system. In Euro terms, the retail and hospital sector will experience lower or even negative growth rates due to negative foreign exchange rate effects.<sup>90</sup>

In Norway, the pricing of pharmaceutical products is regulated by the Norwegian Medicines Agency (“NoMA”). Prices of prescription drugs are determined by a reference pricing model. This pricing model uses the following countries as a reference market: Austria, Belgium, Denmark, Finland, Germany, Ireland, the Netherlands, Sweden and United Kingdom. Prices of generic products are also regulated by the NoMA. However, no reference pricing model is applied. OTC drugs are not regulated. The implementation of the HTA will considerably drive down prices for prescription drugs. The decision, whether a prescription drug will be included in the national prescription guidelines will be heavily dependent on the cost-benefit rationale of the NoMA.

The main **developments** in the Norwegian pharmaceutical markets are essentially related to the launch of new products as well as by demographic factors. The simplified access to private health services, which is planned by the Norwegian government, is expected to stimulate additional growth. IMS Norway 2014, nevertheless, assumes that the public sector will remain the primary consumer, because the government strives to control the rising healthcare expenditure caused by demographic changes.<sup>91</sup> Newly developed expensive drugs, will be reimbursed through the hospital sector and therefore excluded from the general reimbursement process. Due to the tender procedure significant price rebates can be achieved. Important tools to achieve cost efficiency have been implemented, such as electronic prescription software, to facilitate the prescription procedure for generic drugs. Additionally, the process of liberalisation of online-distribution regulations is expected to intensify.

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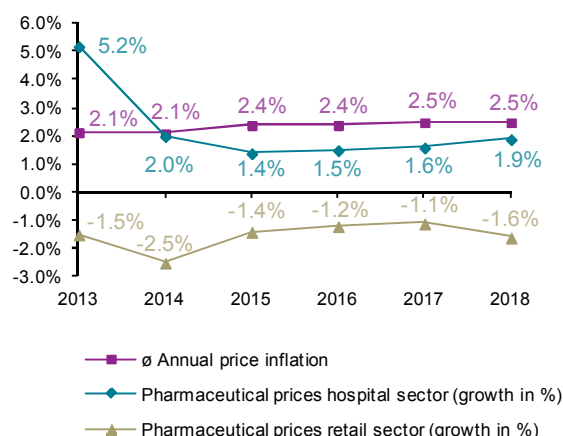
<sup>90</sup> As exchange rates are assumed to be constant in the period 2015 to 2018, no further exchange rate effects are shown after 2016.

<sup>91</sup> Cf. IMS Norway 2014, p. 7.



The chart below depicts the average price development within the retail and hospital sector which is benchmarked against the overall price development (estimate Consumer Price Inflation of EIU) in Norway:

**Price inflation and pharmaceutical prices in Norway**



Source: IMS Norway 2014, KPMG analysis.

The price development in the retail sector reflects the anticipated effects of NoMA's pricing policy. Driving factors are the HTA initiatives and the increasing prescription of generics. The price movement in the hospital sector is influenced mainly by the admission of newly patented expensive drugs under national prescription guidelines. Due to regulations and the specific characteristics of the pharmaceutical market in Norway it is unlikely that drug prices will increase on the same rate as consumer prices.

**Competition** in the Norwegian **retail sector** is primarily between pharmacy chains. According to local management information Apotek 1 (with a market share in 2013 of 45%) is the largest pharmacy chain in the market. Celesio Group with its pharmacy chain Vitusapotek ranks second with a market share of approx. 27% in 2013. Alliance Boots GmbH had an overall market share of approx. 22% in 2013. Competition is mainly driven by the location of the respective pharmacies. Apart from the advantage of location, the large pharmacy chains also try to differentiate their selling approach by using distinctive shop concepts to win customers.



Due to a statutory obligation to deliver drugs within 24 hours, there are just three **wholesalers** currently serving the Norwegian market. With its subsidiary NMD, Celesio AG is the market leader with – according to company information – 52% of the Norwegian market in 2013. Apokjeden Distribusjon AS, the subsidiary of PHOENIX, and Alliance HealthCare Norge AS, the subsidiary of Alliance Boots GmbH, have a market share of 31% and 17%, respectively (2013 data). Competition among wholesalers could intensify if the Norwegian government were to relax the strict legal stipulation with respect to the 24 hours delivery obligation.

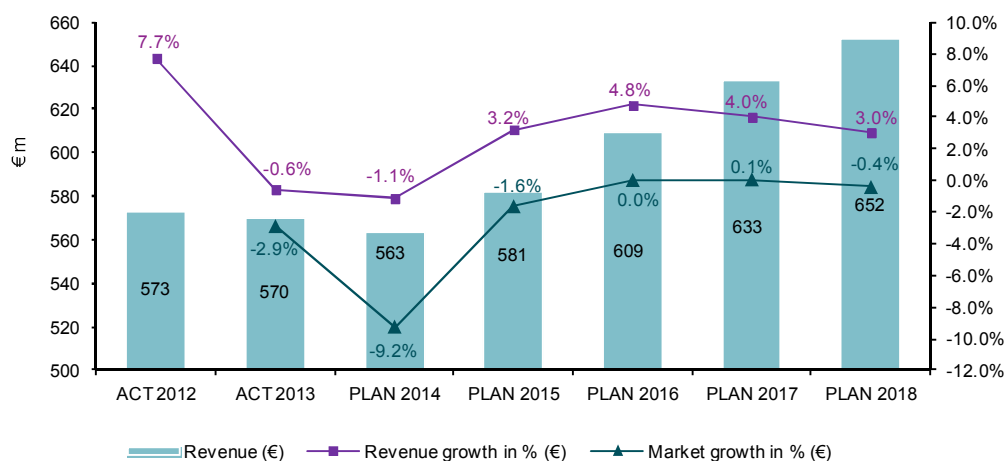
### ***Business plan analysis***

#### ***Consumer Solutions Norway***

The Celesio Group operates its own pharmacy chain “Vitusapotek”. With its 198 pharmacies (as at January 2014) and a market share of approx. 27% Vitusapotek represents the second largest pharmacy chain. Vitusapotek directly procures authorised drugs and other products distributed by pharmacies from NMD, the group-internal wholesale parent company. Vitusapotek’s product portfolio is primarily prescription drugs, OTC products and generics as well as para-pharmaceutical products such as products related to skin care, sports food and other dietary supplements.

The chart below depicts the projected revenue development of Vitusapotek and the corresponding revenue and market growth rates for the years 2012 to 2018 in Euro:

**Revenue compared to market growth (CS Norway)**



Source: Celesio AG, IMS Norway 2014, KPMG analysis.



The following table shows the projected revenue development for 2014 to 2018 and 2012 and 2013 in local currency and Euro:

Revenue								
in m	ACT 2012	ACT 2013	FC 2014	FC 2015	FC 2016	FC 2017	FC 2018	CAGR 2014-2018
Revenue (NOK)	4,280	4,439	4,705	4,928	5,162	5,369	5,531	
Revenue growth in % (NOK)	3.3%	3.7%	6.0%	4.7%	4.8%	4.0%	3.0%	4.5%
Revenue (€)	573	570	563	581	609	633	652	
Revenue growth in % (€)	7.7%	-0.6%	-1.1%	3.2%	4.8%	4.0%	3.0%	2.8%

Source: Celesio AG, KPMG analysis.

According to IMS Norway 2014, the Norwegian retail sector will decline by an average of 0.4% p.a. over the period 2014 to 2018. This is mainly due to savings measures planned by the Norwegian government in the healthcare sector. However, increasing disposable incomes and the introduction of innovative products is expected to partially offset this development.

In 2012 and 2013, Vitusapotek's **revenue** growth was driven by the product group para-pharmaceutical products. Additionally, acquisitions and new openings of pharmacies stimulated growth. This trend is likely to continue in 2014 to 2018 as strong growth with para-pharmaceutical products is expected to continue.

The projected increase in revenue in Vitusapotek is above the expected growth rate for the retail sector per IMS Norway 2014. According to local management information the forecast data of IMS Norway 2014 only includes prescription drugs, OTC products and generics. The IMS study therefore does not cover growth of the market for para-pharmaceutical products.

For 2015 to 2018 local management projects moderate growth. This reflects forecast market growth rates and additional growth in para-pharmaceuticals.

Due to the expected development of foreign exchange rates, Euro growth rates fall to an average of 2.8% p.a., compared to an average growth rate of 4.5% in local currency in the years 2014 through 2018.

Despite the projection of slightly declining market due to cutbacks in the health sector, we regard the projected revenue development as reasonable given the expected growth in the market for para-pharmaceutical products and the current operating results.



After a moderate increase in **gross margin** in 2013, resulting from an improved product mix (increased proportion of para-pharmaceuticals), gross margins for the years 2014 to 2018 are projected to slightly exceed the 2013 level. This is expected to be driven by Celesio Group's dominant market position and the implementation of the EPN initiative (cf. section 2.4.4) which foresees an update of the product portfolio and in particular the further introduction of high-margin para-pharmaceuticals.

**Other operating income** primarily comprises reimbursements from suppliers whose products are advertised in promotion campaigns. In 2012 and 2013, other operating income has developed in line with the revenue level. Management projects that other operating income will increase at a slower rate than revenue in 2014 to 2018. This is due in particular to supplier rebates growing slower than revenue.

**Other operating expenses** comprise mainly the so-called FtB-recharge (cf. section 5.3.1), rental expenses and IT costs. In contrast to 2012 and 2013, in which other operating expenses developed in line with revenue, management projects a slight increase in the ratio of other operating expenses to revenue in 2014 and 2015. This is mainly driven by additional expenses related to the modernisation of the pharmacies. From 2016 onwards, a moderate decrease of the ratio is projected as rental expenses and IT costs grow more slowly than revenue. In addition, there is a strong increase in other operating expenses in 2015 to 2018 due to an adjustment of the FtB-recharge.<sup>92</sup>

Compared to the level of 2012 and 2013, **personnel expenses** are projected to increase continuously in 2014 to 2018. This is mainly driven by the inflation-related wage increase, which cannot be compensated by the continuous optimisation of the operating business.

Major **capital expenditure** projected concern the modernisation of pharmacies, the relocation of existing pharmacies to more favorable locations and IT. The investments projected for the Norwegian pharmacy business remain stable in nominal terms. The year 2014 is characterised by exceptional acquisitions of pharmacies. Overall the level of capital expenditure still ranges at the lower end of a reasonable bandwidth of comparable entities within the Celesio Group. In addition, replacement capital expenditure is also projected. As a consequence of capital expenditure in 2012 and 2013, the Celesio Group projects slightly higher **depreciation**.

A stable **working capital** level is projected for 2014 to 2018. It should be noted that the Norwegian subsidiary NMD is an integrated pharmaceutical service provider, meaning that the Pharmacy Solution division supplies the Consumer Solution division. Thus, payment terms for trade payables are of no significance since they are subject only to intercompany terms.

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<sup>92</sup> FtB-recharge will be consolidated on group level. Therefore, this strong increase is not relevant for the planning of the other operating expenses on group level.



Inventories are to be reduced through optimisation measures. Additionally, the payment terms for trade receivables are projected to reduce because of the changing product mix. In particular, the increased proportion of para-pharmaceutical products in revenue will reduce trade receivables because more of these tend to be settled in cash. Payment periods for trade payables are projected to lengthen due to active management. As described above trade payables are intercompany.

### ***Pharmacy Solutions Norway***

The Celesio Group operates in the pharmaceutical market via its subsidiary NMD. In general, NMD procures authorised pharmaceuticals and other products directly from the manufacturers. The main customers of NMD are private pharmacies (especially the cooperation pharmacy chain “DittApotek”), Vitusapotek<sup>93</sup> and hospitals. NMD’s product portfolio mainly includes prescription drugs, OTC products, generics and para-pharmaceutical products.

