

**Annual General Meeting
of Celesio AG
on 15 July 2014**

Speech by

Dr Marion Helmes

Speaker of the Management Board and Chief Financial Officer

– The spoken word prevails –

Embargoed until 15 July 2014, Start of speech

– Courtesy translation –

- Dear Shareholders,
shareholders' representatives, ladies and gentlemen,
- Both personally and on behalf of my fellow
Management Board member Stephan Borchert, I
would like to wish you a warm welcome to the
Porsche-Arena in Stuttgart.
- We have gathered here today for the regular Annual
General Meeting of Celesio AG, but this shareholders'
meeting also marks the end of an extraordinary period for
your company.
- Today signals the start of a new era for Celesio AG, one
that I am sure will prove very successful for your
organisation. Even if it means giving up our
independence.
- After all, under item 10 on the agenda we will present, for
your approval, a domination and profit transfer agreement
to become a fully owned subsidiary of McKesson.
- This will consign the independent status of Celesio – a
company whose roots go back almost 180 years – to
history. The agreement submitted for your approval will
make Celesio part of the San Francisco-based McKesson
Corporation.
- A tradition like ours is not something to be given up just
like that. Yet McKesson, too, has a 180-year-old tradition.

And it is one of the world's top companies in our industry. As a result of the business combination between these two organisations, McKesson and Celesio, we have become the leading player in our industry at global level.

- This change is therefore not about breaking with our tradition; it is the beginning of a new chapter for our company and our employees.
- As you know, today is my last proper day at Celesio.
- It has been over a year since I took up the post of Speaker of the Management Board, in addition to my role as Chief Finance Officer.
- This makes today a special day for me on a personal level too: I am here today to answer your questions as Speaker of the Management Board. I therefore feel it is important to explain to you in detail today why we have decided to embark on this new path. And I am looking forward to discussing it with you.
- There are various reasons why we intend to take this approach in future:
to open up markets,
to develop an even better range of services for our customers
and to dare to try
out innovations.
- We are pooling our strengths with McKesson.
This will make us one of the leading providers of

healthcare services. On a global scale.

- This means that, from now on, Celesio will be playing in a different league. Because of this, your company will have access to completely new opportunities. And it will exploit them.
- I can assure you that we have not taken this decision lightly. We have thoroughly examined the potential impact that the business combination with McKesson will have
 - on the Celesio organisation as a whole. But especially on
 - our employees
 - and on you, our shareholders.
- In the end, we were absolutely convinced that, from synergies in global purchasing to opportunities to open up new distribution channels and to learn from one another, the new arrangement offers compelling advantages. And that goes for everyone involved.

It is a takeover which is geared towards growth. That is excellent news for everyone concerned – but most of all for our 39,000 or so employees, who have done an exceptional job over the past few months. I would like to express my personal thanks to them for their hard work and tremendous

loyalty.

- After all, the business combination with McKesson is not the only reason why the past few months have been so extraordinary for Celesio.
- We have also achieved a great deal through our own efforts. Our strategic initiatives are gaining momentum: highly promising ideas are forming the basis for a successful business model.
 - o In 2013 we introduced our pioneering pharmacy concept in over 100 pharmacies.
 - o Our innovative goods management system is in use in more than 1,000 pharmacies.
 - o The pooling of our purchasing activities is delivering results.
 - o And we have significantly reduced our fixed costs.
- In short, Celesio is now on the verge of a new era.
- These are the arguments which persuaded our new parent group to choose us.

We have achieved a lot in a very short time:

- o In 2011 we developed a new strategy and started

implementing it.

- o In 2012 we successfully stabilised our business development and consolidated our financial basis.
- o In 2013 we completed our strategic realignment.

☐ I think that the whole team can be proud of what we have done.

- Of course, the team includes you, too: We also have our shareholders to thank for our successful reorientation. You have shown faith in us and support our strategy.
And now you have made it possible for us to enter into a new era with McKesson.
- I would therefore also like to take this opportunity to thank you.
- Our thanks go especially to our anchor shareholder up to now: Haniel was a reliable partner for us for more than four decades, a period which proved to be a good chapter in the history of Celesio.
- As Chairman of the Supervisory Board, Stephan Gemkow has been particularly involved in the negotiations over the past year and at the start of this year and has been committed to ensuring the best possible future prospects for

Celesio.