In 2012 and 2013 revenue of the Norwegian wholesale subsidiary NMD grew significantly, because of increased sales to cooperation pharmacies and strong growth in the hospital market. The loss of hospital business in 2015, as a result of the failed tender will significantly affect the future revenue development of NMD.

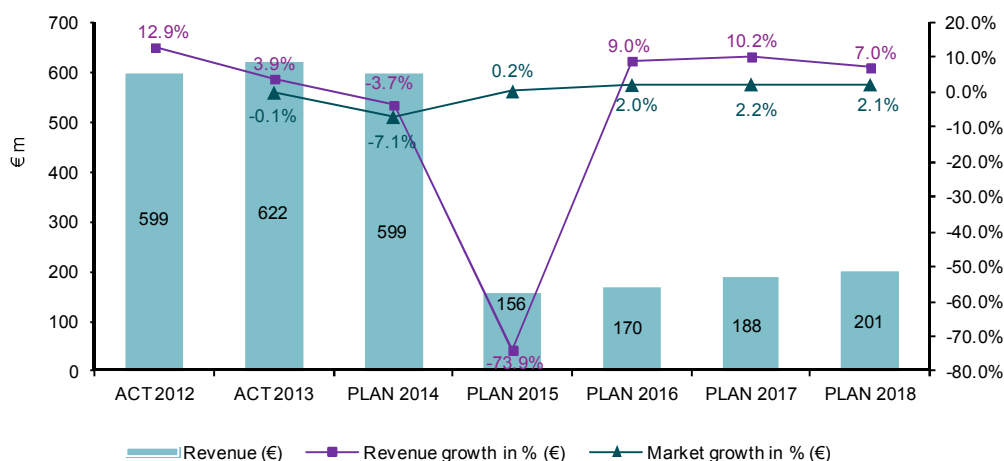
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<sup>93</sup> Vitusapotek is depicted here for illustrative purposes, but will not be considered in the consolidated group planning, which is underlying the valuation.



The chart below depicts the actual and projected revenue of the wholesale subsidiary NMD and market growth rates for the years 2012 to 2018 in Euro:

**Revenue compared to market growth (PS Norway)**



Source: Celesio AG, IMS Norway 2014, KPMG analysis.

According to the forecasts of IMS Norway 2014, the Norwegian pharmacy market will increase by an average of 1.8% p.a. for the years 2013 to 2018 (in local currency). This market growth is primarily driven by increasing disposable income and the introduction of innovative products. This development is partly offset by saving measures in the healthcare sector by the Norwegian government. Adjusted for currency effects, a slight market decline of 0.2% p.a. for the years 2013 to 2018 in Euro is projected.

In Euro terms the revenue development of the wholesale subsidiary NMD is projected to be above the growth rate for the pharmaceutical market projected by IMS Norway 2014 from 2015 onwards. According to the company, the drivers of this development are the increasing number of cooperation pharmacies and the accelerating liberalisation of online commerce, where NMD already operates a platform with a "first-mover" strategy, from which it hopes for a competitive advantage.



In the 2014 forecast growth is mainly driven by the hospital market which is expected to grow by 5.9% in local currency according to IMS Norway 2014.<sup>94</sup> In addition growth is generated by new cooperation pharmacies. In 2015 the sharp decline in revenue is explained by the loss of the entire hospital business. For the next four years (with an option of prolongation) the hospital market is contractually guaranteed to Alliance HealthCare Norge AS, the subsidiary of Alliance Boots GmbH, on basis of the tender. Since Alliance Boots GmbH has significantly reduced prices, the Celesio Group anticipates that the business may be less profitable in the future. To compensate this, a sustained focus on the pharmacy market is planned, which – extended by e-commerce – constitutes the major driver of projected growth for 2015 onwards.

The following table compares the revenue development of the wholesale subsidiary NMD for the years 2014 to 2018 with 2012 and 2013 in local currency and Euro:

Revenue								
in m	ACT 2012	ACT 2013	FC 2014	FC 2015	FC 2016	FC 2017	FC 2018	CAGR 2014-2018
Revenue (NOK)	4,475	4,846	5,004	1,323	1,442	1,590	1,701	
Revenue growth in % (NOK)	8.2%	8.3%	3.3%	-73.6%	9.0%	10.2%	7.0%	-18.9%
Revenue (€)	599	622	599	156	170	188	201	
Revenue growth in % (€)	12.9%	3.9%	-3.7%	-73.9%	9.0%	10.2%	7.0%	-20.2%

Source: Celesio AG, KPMG analysis.

Due to changes in foreign exchange rates, growth rates in Euro decrease significantly in 2013 and 2014 compared to 2012. Excluding the sharp drop in revenue in 2015, the projected compounded annual growth rate is 8.7% p.a. for 2016 to 2018. Despite the loss of the hospital market, we regard the projected revenue development as reasonable given Celesio Group's current leading market position and its current operating results.

**Gross margin** for 2012 and 2013 declines slightly due to pressure on sales prices. Because of the loss of the low-margin hospital business, management anticipates a significant increase in gross margin after 2015. With the strategic refocus of NMD, the company concentrates on the high-margin retail pharmacy market and thus expects to improve gross profit margin.

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<sup>94</sup> Cf. IMS Norway 2014, p. 17.



**Other operating income** comprises service charges between NMD and the Group's internal retail pharmacy chain Vitusapotek (FtB recharge, cf. section 5.3.1), which are consolidated on group level. From 2015 onwards, there is a strong projected increase in other operating income due to an adjustment of the FtB-recharge.<sup>95</sup>

**Other operating expenses** are mainly building expenses (e.g. leasing costs), transport costs and IT costs. While transport costs decline due to the loss of the hospital business, IT related costs and building expenses, being mainly fixed in nature, fall only marginally. Accordingly, a slight increase of other operating expenses is projected for the period 2015 to 2018.

NMD projects an increase in **personnel expenses** as a proportion of revenue in 2014 to 2018. In 2015 a reduction in personnel expenses is expected as a consequence of the lost tender. For 2016 to 2018 personnel expenses are projected to increase. This is mainly driven by inflation-related wage increases.

**Capital expenditure** primarily comprise replacements and maintenance investments. The planned investments in 2014 for the Norwegian wholesale business are related to IT projects and modernisation. In 2015 capital expenditure in the e-commerce business are considered. From 2016 onwards a typified ratio compared to revenue is applied. The overall level of investments projected is in a similar range to the other group wholesaler.

**Depreciations** is projected to slightly decrease because of some assets within property, plant and equipment becoming fully depreciated. A one-time increase in depreciation is planned in 2015 because of the e-commerce related capital expenditure. However, the average level of depreciation corresponds to 2012 (adjusted) and 2013.

Fairly stable **working capital** KPI's are projected for 2014 to 2018. It should be noted that the Norwegian subsidiary NMD represents an integrated pharmaceutical service provider, meaning that the Pharmacy Solution division supplies the Consumer Solution division (Vitusapotek). Therefore, trade accounts receivables primarily relate to affiliated companies (Vitusapotek) and are consolidated on group level. However, a portion of trade accounts receivables are allocated to the cooperation pharmacies ("DittApotek"). It is expected that the payment terms of trade accounts receivables will slightly decrease during the planning period. Due to an improved warehouse system, inventories are expected to be significantly reduced. In contrast, a slight shortening of the payment terms for accounts payable is projected.

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<sup>95</sup> FtB-recharge will be consolidated on group level. Therefore, this strong increase is not relevant for the planning of the other operating expenses on group level.



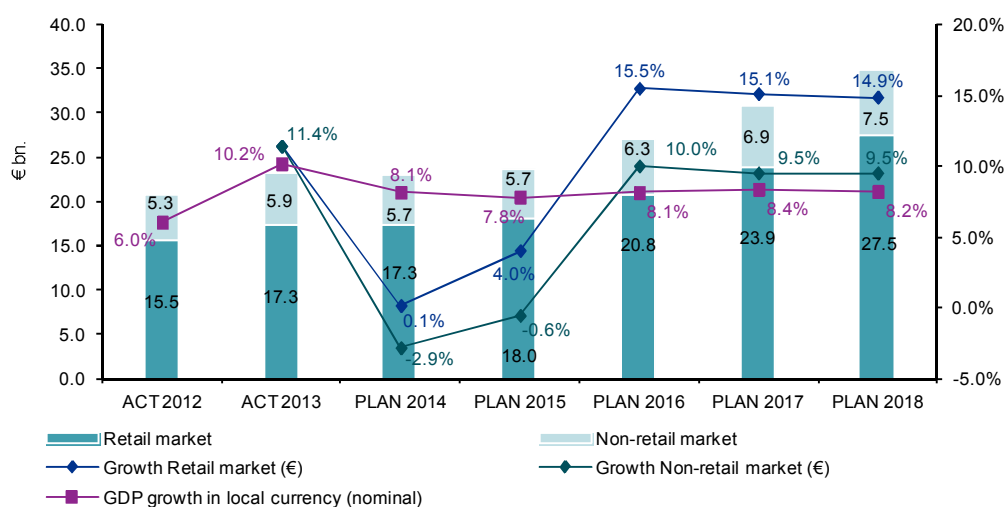
## Brazil

### Market and competition

According to IMS Health – IMS Market Prognosis 2014-2018 Latin America – Brazil (“IMS Brazil 2014”), the **Brazilian pharmaceutical market** consists of retail customers (pharmacies and supermarkets) and non-retail customers (e.g. hospitals, clinics) being predominately supplied with branded products, generics and OTC products. The Celesio Group subsidiary Panpharma is a leading wholesaler of the aforementioned product categories. The other Brazilian subsidiary, Oncoprod, is engaged in the distribution of specialty pharmaceuticals applied in the treatment of severe and chronic diseases, such as oncological diseases.

The chart below depicts the overall economic development, measured by the Brazilian nominal GDP, as well as the (expected) market volume for the retail and non-retail segment over the years 2012 to 2018 in Euro:

**Market development of retail and non-retail segment**



Source: IMS Brazil 2014, market volume in manufacturer selling price (before discounts), KPMG analysis.



According to EIU forecasts, Brazilian nominal GDP is expected to grow by 8.1% p.a. on average over the period 2014 to 2018. The development of Brazil's overall economy is expected to be impacted by the monetary policy of foreign industrialised countries and by social and political stability in domestic markets.<sup>96</sup>

The following table summarises the market development of the retail and non-retail market segment in local currency and Euro currency respectively:

Markt development Brazil								CAGR
in m	ACT 2012	ACT 2013	PLAN 2014	PLAN 2015	PLAN 2016	PLAN 2017	PLAN 2018	2014-2018
<b>Retail market</b>								
in BRL	41,986	49,334	56,950	65,537	75,679	87,114	100,063	
Growth in %		17.5%	15.4%	15.1%	15.5%	15.1%	14.9%	15.2%
in €	15,530	17,299	17,322	18,017	20,805	23,949	27,509	
Growth in %		11.4%	0.1%	4.0%	15.5%	15.1%	14.9%	9.7%
<b>Non-retail market</b>								
in BRL	14,311	16,815	18,832	20,716	22,787	24,952	27,323	
Growth in %		17.5%	12.0%	10.0%	10.0%	9.5%	9.5%	10.2%
in €	5,293	5,896	5,728	5,695	6,264	6,860	7,512	
Growth in %		11.4%	-2.9%	-0.6%	10.0%	9.5%	9.5%	5.0%
<b>Total market</b>								
in BRL	56,297	66,149	75,782	86,253	98,466	112,066	127,386	14.0%
in €	20,823	23,195	23,049	23,712	27,070	30,809	35,020	8.6%

Source: IMS Brazil 2014, market volume in manufacturer selling price (before discounts), KPMG analysis.

Over the period 2014 to 2018, the Brazilian market is projected to yield an average growth of 14.0% p.a. in local currency with the retail segment (expected average annual growth of 15.2%) to outperform the non-retail segment (expected average annual growth of 10.2%). According to IMS Brazil 2014, major market trends such as increased private wealth, the expansion of public health care spending, and the introduction of innovative and high quality pharmaceuticals will stimulate future revenue volumes.<sup>97</sup>

Foreign exchange effects, however, offset the positive development of the Brazilian market in local currency to some extent, as uncertainties relating to the overall economic development result in a depreciation of the Brazilian Real against the Euro in coming years. This trend is in line with the recent downgrade of the Brazilian country rating by S&P in March 2014. Those foreign exchange effects will significantly slow down the anticipated growth of the Brazil pharmaceutical market for the years 2014 and 2015. For the years after 2016, constant exchange rates are assumed.

<sup>96</sup> Cf. Celesio AG, Annual report 2013, p. 115.

<sup>97</sup> Cf. IMS Brazil 2014, p. 15.



The pharmaceutical distribution market is, due to Brazil's topographical situation, highly fragmented with several hundred **market participants** covering individual regional revenue areas. The bulk of pharmaceutical products however is distributed by approx. 20 wholesalers. In 2013, approx. half of the market was served by a triangle of pharmaceutical wholesalers including Santa Cruz Ltda., Profarma S.A. and the unit of Celesio Group subsidiaries Panpharma und Oncoprod. In Brazil, those leading wholesalers primarily distribute branded drugs, whereas small regional market players distribute generics.<sup>98</sup>

The retail segment consists of approx. 68,000 pharmacies with a trend towards consolidation into chains in recent years helped by a deregulated market environment. In 2013, pharmacy and supermarket chains accounted for 55% of retail revenue in pharmaceutical products which due to their direct supply by pharmaceutical manufacturers, represent a growing threat to wholesalers. Hence pharmaceutical wholesalers are anticipated to react to this changing market environment by vertical integration and own retail concepts, especially as this approach is permitted by law since March 2012.<sup>99</sup>

**Regulatory intervention** sets maximum prices of both the manufacturer and retail prices whenever a new product is launched. In the wholesale segment, the gross profit margins, discounts and rebates are not subject to government regulations; however gross profit margins of retailers are regulated by public bodies (e.g. the state Sao Paulo restricts the maximum markup to 38% of manufacturer selling price).<sup>100</sup> The annual price increases mainly represent partial compensation for general price inflation. Margins of wholesalers have come under growing pressure in recent years as manufacturers became more reluctant to grant discounts, accompanied by increasing competition from pharmacies and supermarket chains.<sup>101</sup>

Public health budgets, including the current government program Programa de Farmácia Popular, and the few private health insurers reimburse only a small proportion of pharmaceutical products (e.g. costly branded drugs or inexpensive generics). Thus, the Brazilian market may still be considered an out-of-pocket market that is strongly dependent on the state of the economy.

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<sup>98</sup> Cf. IMS Brazil 2014, p. 75.

<sup>99</sup> Cf. IMS Brazil 2014, p. 76.

<sup>100</sup> Cf. IMS Brazil 2014, p. 49.

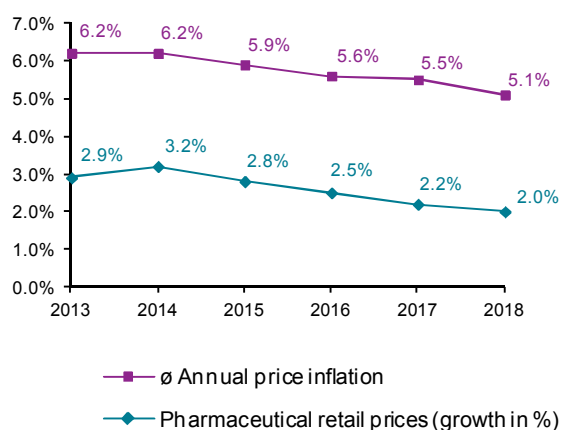
<sup>101</sup> Cf. IMS Brazil 2014, p. 15.



The establishment of an efficient health care structure is projected to stimulate demand for pharmaceuticals and positively affects the growth of the Brazilian pharmaceutical and healthcare market. The growth of prices is projected to slow down due to cost containment by public bodies and due to fierce competition. Further risk factors for the wholesale market are purchasing cooperatives of pharmacies and supermarkets.<sup>102</sup>

The chart below depicts the development of retail prices in comparison to the average annual consumer price inflation for the years 2013 to 2018:

**Price inflation and pharmaceutical prices in Brazil**



Source: EIU, IMS Brazil 2014.

According to IMS Brazil 2014, retail prices for pharmaceuticals will grow slower than the average inflation rate for Brazil as forecasted by the EIU. In the light of the increasing competition and the modest growth prospects for the Brazilian economy, averaging 2.6% p.a. over the period 2014 to 2018 once inflation is taken into account, it is not expected that drug prices will increase in line with the general inflation rate in the long run.

<sup>102</sup> Cf. IMS Brazil 2014, p. 40.



## ***Business plan analysis***

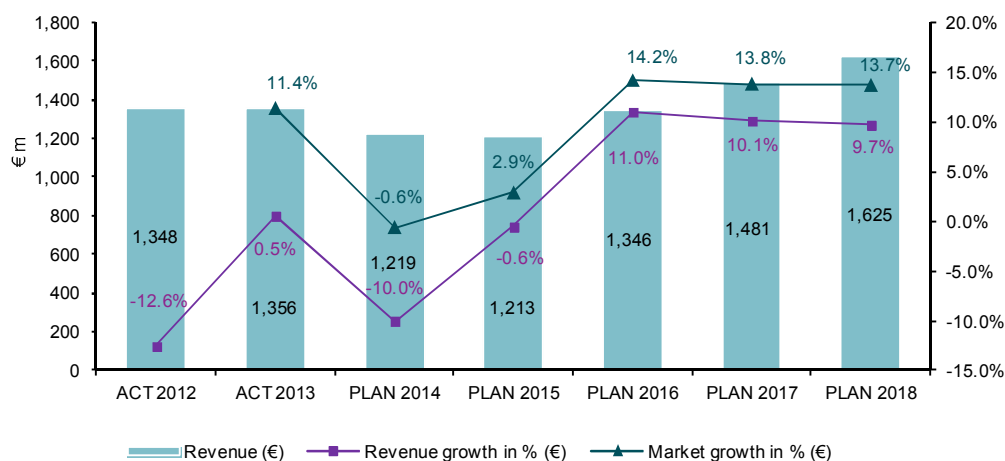
### ***Pharmacy Solutions Brazil Panpharma***

In Brazil, Celesio Group is engaged in the wholesale market via its subsidiary Panpharma and in the market for specialised drugs via its subsidiary Oncoprod. In 2009, the majority of Panpharma shares (50.1%) was acquired by Celesio Group. In 2012, Celesio Group acquired the remaining 49.9% from the former shareholder, the Panarello family. Panpharma mainly sources the drugs approved for the Brazilian market and other drugs distributed to pharmacies directly from manufacturers. Major customers of Panpharma are pharmacies, pharmacy chains and supermarkets. Panpharma's product portfolio mainly comprises branded drugs, OTC drugs, generics and so-called "branded generics" (generics distributed under an individual brand name).

2013 **revenue** growth of Panpharma in local currency (6.0%) was lower than the market growth of 17.5%. After the retirement of the former owner, Panpharma initiated a new strategic focus, especially on the high-margin product categories generics and OTC drugs in the "Health and Beauty" segment. Furthermore, Panpharma plans to increase its market share by expanding to areas in Northern Brazil. Besides, several measures to improve operational effectiveness regarding procurement and IT have been initiated.

The following chart shows the revenue projections of Panpharma for the years 2014 to 2018, compared to financial years 2012 and 2013, in Euro:

**Revenue compared to market growth (PS Brazil Panpharma)**



Source: Celesio AG, IMS Brazil 2014, KPMG analysis.



In addition to the above the following table shows Panpharma's revenue projections for the years 2014 to 2018, compared to 2012 and 2013, in local currency and in Euro, respectively:

Revenue							
in m	ACT 2012	ACT 2013	PLAN 2014	PLAN 2015	PLAN 2016	PLAN 2017	CAGR 2014-2018
Revenue (BRL)	3,646	3,866	4,009	4,411	4,895	5,389	5,909
Revenue growth in % (BRL)		6.0%	3.7%	10.0%	11.0%	10.1%	9.7%
Revenue (€)	1,348	1,356	1,219	1,213	1,346	1,481	1,625
Revenue growth in % (€)	-12.6%	0.5%	-10.0%	-0.6%	11.0%	10.1%	9.7%

Source: Celesio AG, KPMG analysis.

According to IMS Brazil 2014, the Brazilian market for pharmaceuticals is expected to grow by an average of 14.0% p.a. (in local currency) from 2014 to 2018 (cf. section "Brazil – Market and competition).

Compared to the IMS Brazil 2014, Panpharma expects a lower average revenue growth of 8.9% p.a. in local currency in 2014 to 2018. For 2014, Panpharma forecasts an increase in revenue of 3.7% in local currency. The main reason for the growth rate being below market expectations is the fact that the new revenue initiatives and measures to improve operational effectiveness initiated in 2013 do not deliver benefits until after 2014. From 2015 onwards, Panpharma expects a yearly growth rate between 9.7% and 11.0%, which requires also a slight gain in relevant market share.

The development of the various segments of the Brazilian pharmaceutical market as projected by Panpharma is in line with IMS Brazil 2014. However, for the most profitable product categories (generics and OTC products) Panpharma expects a higher volume growth compared to market expectations. For the other segments (prescription/patented drugs and branded generics) Panpharma's projections are significantly below market estimates. Panpharma's product portfolio is to be refocused through active promotion of generics and OTC drugs which will lead to a shift in the product mix at the expense of prescription/patented drugs. In addition Panpharma expects an increasing share of direct deliveries by the drugs manufacturers at the expense of wholesalers in the Brazilian market.

We regard the projected revenue development as feasible given the market drivers identified, the strategic reorientation and the targeted product mix of Panpharma.

Due to the expected strong devaluation of the Brazilian Real, projected growth rates in Euro are only an average of 3.7% p.a. over the planning period (assuming constant exchange rates from 2015 onwards). For 2014 and 2015, revenue growth in local currency corresponds to a revenue decline in Euro.

After a small increase of **gross margin** from 2012 to 2013, resulting from the newly implemented optimisation measures, Panpharma expects a further moderate increase for 2014.



From 2015 onwards, Panpharma anticipates continuously higher gross margins. This positive development mainly results from the change of the product mix, the targeted improvement in procurement terms, a more favourable rebate system and lower inventory write-offs.

**Other operating income** mainly comprises proceeds from advertising services, data deliveries and – in the historical figures – non-operational items. In the years 2011 to 2013, other operating income of Panpharma included one-time effects from tax reversals. Adjusted for those one-time effects, the development of other operating income from 2011 to 2013 was mainly in line with revenue growth. Proportional similar development was also assumed for 2014 to 2018.

**Other operating expenses** in 2012 and 2013 increased both in relation to revenue and in absolute terms. For 2014, Panpharma expects a further increase of other operating expenses in relation to revenue, due to expenses related to the revenue strategy implemented in 2013 and the measures related to the improvement of operational effectiveness. By increasing revenue and managing of costs effectiveness, Panpharma expects a continuous reduction of the ratio of other operating expenses to revenue from 2015 onwards.