- He is here today, and I would also like to wish him my personal thanks once again for his contribution. I would also like to thank Florian Funck, who, as another representative of Haniel on the Supervisory Board, has long been supporting the transaction.
- So what position is Celesio in today?
- This essentially boils down to three questions:
 - o How has our business developed over the past year and in the first quarter of 2014?
 - o Where are we in terms of implementing our strategy?
 - o And what are the reasons behind the domination and profit transfer agreement which forms the basis for the organisational integration of Celesio into the McKesson Group?
- As you know, we postponed our Annual General Meeting for two months. The main reason for this is so we could put this last item to your vote.

The quantitative balance sheet

- With regard to the first question, what have we ultimately achieved in our current setup?
- Let's start by taking a look at our market environment.
- In Germany in particular, the situation was and still is challenging. First of all, we are faced with fierce and unusually prolonged discount competition here.
- This discount competition is irrational, as I have said publicly on several occasions. It is doing damage to all wholesalers. And it is largely responsible for us having to adjust our half-year results forecast for 2013.
- Secondly, aside from that, currency effects have had a negative impact on the development of our revenue and earnings. We are particularly feeling the impact of the strong euro compared to the pound sterling and the Brazilian real.
- There is also another third factor which has made life difficult for us: Since the economic and financial crisis erupted, many governments have been on a major cost-cutting drive – which has included the healthcare systems. This has particularly affected us in the UK and Ireland.
- In connection with this, more and more patent-protected

original products are being replaced with cheaper generic medicines, especially in France.

- We are responding to the challenges of the market through our strategic initiatives:
 - o By developing our pharmacy network, we are setting ourselves up for sustainable growth. At the same time, with our innovative concept we are offering both partner pharmacies and our customers in Celesio pharmacies access to a completely new kind of service environment.
 - o We are also making progress in optimising our supply chain.
 - o And, thanks to our Operational Excellence Program, we have become more effective at purchasing and have significantly streamlined our administration.
- More on all these points later.
- However, the positive contributions our strategic initiatives have made towards our results were not enough to completely counterbalance the headwind from the markets.
- Nevertheless, with an adjusted EBIT of 423.6 million euro, we are towards the upper end of our revised forecast.

- Whereas our overall result in 2012 was negative because of high depreciation and amortisation, in 2013 we are quite definitely in the black at 166.4 million euro.
- We have delivered respectable results under difficult conditions.
- How do our figures look in detail?
- At 21.4 billion euro, our revenue in 2013 was 3.9 per cent down on the previous year.
- However, this decline was primarily due to currency effects and changes in the consolidated group: we sold off our Czech activities at the end of 2012 and our Irish wholesale business in May 2013.
- Our adjusted EBITDA fell by 5.4 per cent to 548.6 million euro. This fall was also the result of currency effects in particular.
- The same applies to our EBIT: on an adjusted basis, this came to 423.6 million euro, 4.8 per cent lower than in the previous year.
- What were the trends in each of our two business areas?
- Our Consumer Solutions division – in other words, the pharmacy business – performed well despite the

difficult environment.

- o In the United Kingdom, for example, we managed to increase our revenue from institutional customers such as hospitals and prisons.
- o The provision of homecare as part of our *Evolution Homecare* service also boosted revenue in the UK.
- o On top of this, we improved our revenue from over-the-counter products in several countries.
- The pressure was increased by the aforementioned government cost-cutting policies in healthcare.
- In the Consumer Solutions division, revenue fell last year by 1.5 per cent to 3.4 billion euro.
- What is important, though, is that this fall is entirely due to currency effects and to the sale of our Czech pharmacies. The adjusted revenue figure was up by 3.2 per cent.
- Adjusted for special effects, EBIT was down by 3.7 per cent to 206.9 million euro.
- In our wholesaling division, Pharmacy Solutions, there were two sides to the story:
- In operational terms, business progressed positively in many countries – especially in the United Kingdom.

However, the discount competition in Germany and exchange rate effects cast a shadow over the overall picture.