**Personnel expenses** include salaries and wages as well as the cost of external service providers. Panpharma's personnel expenses increased in 2013 (in local currency), mainly due to inflation-related wage increases, which are set by the federal states in agreement with the unions. Despite further operational improvement programmes and lower headcount in some parts of the supply chain, Panpharma projects a slight increase in personnel expenses in relation to revenue from 2014 onwards. Overall, we note moderate increases in projected personnel expenses. This absolute increase comes from inflation-related wage increases and from recruitment of further qualified people. Panpharma projects that the continuous optimisation of the operating business will not fully offset the inflation-related wage increases. Thus, it is projected that the ratio of personnel expenses to revenue will increase.

Compared to previous years, Panpharma plans significantly higher capital investment in 2014 and 2015. Major **capital expenditure** concern the planned opening of two new branches in Northern parts of Brazil (in 2014 and 2015), the modernisation of IT and the automation of warehouse management. For 2016, Panpharma projects that the capital expenditure ratio (in relation to revenue) will decline again since the modernisation programme is planned to be completed by 2015. As a consequence, Panpharma expects higher **depreciation** compared to the adjusted depreciation of 2012 and 2013 in local currency.

Panpharma projects a continuous improvement of **working capital** in relation to revenue. In particular, Panpharma expects moderate improvements in payment terms for trade payables and receivables. The main further reason for improved working capital is the expected improvement of the inventory management resulting from several planned optimisation measures. Given the current logistic processes, which are capable of improvement, the expected reduction of the inventory level seems reasonable.

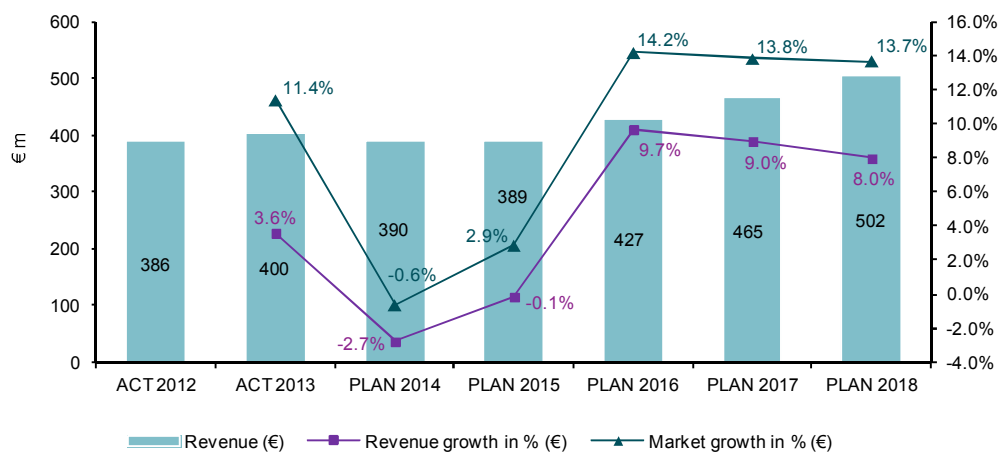


**Pharmacy Solutions Brazil Oncoprod**

In Brazil, the wholesale business with specialty pharmaceuticals is dominated by the Celesio Group subsidiary Oncoprod. In October 2011 Celesio Group acquired 60.0% of the subscribed capital of Oncoprod. Oncoprod owes its market leadership in large parts to its high-standard cold chain logistics which meet strict legal requirements imposed on the storage and handling of specialty pharmaceuticals. In general, specialty pharmaceuticals are medications to effectively treat a variety of chronic, severe and often rare diseases, while the company's core business roots lie in the distribution of oncology products.

The chart below depicts Oncoprod's revenue projections and the corresponding revenue growth rates for the years 2012 to 2018. Market growth rates over the same period refer to the overall pharmaceutical market in Brazil, illustrated in Euro:

### Revenue compared to market growth (PS Brazil Oncoprod)



Source: Celesio AG, IMS Brazil 2014, KPMG analysis.

In addition to the above the following table illustrates Oncoprod's revenue projections over the period 2014 to 2018 in local currency and Euro, compared to 2012 and 2013:

Revenue								
in Mio.	ACT 2012	ACT 2013	PLAN 2014	PLAN 2015	PLAN 2016	PLAN 2017	PLAN 2018	CAGR 2014-2018
Revenue (BRL)	1,045	1,142	1,281	1,415	1,552	1,692	1,827	
Revenue growth in % (BRL)		9.3%	12.1%	10.5%	9.7%	9.0%	8.0%	9.9%
Revenue (€)	386	400	390	389	427	465	502	
Revenue growth in % (€)		3.6%	-2.7%	-0.1%	9.7%	9.0%	8.0%	4.6%

Source: Celesio AG, KPMG analysis.

According to IMS Brazil 2014, the Brazilian market for pharmaceuticals will benefit from general market trends resulting in an average growth of 14.0% p.a. over the period 2014 to 2018 (cf. section “Brazil – Market and competition”). Strong increases in revenue volumes resulting



from growing consumer demand are expected to be accompanied by consumer price increases in a range of 5.1% and 6.2% from 2014 to 2018, based on market forecasts of the research provider EIU.

Distributing products predominantly to private clients (e.g. hospitals and medical centers) and public institutions, Oncoprod's revenue grew by 9.3% measured in local currency in 2013. This includes revenues with specialty pharmaceuticals sold to private clients via Oncoprod's growing retail channel.

For 2014, local management anticipates that revenue will grow by 12.1% in local currency, only partially reflecting the overall market growth estimated at 17.5% in local currency. Oncoprod's growth targets assume increased market shares in sales to private customers and the expansion of the current product portfolio – which is expected to benefit from the extension of reimbursement by public healthcare bodies to cover additional oncological pharmaceuticals. Revenue growth projections also assume an increasing willingness by consumers to assume expenses for specialty pharmaceuticals (e.g. dermatology products) and medical treatments (e.g. fertilisation checkup) at their own expense.

Revenue growth for Oncoprod's field of specialty pharmaceuticals (e.g. products to treat cancer, HIV and diabetes) is projected in a range between 8.0% and 10.0%, hence, being slightly below IMS Brazil 2014's forecasts for the overall pharmaceutical market. Anticipated product launches by the manufacturing industry targeted at diseases impacting a society which is growing in opulence, are also reflected in Oncoprod's growth targets.

Due to the expected further depreciation of the Brazilian Real against the Euro in the years 2014 to 2015 the five year annual average revenue growth over the period 2014 to 2018 is significantly lower in Euro terms (4.6%) as opposed to local currency (9.9%). For the years after 2016, stable exchange rates are assumed.

**Gross profit margin** for 2013 improved slightly compared to 2012 as purchase prices have been successfully renegotiated with pharmaceutical manufacturers. In 2014 to 2018, gross profit margins are projected to slightly exceed the 2013 level, as management expects to exploit its dominant market position, innovative business ideas (e.g. implementation of cold cabinets at customers sites as part of cold chain logistics) and long-standing business relations to further renegotiate procurement prices. According to industry estimations, product launches of specialty pharmaceuticals will positively affect gross margins in the industry.

**Other operating income** largely reflects income related to the reversal of allowances on trade receivables and compensation payments from manufacturers. The projected level of other operating income in relation to revenue is lower than in 2012 and 2013, where one-off items related to the change in shareholder were incurred in October 2011. Adjusted for one-off items,



the other operating income ratio (in % of revenue) was almost stable over previous years, and this is consistent with a stable ratio projected for 2014 to 2018.

**Other operating expenses** largely reflect transportation, IT and consulting fees for external services (e.g. tax advice). 2012 and 2013 included one-off items related to Celesio Group's acquisition of the company in October 2011 and one-off expenses from tax provisions. Adjusted for one-off items, the other operating expenses ratio (in % of revenue) was constant. For the years 2014 to 2018 management aims at improving operating efficiency (e.g. better usage of warehouses and modernisation of IT) and reducing transport related costs which is projected to result in decreasing other operating expenses in relation to revenue.

**Personnel expenses** in relation to revenue are projected to increase significantly from 2014 to 2018. Staff costs are impacted both by wage increases and the hiring of additional FTEs for expansion of the warehouse network, which is a long term strategic measure. Additional expenses were reflected to cover incentive payments to retain qualified staff, incidental wage costs and one-off costs arising from bringing external sales people onto the payroll.

**Capital expenditure** related to the expansion of Oncoprod's operating business (e.g. the construction of new warehouses in Campo Belo/Sao Paulo and Curitiba/Parana) were completed in 2012 and 2013. In 2014, the company plans the modernisation of IT, the replacement of several warehouses and the purchase of additional cold cabinets. For the years 2015 and thereafter capital expenditure mainly relates to maintenance and renewal of the operating asset base required to achieve Oncoprod's long term goals. Adjusted for amortisations related to PPA effects (according to accounting rules set out in IFRS 3), investments exceed depreciation in 2014 due to the significant capital expenditure described above. For 2015 to 2018 however, depreciation and amortisation slightly exceed the respective capital expenditure projected for these years.

Management plans to reduce **working capital** over the planning period. In prior years, high stock deliveries from manufacturers at year-end along with irregular payments from public customers (e.g. state prisons and other governmental institutions) caused high working capital levels at the end of the fiscal year, compared to other European wholesale subsidiaries of Celesio Group. For that reason, the procurement process is to be aligned more closely to customer demand in order to improve inventory turnover gradually after 2014. Payment terms for trade payables are projected to increase slightly, as purchase price negotiations with manufacturers are expected also to have a positive impact on payment terms. Payment terms for trade receivables are projected not to improve materially over the period 2014 to 2018, in the light of irregular payments from public customers in the past.



## Italy

### *Consumer Solutions Italy*

In 2013 Celesio AG operated 163 pharmacies in Northern Italy.

Since 2010 the Italian pharmacy market is declining. According to IMS Health – IMS Market Prognosis 2014-2018 Europe – Italy (“IMS Italy 2014”) an average market growth of 0.0% per year is expected for the years 2014 to 2018. The market development is expected to be negatively affected by declining prices for prescription drugs due to governmental promotion of generic medicines and general cutbacks in healthcare expenditure. In the regulated Italian market federal approval is required for the opening and closing of pharmacies. Usually approval is only granted if increased consumer demand can be demonstrated (e.g. significant population growth in a specific area).

Revenue of the segment Consumer Solutions decreased by 2.7% to €203.3 million in 2012 and increased by 1.5% to €206.4 million in 2013. The segment performed significantly better than the market, explained by strong growth in OTC products. For 2014 to 2018 an average growth in revenue of 0.7% p.a. is projected. This is to be achieved by the approved opening of pharmacies in 2014 and by the gradual strategic redesigning of existing pharmacies as part of the EPN initiative. The growth is assumed mainly to be driven by OTC products and parapharmaceuticals and related promotional activities.

Compared to 2011 and 2012 the EBIT margin in 2013 significantly increased due to a reduction in personnel expenses caused by renegotiations of employment contracts. For 2014 to 2018 a further continuous improvement in EBIT margin is projected due to a shift in the product mix towards OTC products.

Entry barriers into the Italian retail market are high because of regulation. Thus, existing pharmacies face limited competition. In light of the market development and considering the specific initiatives of the CS segment in Italy we regard the projections as reasonable.

### *Pharmacy Solutions Italy*

The Pharmacy Solutions segment in Italy is operated by Admenta Italia SpA and AFM SpA which supply about 2,000 customers in Northern Italy.

According to the IMS Italy 2014, the growth of the market for pharmaceutical products in Italy has steadily declined since the beginning of the Italian economic recession in mid 2011 and declined in 2012 by 0.8%. In 2013, the market recovered and grew by 2.7% mainly due to



higher demand for pharmaceuticals in hospitals. For the years 2014 to 2018, IMS Italy 2014 expects an average annual market growth rate of 2.4%. The introduction of new patent protected pharmaceuticals is assumed to be the main growth driver in the market. In addition, a significant effect is anticipated from the so-called DPC business (Distribuzione per Conto Audit). Under this arrangement, regional and local health authorities negotiate contracts directly with wholesalers and pharmacies and procure drugs centrally for dispensing by hospitals. Due to mandatory discounts incorporated in those contracts, local hospitals can benefit from savings, so many regions find this type of contract and attractive option. The market, which has been subject to only a low degree of governmental regulation, grew strongly in the last decade. However, according to IMS Italy 2014, cost saving measures planned by public bodies will lead to increased pressure on hospitals to curb spending, reducing demand in the market through 2018.

Against a declining market, developing -0.8%<sup>103</sup> in 2012, the wholesale revenue of the Celesio Group in Italy grew by 0.9%. Celesio's growth was mainly driven by a growing share of para-pharmaceutical products in the product mix. In 2013 revenues increased by 7.5% from €156.6 million to €168.4 million due to increases in revenue of para-pharmaceutical products, by using supermarkets as revenue channels and through the opening of a new warehouse in the region around Milan. The recently opened warehouse, along with the planned modernisation of a warehouse in Bologna are major growth drivers behind the projected average revenue increase of 13.8% p.a. from 2014 to 2018. Growth is also assumed from the implementation of the group wide initiatives End-to-End as well as OPR (cf. section 2.4.4). The full potential from these optimisation measures is projected to be fully realised by 2018.

EBIT margin is projected to remain at the 2012 and 2013 level. The decline in gross profit margin due to the acquisition of new customers and the subsequent change in product mix towards low margin patented drugs will have a negative impact. However, a reduction in personnel expenses due to economies of scale, growing automation and the outsourcing of services is expected to offset the decline in gross profit margins and permit stable EBIT margins.

In the light of the market development and the planned measures, we consider the projections of Pharmacy Solutions Italy to be plausible.

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<sup>103</sup> Cf. IMS Italy 2014, p. 11.



## Belgium

### *Consumer Solutions Belgium*

At year end 2013, Celesio Group operated 96 pharmacies in Belgium under the brand name “Lloydspharma”.

Since 2012, the Belgian pharmacy market is declining due to government health budget cuts. According to the IMS Health – IMS Market Prognosis 2014-2018 Europe – Belgium (“IMS Belgium 2014”), market recovery is not expected until 2015. Therefore an average annual revenue growth of only 0.7% is projected for the Belgian retail pharmacy market in the years 2014 to 2018. It is further expected that an increased demand for medication will be the major growth driver. This is partly based on the relatively high medication consumption rate per capita in Belgium compared to other European countries.

For the years 2012 and 2013, the Consumer Solutions division of Celesio Group in Belgium recorded a revenue decline of 6.5% in 2012 to €129.4 million and 3.5% in 2013 to €124.9 million. The declining revenue mainly reflects government health care cuts commenced in 2011. In addition, pharmacies were sold as a measure to optimise the pharmacy portfolio. Due to management measures, efficiency was, however, improved, giving an increase in EBIT margins.

In the years 2014 to 2018 an average annual growth rate of 3.3% is projected, which is primarily based on pharmacy modernisation measures as part of the EPN initiative. The gradual modernisation of all pharmacies is planned to be completed by 2018. According to IMS Belgium 2014, a positive development of the retail pharmacy market is projected from 2015 onwards, which should also have a positive impact on the existing business.

In 2012 the EBIT margin declined compared to the previous year, which was primarily caused by health budget cuts. Inventory impairment losses and increased restructuring also had a negative impact. The gross profit margin improved substantially in 2013 due to the initiatives commenced in procurement (TiC, cf. section 2.4.4) and through the introduction of a uniform discount scheme. At the same time efficiency improvements were achieved by closer integration of retail pharmacy and wholesale business in line with the group initiative End-to-End (cf. section 2.4.4), giving lower personnel expenses. The EBIT margin thus increased significantly in 2013 compared to the previous year. For 2014 a lower EBIT margin is expected compared to 2013. In 2014 Celesio Group anticipates only a minor growth in revenue for the Consumer Solutions segment in Belgium, based on the difficult market environment characterised by federal budget cuts and growing competition. However, other costs are expected to increase due to planned capital expenditure (especially in IT).

From 2015 to 2018 a slight improvement of EBIT margin is projected due to revenue growth, improvements in the personnel expense ratio, the effects of the procurements initiative (TiC, cf.



section 2.4.4), the ongoing modernisation of pharmacies (EPN; cf. section 2.4.4) and adjustments to the product mix in favor of OTC products and para-pharmaceuticals.

In the light of the competitive market environment, we consider the projections of the Consumer Solutions division in Belgium to be ambitious.

### ***Pharmacy Solutions Belgium***

The Belgian wholesale subsidiary Pharma Belgium nv had a market share of approx. 15% in 2013 and is one of the three major pharmacy wholesalers in the country. The Belgian wholesale market is highly fragmented, according to the Celesio Group, with the four largest market participants covering 76% of the overall market.

The reference market for the Belgian wholesale industry is the pharmacy market. Hospitals source medications directly from the producers and thus do not play a major role in the wholesale business. The pharmacy market is declining since 2012, caused primarily by federal cuts in the health care budget. According to IMS Belgium 2014 a reversal of this trend towards positive market growth rates is anticipated by 2015. This amounts to an expected average annual market growth rate of 0.7% for the years 2014 to 2018. Due to declining prices, the net margins of many wholesalers have fallen to an average of 1%. This development triggered a consolidation process in the market. On the other hand, wholesalers are forced to improve profitability by means of process optimisation (supply chain management), by offering supplementary services and by vertical integration.

Due to a fire at the company site in Brussels in 2012, an important warehouse and headquarters of Celesio Group in Belgium were destroyed. This was the main reason for the significant decline in revenue from €581.5 million in 2011 to €496.1 million in 2012. The resulting loss of market share led to a further decline of revenue in 2013 by 7.1% to €460.8 million. Due to costs incurred as a result of the fire, EBIT margin decreased significantly in 2012. On the other hand, insurance refunds led to an EBIT improvement in 2013. Adjusting for these one-off items, EBIT-margin decreased in 2014. Through a fundamental overhaul of services offered to pharmacies, including extensive customisation options, the negative revenue development is projected to stabilise, with a decline of only 1.1% in 2014. From 2015 to 2018 annual revenue growth of 2.9% on average is assumed. This produces an increase in EBIT margin. These targets are planned to be achieved mainly by the launch of the central warehouse between Brussels and Antwerp at the beginning of 2015. With this central warehouse, delivery processes should be handled significantly more cost-efficiently due to the size and degree of automation compared to the existing warehouses. In the medium term, Pharma Belgium nv expects to win back market share. Furthermore, the anticipated market growth beginning in 2016 according to IMS Belgium 2014 is expected to positively impact the business of Pharma Belgium nv.



In the light of the anticipated market development as well as the initiatives planned, we consider the proposed planning of the Pharmacy Solutions segment in Belgium to be plausible.

## Denmark

### *Pharmacy Solutions Denmark*

The Danish Celesio wholesale subsidiary Tjellsen Max Jenne A/S (“TMJ”) had a market share of approx. 33% in 2013. Around 67% of the Danish wholesale market is controlled by the competitor Nomeco A/S, a subsidiary of the German PHOENIX Pharmahandel GmbH & Co.KG.

The relevant total market comprises the demand for pharmaceuticals by hospitals and pharmacies. According to the IMS Health – IMS Market Prognosis 2014-2018 Europe – Denmark (“IMS Denmark 2014”), market volume declined by 1.2% and 1.0% in 2011 and 2012, respectively. This is due to federal austerity measures and high competition from cheap parallel imports. In 2013, the market further declined by 1.7% caused by price pressure from the federal price freeze for prescription drugs as well as the substitution of several patented pharmaceuticals by generics. From 2014 to 2018, a moderate increase of prices is projected, due to the launch of new patented drugs. However, the positive growth rates are primarily driven by volume growth, with increasing demand for drugs as a result of demographics and more health awareness. IMS Denmark 2014 projects an average annual growth rate of 1.5% for the years 2014 to 2018.

Despite the market downturn in 2012, TMJ was able to increase its market share through aggressive sales as well as marketing measures and increased revenue by 7.9% from €448.2 million to €483.6 million. Due to an impairment write-down of intangible assets in 2011, the 2011 EBIT cannot be compared directly with 2012. Adjusted for the effect of the impairment loss, a slight improvement in the EBIT margin was realised in 2012, due to the changes in product mix related to newly acquired pharmacy customers. In 2013, revenue declined sharply by 19.5% to €389.2 million. €69.0 million of this concerns a changed revenue reporting. The remaining decline of €25.4 million is attributed to the negative price development in the market. For 2014, an increase of revenue by 8.2% to €421.2 million is projected. The growth is assumed to be achieved by continuing the revenue and marketing activities, aimed at further increasing market share. By further optimising the procurement processes and conditions under the TiC initiative, a slight improvement in the EBIT margin should be achieved. In the years 2015 to 2018 an average increase in revenue of 1.9% p.a. is assumed mainly due to the acquisition of market share, in particular with private pharmacies. As a result of the proportion of pharmacy customers, a shift in the product mix towards higher margin drugs and ultimately an



improvement in the EBIT margin is projected. In addition, revenue growth is supported by the positive market development as anticipated by IMS Denmark 2014.

In the light of the market development, the competitive position of TMJ and the planned operational improvements, we consider the projections of Pharmacy Solutions Denmark to be plausible.

## Ireland

### *Consumer Solutions Ireland*

In Ireland Celesio Group operates its own chain of pharmacies under the brand name Lloydspharmacy and is one of the largest pharmacy chains in the country.

The Irish pharmacy market consists of independent pharmacies as well as pharmacy chains and is characterised by intense competition due to high pharmacy density and a low income per capita.

Revenue of Lloydspharmacy declined in 2013. Compared to 2012, revenue fell by 7.0% from €133.0 million to €123.7 million, which was primarily driven by federal cuts in reimbursement prices of prescription drugs. Despite an anticipated minor decline in market volume in 2014 reflecting government measures, but taking into account planned new store openings and acquisitions, Celesio Group projects revenue growth of 4.2% to €128.9 million in Ireland in 2014. In 2015 to 2018 an average annual revenue growth rate of 3.7% is assumed. This is driven by the expected market growth, the strategic positioning of Lloydspharmacy pharmacies as part of the EPN initiative (cf. section 2.4.4) and the introduction of new services for nursing facilities.

From 2012 to 2013 EBIT margin improved significantly mainly due to a higher share of revenue of high margin generics. For 2014 EBIT margin is forecast to fall significantly compared to 2013 due to austerity measures. From 2015 to 2018 an overall increase in EBIT margin is projected, caused by a slight increase of gross profit margin, planned efficiency improvements in human resources as well as fixed cost leverage.

In the light of the high competitive pressure, and despite the good market position of Celesio Group in Ireland, we consider the projections to be ambitious.



## Slovenia

### *Pharmacy Solutions Slovenia*

The Slovenian wholesale business of Celesio Group, Kemofarmacija d.d. (“Kemofamacija”), supplies pharmacies and hospitals and is the market leader with a market share of approx. 38% in 2013. The largest competitors are Salus d.d., Ljubljana (market share 2013: approx. 28%) and Farmadent d.o.o (approx. 16%). Moreover, in the region Ljubljana the wholesaler LL Grosist d.o.o. (local market share approx. 20%) is relevant.