- In our wholesaling division, revenue in 2013 was 4.3 per cent below the previous year at 18 billion euro.
- Taking currency effects and the changes in the consolidated group out of the equation, however, our revenue increased slightly in this area too.
- Adjusted for special effects, EBIT was 4.1 per cent down on the previous year at 307.3 million euro.
- How do the other key financial figures of Celesio look?
- We managed to reduce our net financial debt again in 2013 by almost 200 million euro.
- The net working capital was also below last year's level.
- The ratio of net financial debt to EBITDA was 2.5 last year, once again lower than the year before.
- Our equity ratio rose from 27.7 to 28.8 per cent.
- The bottom line is that Celesio is operating on a healthy financial basis.

- Last year, our adjusted earnings per share were 1.06 euro for continuing operations, 7.4 per cent below the previous year's figure.
- Nevertheless, the Management Board and Supervisory Board are, like last year, proposing to you the payment of a dividend of 30 cents per share.
- This means that we can stick to our consistent dividend policy and make a payout which is appropriate to the company's financial situation.

1st quarter of 2014

- How did things go for us in the first quarter of this year?
To put it briefly, according to plan.
- Our business development was still under intense pressure from competition in Germany.
- At the same time, however, we increased revenue from generic products and services in the United Kingdom. Our profitability was also enhanced by our central purchasing initiatives.
- At 5.4 billion euro, group revenue was at more or less the same level as in the previous year.

- Our adjusted EBIT rose 0.5 per cent to 95.6 million euro, so it was up slightly on the previous year.
- Net profit for the period was 43.1 million euro, 4.2 per cent higher than in the previous year.
- All things considered, a look at our business development shows that we were up against a significant headwind. Yet we have stayed on course.
- And we intend to do so this year too.
- And this is also irrespective of the fact that we recently had to write off 80 million euro in book value in our Brazilian business.
- Government cuts, the disappointing development of business in Brazil and the persistent discount competition in Germany will curb the development of our revenue and earnings.
- In spite of state regulations in the UK and Ireland, in the Consumer Solutions division we are aiming to increase earnings in operational terms – not least based on the growth of our European pharmacy network
- In the Pharmacy Solutions division, a lot depends on

how the discount war in Germany pans out. However, we believe that the situation will gradually return to normal.

All in all, in our wholesale business we are anticipating a result more or less on a par with that of the previous year.

- In terms of group revenue, we are expecting a slight rise in the lower single-digit percentage range.

The adjusted EBIT for 2014 is expected to be marginally up on the previous year.

Strategy

- Ladies and gentlemen, I have already mentioned the challenges we have to deal within the market. Yet these challenges also offer great opportunities, if you know how to take advantage of them:
- The world is changing at a tremendous pace. Global megatrends are having an effect on our business too:
- The world's population is growing – each year it is increasing by a figure equivalent to the population of Germany.
- People are also getting older.

By as soon as 2020, one in ten people in the world will be 65 or older.

- So-called lifestyle diseases are becoming increasingly common. In 2013, for example, some 380 million people across the world were suffering from diabetes. In 20 years this figure could rise to almost 600 million.
- At the same time, there is growing awareness of health, wellbeing and nutrition, especially in industrial countries.
- More and more people are prepared to take action to enhance their health and wellbeing outside the public healthcare system. The important thing for us is to ensure that pharmacies are extremely reliable points of contact in this regard.
- So-called *specialty pharmaceuticals*, which are used to treat complex diseases such as cancer or multiple sclerosis, are another driving force for growth.
- These medicines place high demands on the supply chain, because they have to be transported particularly quickly and the cold chain must not be broken.
- During this decade, the large, developed pharmaceutical markets are likely to see twice as much growth for this group of medicines as for conventional

pharmaceutical products.

- The bottom line is that we are facing ever-tougher requirements in terms of the quality of our services, while demand for high-quality services is rising too.
- We are responding to this – with strategic initiatives which are tailored precisely to market developments and our customers' requirements.
- What have we achieved in this respect over the past few months?
- Particular emphasis has been placed on our new pharmacy concept,
 - both in our own pharmacies, under the "Lloyds" brand,
 - and as a partnership and franchise model.
- Our aim here is to offer patients and consumers a completely new level of service – initially focusing on the areas of "skin" and "pain".
- The pharmacy staff are receiving intensive training for this.
- A highly efficient goods management system ensures that these staff can concentrate entirely on their core task:
advising users and patients.