The relevant market comprises the demand of hospitals and pharmacies for pharmaceuticals and represents a volume of about €511 million in 2013. Around 75% of all pharmacies belong to one of the 24 public pharmacy chains. Private pharmacy chains are not permitted. Both hospitals and pharmacy chains conduct public tenders for the sourcing of pharmaceuticals. The Slovenian GDP is declining since 2011 in light of the European Sovereign Debt crisis. A return to positive growth rates is not expected until 2015.<sup>104</sup> The weak economic situation of Slovenia led to drastic cuts in the federal healthcare budget, which had a direct negative impact on the development of the total pharmaceutical market.

Due to the deteriorating economic situation since 2011 and the loss of a major customer in 2012, who started his own pharmaceutical wholesale business, and thereby intensified the competitive situation in the Slovenian wholesale market, Kemofarmacija suffered a decline in revenue in 2012 of 4.4%, from €284.3 million to €271.7 million. As a result impairment losses were incurred which depressed EBIT margin significantly. The impact of the changing competitive environment led to a further decline in revenue in 2013 of 9.5%, to €245.9 million. The EBIT margin improved significantly in 2013 compared to 2012 due to the non-recurring character of the impairment losses recorded in 2012. In 2014, a further decline in revenue by 8.5% is anticipated.. Additional federal initiatives regarding the healthcare budget are anticipated. It is also expected that the EBIT margin will decline as the cost base cannot be adjusted fully in reaction to declining revenue, due to fixed cost elements. For 2015 to 2018 an average annual revenue growth rate of 0.8% is forecasted. In 2015 a slight decrease in revenue is projected, but in 2016 growth, driven by the group wide EPN initiative, in which Kemofarmacija will introduce a comprehensive range of services for pharmacies. These include concerted marketing campaigns and support and advice on optimising the assortment of non-prescription drugs. Through the combination of offerings with minimum order volumes, pharmacies should be closer tied to the wholesaler Kemofarmacija. Another important effect is the increase in revenue with non-prescription medication which, due to higher than average gross profit margins, is projected to lead to a slight increase in EBIT margin through 2018.

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<sup>104</sup> Cf. Economist Intelligence Unit, Viewswire Data Tool - Key economic forecasts for 82 countries, 8 May 2014.



In the light of the economic development and considering of the competitive position of Kemofarmacija and the planned operational measures, we consider the projections Pharmacy Solutions Slovenia to be plausible.

## Portugal

### *Pharmacy Solutions Portugal*

The Portuguese wholesale subsidiary OCP Portugal S.A. ("OCP Portugal") had a market share of 21.7% in 2013. The largest competitor is Alliance Healthcare S.A. with a market share of 29.2% in 2013.

The Portuguese market comprises the demand of hospitals and pharmacies for pharmaceuticals. According to IMS Health – IMS Market Prognosis 2014-2018 Europe – Portugal ("IMS Portugal 2014"), market volume has declined strongly since 2009 due to austerity measures caused by high federal debt levels. This particularly impacted the pharmacy sector, where market volume declined by 10.4% and 8.8% in the years 2011 and 2012, respectively. This was primarily price-related. In 2013, the market declined by a further 3.5%, again caused by price pressure from federal health budget cuts. A slight easing of the market is expected due to the expiry of international financial support in May 2014, releasing Portugal from for the constriction of austerity measures. The projected revenue decline for 2014 according to IMS Portugal 2014 amounts to only 0.6% and is mainly due to planned austerity measures in the hospital sector. An average annual market growth rate of 0.4% is anticipated by IMS Portugal 2014 for the years 2015 to 2018, due to an increase in volume triggered by demographic change. However, it can be expected that price pressure will continue to be high in the period 2015 to 2018.

In 2012 revenue of OCP Portugal declined by 4.2% from €460.5 million to €441.0 million which was due to cuts in the federal health budget. In 2013, revenue increased by 6.8% to €471.0 million which was primarily driven by growth in market share. EBIT margin improved significantly, due to the avoidance of bad debt losses by introducing a more thorough credit risk monitoring of customers. In 2014, a further increase in revenue of 3.6% to €488.1 million is projected, from gains in market share. This is based on the assumption that smaller wholesalers will experience financial difficulties due to higher default rates on outstanding receivables, and thus disappear from the market. EBIT margin in 2014 is expected to improve further due to process optimisations in the group wide End-to-End initiative (cf. section 2.4.4). For 2015 to 2018 average annual revenue growth of 1.3% is projected. This growth is to be realised by gradually gaining further market share. Due to the high customer credit risk, it is assumed that a number of smaller wholesalers will further lose market share or disappear from the market. The



EBIT margin of OCP Portugal in the period 2015 to 2018 is anticipated to remain at the 2014 level.

In the light of the market development and the good competitive position of OCP Portugal, we consider the projections to be plausible.

## Sweden

### *Consumer Solutions Sweden*

Since 2010 Celesio AG operates an own pharmacy chain in Sweden. In line with the Celesio Group strategy to build a uniform pharmacy brand the name was changed from “DocMorris” to “Lloydsapothek”.

A substantial part of the Swedish pharmaceutical market was liberalised in 2010 by dissolving the public pharmacy monopoly. As a consequence several pharmacy chains tried to establish themselves in the market, resulting in intense competition. According to IMS Health – IMS Market Prognosis 2014-2018 Europe – Sweden (“IMS Sweden 2014”) an average market growth of -1.0% p.a. is projected from 2014 to 2018. Therefore, growth can only be achieved by gaining market shares, particularly from the state-owned pharmacy chain “Apoteket AB” which served approx. 32.0% of the Swedish retail market in 2013.

In 2012 revenues of Celesio Group increased by 34.6% from SEK793 million (€87.8 million) to SEK1,067.2 million (€122.7) since the company was in its buildup phase. In 2013 revenues further increased by 10.4% to SEK1,178.1 million (€136.2 million). However, this growth in revenues was lower than the budgeted growth of 16.7% since Celesio AG was not able to gain budgeted market shares. For 2014 to 2018 an average growth in revenues of 12.0% p.a., primarily driven by increased market share by means of new openings and organic growth, is projected.

As the segment Consumer Solutions is still at an early stage of development the EBIT of the segment was negative until 2013. Break-even point is forecast in 2014. The projections reflect a growth of EBIT margin, reaching the level achieved by the Celesio Group as a whole by 2018.



Being the smallest pharmacy chain in Sweden, Celesio Group faces a challenging market environment. In addition, the market position of competitors is growing stronger, with a series of takeovers in 2013; further consolidation is expected in 2014 and 2015. However, the strategic plan of Celesio AG does not include acquisitions. The distribution of pharmaceuticals in Sweden is dominated by a duopoly of the wholesalers, Tamro AB and Oriola AB. Pharmacies attempt to counter the dominant market position of the duopoly by establishing purchasing cooperatives. However, Celesio Group expects that several pharmacy chains will merge and withdraw from their present purchasing cooperatives to conclude their own contracts with wholesalers in the period through 2018 and after. The resulting decrease in size of purchasing cooperatives will have an impact on the enforceability of attractive purchasing terms and on the gross profit margins of smaller pharmacy chains (e.g. Lloydsapothek). Celesio Group faces further risks due to the limited availability of retail space in prime locations. Its strategy of differentiation from larger competitors is still in the initial phase. Accordingly, we consider the projections of Celesio Group in Sweden to be optimistic.



## Appendix 4: Draft of the domination and profit and loss transfer agreement between Dragonfly GmbH & Co. KGaA and Celesio AG (dated: 14 May 2014)

NON-BINDING ENGLISH CONVENIENCE TRANSLATION

Draft: 14 May 2014

### **Domination and Profit and Loss Transfer Agreement**

between

Celesio AG, Neckartalstraße 155, 70376 Stuttgart  
registered in the commercial register (*Handelsregister*) at the Local Court  
(*Amtsgericht*) Stuttgart (HRB 9517)  
(“*Celesio*”)

and

Dragonfly GmbH & Co. KGaA, Eschenheimer Anlage 1, 60316 Frankfurt am Main  
registered in the commercial register (*Handelsregister*) at the Local Court  
(*Amtsgericht*) Frankfurt am Main  
(HRB 97726)  
(“*Dragonfly*”)



NON-BINDING ENGLISH CONVENIENCE TRANSLATION

Draft: 14 May 2014

**§ 1 Management Control**

- (1) Celesio submits the management control (*Leitung*) of its company to Dragonfly. Dragonfly is accordingly entitled to issue instructions (*Weisungen*) to the management board of Celesio with regard to the management control of the company.
- (2) The management board of Celesio is required to comply with the instructions of Dragonfly. Dragonfly is not entitled to issue the instruction to the management board of Celesio to amend, maintain or terminate this Agreement.
- (3) Any instructions require text form (*Textform*) or, if the instructions are issued orally, they shall be confirmed in text form without undue delay.

**§ 2 Transfer of Profit**

- (1) Celesio undertakes to transfer its entire annual profit (*Gewinnabführung*) to Dragonfly. Subject to establishing or dissolving reserves in accordance with Clause 2 para 2 of this Agreement below, the maximum amount permissible under section 301 German Stock Corporation Act (*Aktiengesetz* – "**AktG**"), as amended from time to time, shall be transferred.
- (2) Celesio may, with the written consent of Dragonfly, allocate parts of its annual profit to other profit reserves if and to the extent permissible under commercial law and as economically justified by reasonable commercial judgement. Upon the written request of Dragonfly, Celesio shall dissolve other profit reserves established during the course of this Agreement and use the proceeds to compensate for any annual loss or transfer the proceeds as profit. Other reserves or profits carried forward from the period prior to the term of this Agreement may neither be transferred as profit nor be used to compensate for any annual loss.
- (3) The obligation to transfer the annual profit applies for the first time to the entire profits generated in the fiscal year of Celesio beginning on 1 January 2015 or for whichever subsequent fiscal year in which this Agreement becomes effective according to Clause 6 para 2 of this Agreement. The obligation according to sentence 1 becomes due upon the end of the fiscal year of Celesio and shall bear interest from this point on at an interest rate of 5% p.a.



NON-BINDING ENGLISH CONVENIENCE TRANSLATION

Draft: 14 May 2014

**§ 3 Assumption of Losses**

- (1) Dragonfly is obliged towards Celesio to assume any losses (*Verlustübernahme*) according to the provisions of section 302 AktG in its entirety as amended from time to time.
- (2) The obligation to assume any losses applies for the first time to the entire fiscal year in which this Agreement becomes effective according to Clause 6 para 2 of this Agreement. Clause 2 para 3 sentence 2 applies accordingly to the obligation to assume any losses.

**§ 4 Guaranteed Dividend and Recurring Compensation Payment**

- (1) Dragonfly guarantees that it will pay to the outside shareholders of Celesio in respect of the fiscal year 2014 of Celesio a certain portion of the profit pursuant to Clause 4 para 3 below as adequate cash compensation ("**Guaranteed Dividend**") (*Garantiedividende*). To the extent that the dividend (including any payments on account) paid in respect of the fiscal year 2014 by Celesio for each share of Celesio falls short of the Guaranteed Dividend, Dragonfly will pay to each outside shareholder of Celesio the corresponding difference per share. Payment of any such difference is due on the first banking day after the ordinary general shareholders' meeting of Celesio for Celesio's fiscal year 2014.
- (2) Dragonfly undertakes to pay to the outside shareholders of Celesio a recurring annual cash compensation ("**Recurring Compensation Payment**") (*Ausgleichszahlung*) from and including the fiscal year of Celesio in relation to which the claim of Dragonfly for the transfer of the annual profit under Clause 2 takes effect, and for the further duration of this Agreement.
- (3) The Guaranteed Dividend and the Recurring Compensation Payment (together "**Recurring Compensation**") amount for each full fiscal year of Celesio for each no-par value registered ordinary voting share (*Aktien ohne Nennbetrag*) in Celesio, representing a mathematical portion of EUR 1.28 in the share capital (each "**Celesio Share**" and when taken together "**Celesio Shares**") to a gross sum (*Bruttobetrag*) of EUR 0.83 minus the amount of any corporate income tax and the solidarity surcharge in accordance with the respective tax rate applicable for these taxes for the relevant fiscal year, whereby this deduction is to be effected only on any portion of the gross sum resulting from profits which are subject to German corporate income tax. When rounded to a full



NON-BINDING ENGLISH CONVENIENCE TRANSLATION

Draft: 14 May 2014

Cent-amount in accordance with commercial practices, this portion of the gross sum amounts to EUR 0.00, meaning that no deduction is to be carried out in this respect. The Recurring Compensation Payment is due on the first banking day following the ordinary general shareholders' meeting of Celesio for any respective preceding fiscal year but in any event within eight months following expiration of the relevant fiscal year.

- (4) The Guaranteed Dividend is granted for the fiscal year 2014 of Celesio if this Agreement becomes effective in the year 2014. The Recurring Compensation Payment is granted for the first time for the full fiscal year of Celesio for which the claim of Dragonfly for transfer of profit under Clause 2 becomes effective. If this Agreement ends during a fiscal year of Celesio or if Celesio establishes an abbreviated fiscal year (*Rumpfgeschäftsjahr*) for a period during the course of this Agreement, the Recurring Compensation is reduced *pro rata temporis* for the relevant fiscal year.
- (5) If the share capital of Celesio is increased from the reserves in exchange for the issuance of new shares, the Recurring Compensation for each Celesio Share is reduced to such an extent that the total amount of the Recurring Compensation remains unchanged. If the share capital of Celesio is increased by cash contributions and/or contributions in kind, the rights under this Clause 4 also apply for the shares subscribed to by outside shareholders in such capital increase. The beginning of each entitlement of the new shares pursuant to this Clause 4 corresponds to the dividend entitlement set by Celesio when issuing the new shares.
- (6) If an appraisal proceeding (*Spruchverfahren*) according to the German Act on Appraisal Proceedings (*Spruchverfahrensgesetz*) is initiated and the court adjudicates a legally binding higher Guaranteed Dividend and/or Recurring Compensation Payment, the outside shareholders, even if they have already been compensated according to Clause 5, are entitled to demand a corresponding additional payment to the Guaranteed Dividend and/or Recurring Compensation Payment. Likewise all other outside shareholders will be treated in the same way if Dragonfly undertakes to pay a higher Guaranteed Dividend and/or Recurring Compensation Payment to an outside shareholder of Celesio in a court settlement (*gerichtlicher Vergleich*) for the purpose of avoiding or settling judicial appraisal proceedings (*Spruchverfahren*).



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Draft: 14 May 2014

**§ 5 Compensation**

- (1) Dragonfly undertakes upon demand of each outside shareholder of Celesio to purchase such shareholder's Celesio Shares in exchange for a cash compensation ("**Compensation**") (*Abfindung*) in the amount of EUR 22.99 for each Celesio Share.
- (2) The obligation of Dragonfly to purchase Celesio Shares is for a limited period of time. The time limitation period ends two months after the date on which the registration of this Agreement in the commercial register at the registered seat of Celesio has been announced pursuant to section 10 German Commercial Code (*Handelsgesetzbuch* – "**HGB**"). An extension of the time limitation period pursuant to section 305 para. 4 sentence 3 AktG as a result of a motion for determining the Recurring Compensation or Compensation by the court determined according to section 2 of the German Act on Appraisal Proceedings remains unaffected. In this case, the time limitation period ends two months after the date on which the decision on the last motion ruled on has been announced in the Federal Gazette (*Bundesanzeiger*).
- (3) If the share capital of Celesio is increased from the reserves in exchange for the issuance of new shares prior to the expiration of the time limitation period set forth in Clause 5 para 2, the Compensation for each share is reduced to such an extent that the total amount of the Compensation remains unchanged. If the share capital of Celesio is increased prior to the expiration of the time limitation period set forth in Clause 5 para 2 by means of cash contributions and/or contributions in kind, the rights under this Clause 5 also apply for the shares subscribed to by the outside shareholders in such capital increase.
- (4) The transfer of the Celesio Shares for Compensation is free of costs for the outside shareholders of Celesio.
- (5) If an appraisal proceeding pursuant to the German Act on Appraisal Proceedings is initiated and the court adjudicates a legally binding higher Compensation, the outside shareholders, even if they have already been compensated, are entitled to demand a corresponding additional payment to the Compensation. Likewise all other outside shareholders will be treated in the same way if Dragonfly undertakes in a court settlement to pay a higher Compensation to an outside shareholder of Celesio for the purpose of avoiding or settling judicial appraisal proceedings.



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- (6) If this Agreement is terminated by notice of termination by Dragonfly or Celesio at a point in time when the time limitation period set forth in Clause 5 para 2 for accepting the Compensation pursuant to Clause 5 para 1 has already expired, each outside shareholder of Celesio at that time is entitled to sell his Celesio Shares held at the time of the termination of this Agreement to Dragonfly in exchange for payment of the Compensation set forth in Clause 5 para 1 for each Celesio Share and Dragonfly is required to purchase the shares of each outside shareholder upon request of such outside shareholder. If the Compensation set forth in Clause 5 para 1 for each Celesio Share is increased by a legally binding decision in judicial appraisal proceedings or in a court settlement for the purpose of avoiding or settling judicial appraisal proceedings, Dragonfly will purchase the shares of the outside shareholders under the preconditions set forth in sentence 1 in exchange for payment of the amount established for each Celesio Share in the judicial appraisal proceedings or the court settlement. The right to sell pursuant to this Clause 5 para 6 is for a limited period of time. The time limitation period ends two months after the date on which the registration of the termination of this Agreement in the commercial register of Celesio is announced pursuant to section 10 HGB. Clause 5 para 3 and Clause 5 para 4 apply accordingly.

**§ 6 Effectiveness and Term of this Agreement**

- (1) This Agreement requires for its effectiveness each the consent of the general shareholders' meeting of Celesio as well as the consent of the general shareholders' meeting of Dragonfly.
- (2) This Agreement becomes effective upon registration of its existence in the commercial register at the registered seat of Celesio.
- (3) This Agreement is concluded for an indefinite period of time. It can be terminated in writing with a notice period of six month to the end of the fiscal year of Celesio. This Agreement can be terminated for the first time as of the end of the fiscal year that ends at least five years (*Zeitjahre*) (60 months) after the beginning of the fiscal year of Celesio for which the obligation of Celesio to transfer its entire annual profit (*Gewinnabführung*) pursuant to Clause 2 becomes effective.
- (4) Each party can terminate this Agreement for good cause (*wichtiger Grund*) without compliance with any notice period. Good cause exists in particular if



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Draft: 14 May 2014

good cause for purposes of German tax law for the termination of this Agreement exists.

- (5) Any notice of termination must be in writing.

### § 7 Comfort Letter

McKesson Corporation with seat in San Francisco, California, USA ("McKesson") indirectly holds 100% of the shares in Dragonfly and in this capacity as indirect shareholder, has without joining the Agreement as a party provided the comfort letter attached for information purposes to this Agreement as an Annex. In this comfort letter McKesson undertakes without limitation and irrevocably to ensure, that Dragonfly will be financially equipped in a way that Dragonfly is at all times able to fulfil all its obligations arising from or in connection with this Agreement completely and in time. This applies in particular to the obligation to compensate losses pursuant to section 302 AktG. McKesson undertakes towards the outside shareholders of Celesio irrevocably and in principle without limitation that Dragonfly fulfils all its obligations towards them arising from or in connection with this Agreement completely and in time, in particular with respect to the Guaranteed Dividend, the Recurring Compensation Payment and the Compensation. To that extent the outside shareholders of Celesio have an own claim according to section 328 para. 1 German Civil Code (*Bürgerliches Gesetzbuch* – "**BGB**") directed at payment to Dragonfly. This claim and the corresponding liability of McKesson towards the outside shareholders however only apply if Dragonfly does not fulfil its obligations towards the outside shareholders of Celesio arising from or in connection with this Agreement completely and in time and McKesson does not comply with its obligation to equip Dragonfly.

### § 8 Miscellaneous

To the extent a provision of this Agreement is or becomes invalid or impracticable in full or in part, or if this Agreement does not contain a necessary provision, the validity of the remaining provisions of this Agreement shall not be affected. In place of the invalid or impracticable provision, or in order to remedy an omission in this Agreement, an appropriate provision shall apply which corresponds as far as legally permissible to what the Parties intended or would have intended in accordance with the intent and purpose of this Agreement if they had been aware of the provision.



NON-BINDING ENGLISH CONVENIENCE TRANSLATION

Draft: 14 May 2014

**Celesio AG**

Stuttgart, 22 May 2014

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Dr. Marion Helmes

Speaker of the Management  
Board

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Stephan Borchert

Member of the Management  
Board

**Dragonfly GmbH & Co. KGaA**

Frankfurt am Main, 22 May 2014

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Roger Wade Estey

as managing director of Dragonfly Verwaltungs GmbH with said entity acting in its capacity as general partner of Dragonfly GmbH & Co. KGaA

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Willie C. Bogan

as managing director of Dragonfly Verwaltungs GmbH with said entity acting in its capacity as general partner of Dragonfly GmbH & Co. KGaA

Annex: Comfort Letter of McKesson Corporation



NON-BINDING ENGLISH CONVENIENCE TRANSLATION

[Letterhead of McKesson]

McKesson Corporation, San Francisco, USA

San Francisco, 20 May 2014

Celesio AG  
Neckartalstraße 155  
70376 Stuttgart  
Germany,

**Comfort Letter (*Patronatserklärung*)**

Dragonfly GmbH & Co. KGaA, Eschenheimer Anlage 1, 60316 Frankfurt am Main, Germany, registered in the commercial register (*Handelsregister*) at the Local Court (*Amtsgericht*) Frankfurt am Main under company number HRB 97726 ("**Dragonfly**"), intends to enter into a domination and profit and loss transfer agreement ("**Agreement**") (*Beherrschungs- und Gewinnabführungsvertrag*) with Celesio AG, Neckartalstraße 155, 70376 Stuttgart, Germany, registered in the commercial register at the Local Court Stuttgart under company number HRB 9517 ("**Celesio**"), with Celesio as the controlled and profit transferring company. McKesson Corporation, a stock corporation incorporated and operating under the laws of Delaware, USA, with registered office in San Francisco / California, USA ("**McKesson**"), indirectly holds 100% of the shares in Dragonfly. McKesson hereby makes the following declarations without joining the Agreement as a party:

1. McKesson undertakes without limitation and irrevocably to ensure, that Dragonfly will be financially equipped in such a way that Dragonfly is at all times able to fulfil all its obligations arising from or in connection with the Agreement completely when they become due. This applies in particular to the obligation to compensate losses pursuant to section 302 German Stock Corporation Act (*Aktiengesetz – AktG*).
2. McKesson undertakes without limitation and irrevocably vis-à-vis the outside shareholders of Celesio that Dragonfly fulfils all its obligations towards them arising from or in connection with the Agreement completely and in time, in particular with respect to the guaranteed dividend (*Garantiedividende*), the recurring compensation payment (*Ausgleichszahlung*) and the cash compensation (*Abfindung*). To that extent the outside shareholders of Celesio have an own claim according to section 328 para. 1 German Civil Code (*Bürgerliches Gesetzbuch – BGB*) directed at payment to Dragonfly. McKesson's liability pursuant to the two preceding sentences does, however, only apply if Dragonfly does not fulfil its obligations towards the outside shareholders of Celesio arising from or in connection with the Agreement completely and in time and McKesson does not comply with its obligation to equip Dragonfly pursuant to Section 1 of this Comfort Letter.
3. This Comfort Letter is subject to the law of the Federal Republic of Germany. McKesson hereby acknowledges German courts and the courts of Stuttgart to be competent with regard to any disputes and claims under or in connection with this Comfort Letter. In this



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regard, McKesson acknowledges the enforceability of final decisions of German courts. Dragonfly, Att. the Management, Eschenheimer Anlage 1, 60316 Frankfurt am Main, Germany shall be the agent for services of process (*Zustellungsbevollmächtigte*) in Germany for all proceedings under or in connection with this Comfort Letter

San Francisco, 20 May 2014

**McKesson Corporation**

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[Name]

[Title]

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[Name]

[Title]



## Appendix 5: Overview of the multiples of the peer group

Enterprise Value to revenue		
	2014	2015
Dates of analysis	Estimate	Estimate
Oriola-KD Corporation	0,2 x	0,2 x
McKesson Corporation	0,3 x	0,2 x
UDG Healthcare plc	0,6 x	0,6 x
Cardinal Health, Inc.	0,3 x	0,3 x
AmerisourceBergen Corporation	0,1 x	0,1 x
Profarma Distribuidora de Produtos Farmacêuticos S.A.	0,3 x	0,2 x
25% quartile	0,2 x	0,2 x
<b>Average</b>	<b>0,3 x</b>	<b>0,3 x</b>
75% quartile	0,3 x	0,3 x

Source: S&P Capital IQ, KPMG analysis.