- So far, our experience of this concept has been outstanding. And this assessment is based on concrete revenue figures.
- Virtually all of our own pharmacies outside Germany have now been changed over to the Lloyds brand.
- This year, we will introduce our new concept in one in five of our own pharmacies,
 - with the "full version" being used in 240 pharmacies,
 - and key elements of the concept being implemented in a further 230. There's a strong focus here on the UK market.
- We are also offering independent pharmacists tiered access to our concept in the form of franchise and cooperation models.
 - o The first franchise pharmacies have already opened in Ireland and Italy.
 - o In Germany and France, independent pharmacies have started taking part in our partnership model. These partner pharmacies keep their original brand names – "Pharmactiv" in France and "gesund leben" in Germany.
- Our strategic initiatives are in full swing in our wholesale business too.

- Our approach here is to consider the whole logistics process, from the manufacturer to the pharmacy, in its entirety and to make it as efficient as possible.
- So what exactly does that mean?
- It means, for example, that we reconcile different needs and objectives as well as we can:
 - o Someone going into a pharmacy wants to be able to take the product they need away immediately.
 - o Pharmacists, on the other hand, ideally want to keep their stocks low. At the same time, they also want to ensure a high level of medicine availability.
 - o And we as wholesalers, for our part, want our delivery runs to be as few and efficient as possible.
- It is important to reconcile these requirements,
- with, for example, our the goods management system mentioned earlier.
- Internationally, we operate this system under the name "*Optimized Pharmacy Replenishment*", or OPR for short. In Germany we use the term "WAWI Top".
- This system uses software that gives pharmacists an

accurate overview of their stock.

- It also simplifies the complex warehouse management process, by automatically calculating what needs to be ordered in which quantities – tailored precisely to meet current demand.
- Bearing in mind that, on average, more than a third of staff in pharmacies are tied up in administrative tasks, it is easy to imagine what welcome relief a system like this can offer.
- The time and effort spent on receiving goods is significantly reduced, while gross profit increases thanks to improved delivery capacity and reduced transport costs.
- OPR is already in use in over 1,000 pharmacies across four European countries. In light of the outstanding results achieved so far, we will be introducing it in more countries this year.
- At our wholesale warehouse in Warrington, near Manchester, for example, we are running a pilot project called "*Intelligent Prescription Picking*", or IPP.
- What is that all about?
- The ordering process is automated for chronically ill patients who are regularly prescribed the same combination of medication.

- This means that pharmacists do not have to spend a lot of time compiling repeat orders themselves. The medicines in question are put together in a complex, fully automated process under the supervision of a pharmacist and passed on to the local pharmacy.
- If the pilot project proves successful – and we firmly believe it will – this approach could be introduced throughout the United Kingdom.
 - Another pilot project has already produced impressive results:
At our warehouse in Weiterstadt, an innovative system allows the expiry date for each consignment to be saved along with it.
- The improvements in terms of quality and efficiency are so convincing that we will be implementing this method in all our German wholesale warehouses over the next two years.
- Last but not least, we are also stepping up our cooperation with our suppliers.
- In the UK, for example, we have signed exclusive agreements with several well-known manufacturers.
These involve, for instance, medicinal products from the

fields of oncology, urology, endocrinology and reproductive medicine.

- So you can see that we are exploiting potential all the way along our supply chain.
- Another strategic initiative is designed to enhance our competitiveness. This is at the heart of our Operational Excellence Program.
- We have made great progress over the past year, particularly with regard to pooling our purchasing activities.
- We have also further reduced our administrative costs.
- So you see, ladies and gentlemen, we are ensuring sustainable growth with innovative services, an optimised supply chain and efficient processes.

Business combination with McKesson

- We have received an enormous boost through our business combination with McKesson.
- McKesson is a highly regarded and very successful

company led by John H. Hammergren, who has been in charge of the organisation since 2001. From now on, John Hammergren will also be Chairman of the Supervisory Board of Celesio.