Enterprise Value to EBITDA		
	2014	2015
Dates of analysis	Estimate	Estimate
Oriola-KD Corporation	8.0 x	6.9 x
McKesson Corporation	8.9 x	8.0 x
UDG Healthcare plc	9.3 x	8.4 x
Cardinal Health, Inc.	9.8 x	9.0 x
AmerisourceBergen Corporation	9.8 x	8.8 x
Profarma Distribuidora de Produtos Farmacêuticos S.A.	7.8 x	5.8 x
25% quartile	8.3 x	7.2 x
<b>Average</b>	<b>8.9 x</b>	<b>7.8 x</b>
75% quartile	9.6 x	8.7 x

Source: S&P Capital IQ, KPMG analysis.

Enterprise Value to EBIT		
	2014	2015
Dates of analysis	Estimate	Estimate
Oriola-KD Corporation	13.2 x	10.3 x
McKesson Corporation	10.4 x	9.2 x
UDG Healthcare plc	11.8 x	10.6 x
Cardinal Health, Inc.	11.6 x	10.4 x
AmerisourceBergen Corporation	10.8 x	9.8 x
Profarma Distribuidora de Produtos Farmacêuticos S.A.	9.2 x	7.0 x
25% quartile	10.5 x	9.4 x
<b>Average</b>	<b>11.2 x</b>	<b>9.6 x</b>
75% quartile	11.8 x	10.3 x

Source: S&P Capital IQ, KPMG analysis.



## Appendix 6: General Engagement Terms

<p style="text-align: center;">[Translator's notes are in square brackets]</p> <h3 style="text-align: center;">General Engagement Terms</h3> <p style="text-align: center;">for</p> <h3 style="text-align: center;">Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften</h3> <p style="text-align: center;">[German Public Auditors and Public Audit Firms] as of January 1, 2002</p> <p style="text-align: center;">This is an English translation of the German text, which is the sole authoritative version</p> <p><b>1. Scope</b></p> <p>(1) These engagement terms are applicable to contracts between Wirtschaftsprüfer [German Public Auditors] or Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] (hereinafter collectively referred to as the "Wirtschaftsprüfer") and their clients for audits, consulting and other engagements to the extent that something else has not been expressly agreed to in writing or is not compulsory due to legal requirements.</p> <p>(2) If, in an individual case, as an exception contractual relations have also been established between the Wirtschaftsprüfer and persons other than the client, the provisions of No. 9 below also apply to such third parties.</p> <p><b>2. Scope and performance of the engagement</b></p> <p>(1) Subject of the Wirtschaftsprüfer's engagement is the performance of agreed services – not a particular economic result. The engagement is performed in accordance with the Grundsätze ordnungsmäßiger Berufsausübung [Standards of Proper Professional Conduct]. The Wirtschaftsprüfer is entitled to use qualified persons to conduct the engagement.</p> <p>(2) The application of foreign law requires – except for financial attestation engagements – an express written agreement.</p> <p>(3) The engagement does not extend – to the extent it is not directed thereto – to an examination of the issue of whether the requirements of tax law or special regulations, such as, for example, laws on price controls, laws limiting competition and Bewirtschaftungsrecht [laws controlling certain aspects of specific business operations] were observed; the same applies to the determination as to whether subsidies, allowances or other benefits may be claimed. The performance of an engagement encompasses auditing procedures aimed at the detection of the defalcation of books and records and other irregularities only if during the conduct of audits grounds therefor arise or if this has been expressly agreed to in writing.</p> <p>(4) If the legal position changes subsequent to the issuance of the final professional statement, the Wirtschaftsprüfer is not obliged to inform the client of changes or any consequences resulting therefrom.</p> <p><b>3. The client's duty to inform</b></p> <p>(1) The client must ensure that the Wirtschaftsprüfer – even without his special request – is provided, on a timely basis, with all supporting documents and records required for and is informed of all events and circumstances which may be significant to the performance of the engagement. This also applies to those supporting documents and records, events and circumstances which first become known during the Wirtschaftsprüfer's work.</p> <p>(2) Upon the Wirtschaftsprüfer's request, the client must confirm in a written statement drafted by the Wirtschaftsprüfer that the supporting documents and records and the information and explanations provided are complete.</p> <p><b>4. Ensuring independence</b></p> <p>The client guarantees to refrain from everything which may endanger the independence of the Wirtschaftsprüfer's staff. This particularly applies to offers of employment and offers to undertake engagements on one's own account.</p> <p><b>5. Reporting and verbal information</b></p> <p>If the Wirtschaftsprüfer is required to present the results of his work in writing, only that written presentation is authoritative. For audit engagements the long-form report should be submitted in writing to the extent that nothing else has been agreed to. Verbal statements and information provided by the Wirtschaftsprüfer's staff beyond the engagement agreed to are never binding.</p> <p><b>6. Protection of the Wirtschaftsprüfer's intellectual property</b></p> <p>The client guarantees that expert opinions, organizational charts, drafts, sketches, schedules and calculations – especially quantity and cost computations – prepared by the Wirtschaftsprüfer within the scope of the engagement will be used only for his own purposes.</p>	<p><b>7. Transmission of the Wirtschaftsprüfer's professional statement</b></p> <p>(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms. The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.</p> <p>(2) The use of the Wirtschaftsprüfer's professional statements for promotional purposes is not permitted; an infringement entitles the Wirtschaftsprüfer to immediately cancel all engagements not yet conducted for the client.</p> <p><b>8. Correction of deficiencies</b></p> <p>(1) Where there are deficiencies, the client is entitled to subsequent fulfillment [of the contract]. The client may demand a reduction in fees or the cancellation of the contract only for the failure to subsequently fulfill [the contract]; if the engagement was awarded by a person carrying on a commercial business as part of that commercial business, a government-owned legal person under public law or a special government-owned fund under public law, the client may demand the cancellation of the contract only if the services rendered are of no interest to him due to the failure to subsequently fulfill [the contract]. No. 9 applies to the extent that claims for damages exist beyond this.</p> <p>(2) The client must assert his claim for the correction of deficiencies in writing without delay. Claims pursuant to the first paragraph not arising from an intentional tort cease to be enforceable one year after the commencement of the statutory time limit for enforcement.</p> <p>(3) Obvious deficiencies, such as typing and arithmetical errors and formelle Mängel [deficiencies associated with technicalities] contained in a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) may be corrected – and also be applicable versus third parties – by the Wirtschaftsprüfer at any time. Errors which may call into question the conclusions contained in the Wirtschaftsprüfer's professional statements entitle the Wirtschaftsprüfer to withdraw – also versus third parties – such statements. In the cases noted the Wirtschaftsprüfer should first hear the client, if possible.</p> <p><b>9. Liability</b></p> <p>(1) The liability limitation of § ["Article"] 323 (2) ["paragraph 2"] HGB ["Handelsgesetzbuch": German Commercial Code] applies to statutory audits required by law.</p> <p>(2) <i>Liability for negligence; An individual case of damages</i></p> <p>If neither No. 1 is applicable nor a regulation exists in an individual case, pursuant to § 54a (1) no. 2 WPO ["Wirtschaftsprüferordnung": Law regulating the Profession of Wirtschaftsprüfer] the liability of the Wirtschaftsprüfer for claims of compensatory damages of any kind – except for damages resulting from injury to life, body or health – for an individual case of damages resulting from negligence is limited to € 4 million; this also applies if liability to a person other than the client should be established. An individual case of damages also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty without taking into account whether the damages occurred in one year or in a number of successive years. In this case multiple acts or omissions of acts based on a similar source of error or on a source of error of an equivalent nature are deemed to be a uniform breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the Wirtschaftsprüfer is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.</p> <p>(3) <i>Preclusive deadlines</i></p> <p>A compensatory damages claim may only be lodged within a preclusive deadline of one year of the rightful claimant having become aware of the damage and of the event giving rise to the claim – at the very latest, however, within 5 years subsequent to the event giving rise to the claim. The claim expires if legal action is not taken within a six month deadline subsequent to the written refusal of acceptance of the indemnity and the client was informed of this consequence.</p> <p>The right to assert the bar of the preclusive deadline remains unaffected. Sentences 1 to 3 also apply to legally required audits with statutory liability limits.</p>
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#### 10. Supplementary provisions for audit engagements

- (1) A subsequent amendment or abridgement of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.
- (2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.
- (3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

#### 11. Supplementary provisions for assistance with tax matters

- (1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client – especially numerical disclosures – are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.
  - (2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records – especially tax assessments – material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.
  - (3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:
    - a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client
    - b) examination of tax assessments in relation to the taxes mentioned in (a)
    - c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
    - d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a)
    - e) participation in Einspruchs- und Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a).
- In the afore-mentioned work the Wirtschaftsprüfer takes material published legal decisions and administrative interpretations into account.
- (4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.
  - (5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:
    - a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax
    - b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and
    - c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

- (6) To the extent that the annual sales tax return is accepted as additional work, this does not include the review of any special accounting prerequisites nor of the issue as to whether all potential legal sales tax reductions have been claimed. No guarantee is assumed for the completeness of the supporting documents and records to validate the deduction of the input tax credit.

#### 12. Confidentiality towards third parties and data security

- (1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.
- (2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.
- (3) The Wirtschaftsprüfer is entitled – within the purposes stipulated by the client – to process personal data entrusted to him or allow them to be processed by third parties.

#### 13. Default of acceptance and lack of cooperation on the part of the client

If the client defaults in accepting the services offered by the Wirtschaftsprüfer or if the client does not provide the assistance incumbent on him pursuant to No. 3 or otherwise, the Wirtschaftsprüfer is entitled to cancel the contract immediately. The Wirtschaftsprüfer's right to compensation for additional expenses as well as for damages caused by the default or the lack of assistance is not affected, even if the Wirtschaftsprüfer does not exercise his right to cancel.

#### 14. Remuneration

- (1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays: sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.
- (2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

#### 15. Retention and return of supporting documentation and records

- (1) The Wirtschaftsprüfer retains, for ten years, the supporting documents and records in connection with the completion of the engagement – that had been provided to him and that he has prepared himself – as well as the correspondence with respect to the engagement.
- (2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

#### 16. Applicable law

Only German law applies to the engagement, its conduct and any claims arising therefrom.