- From manufacturing through to distribution, our industry is clearly becoming increasingly global. Together with McKesson, Celesio will deal with the increasing complexity this brings and become an even stronger international enterprise.
- As it happens, the two companies are exceptionally well suited to one another:
 - o Both companies were established in the 1830s.
 - o Both companies share the same values and the same innovative spirit.
 - o We also complement each other perfectly in terms of our regional positioning.
- This provides the ideal basis for successful cooperation.

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Comments on agenda items 8-10

- Ladies and gentlemen,

- as the chair of the meeting has already announced, I will now give an explanation of the amendments and the new domination and profit transfer agreements to be signed, which are to be voted on under agenda items 8-10. Under Section 293g (2) of the Aktiengesetz (German Stock Corporation Act), the Management Board must give an oral account to the shareholders of corporate agreements of this kind to be newly signed or amended at the beginning of the Annual General Meeting. I would like to address these items in turn, following the order of the agenda, going into the detail I consider necessary. After all, when today's Annual General Meeting was convened, we already had extensive documentation, and especially also explanatory reports, on the agreements and amendments available to us in relation to these three agenda items. I shall refer to this material.
- The first order of business is the amendment put to a vote under **agenda item 8**. This concerns the amendment of two existing domination and profit transfer agreements between Celesio AG as the controlling company and its two wholly owned subsidiaries, Admenta Deutschland GmbH and GEHE Pharma Handel GmbH, in each case as the controlled company. The two domination and profit transfer agreements have been in place for many years

and are a standard tool for tax optimisation within the group. These agreements establish a so-called fiscal unity for income tax purposes. In terms of commercial and tax law, profits and losses of the subsidiaries in question are attributed to Celesio AG as the parent company, and can be offset against positive and negative income for tax purposes within the fiscal group.

- On account of a change to corporation tax law in February 2013, the so-called "kleinen Organschaftsreform", the regulations of section 302 AktG in its "currently applicable version", which govern the obligation to assume losses, must be expressly referred to from now on in order to maintain the fiscal unity with subsidiaries in the legal form of a GmbH.
- Since the applicable provisions for loss assumption in the old domination and profit transfer agreements do not make a dynamic reference to, and thus do not yet fully comply with the wording which is now required, the agreements must be accordingly amended. In addition, a minor amendment will be made to the agreement with GEHE Pharma Handel GmbH relating to the maturity and interest rate for loss compensation obligations, which is already present in the agreement with Admenta Deutschland GmbH. In all other respects, the agreements will remain

unchanged. Practically speaking, the amendments to the two agreements will have no effect whatsoever on the status quo for Celesio AG and its shareholders.

- The Shareholders' Meetings of the two controlled companies have already approved the amendments to their existing domination and profit transfer agreements. This was done by a resolution of 19 February 2014. Following approval at today's Annual General Meeting, the amendment agreements must also be entered in the commercial register of each subsidiary in order to become effective. Since the companies concerned are both wholly owned subsidiaries of Celesio AG, an audit by a court-appointed auditor is not required.
- This concludes the explanation of agenda item 8.

- I will now turn to **agenda item 9**, under which the conclusion of a new domination and profit transfer agreement between Celesio AG as the controlling company and GEHE Immobilien Verwaltungs-GmbH as the controlled company is to be submitted to the AGM for approval. Both parties signed the agreement on 19 February 2014.
- GEHE Immobilien Verwaltungs-GmbH is a wholly owned subsidiary of Celesio AG. The Shareholders' Meeting of GEHE Immobilien Verwaltungs-GmbH has already approved the agreement. This was done by a resolution of 19 February 2014.
- Concluding this intra-group domination and profit transfer agreement is also a routine procedure for optimising the group's tax situation. Nonetheless, the agreement must be approved by the Annual General Meeting of Celesio AG to become effective, which is why it appears under item 9 on the agenda today.
- Since the content of the domination and profit transfer agreement is highly standardised, I will only give a short summary of the matter. We will, of course, be available to answer questions during the discussion session. Article 1 of the agreement contains the fundamental provision required for a domination agreement, according to which GEHE Immobilien Verwaltungs-GmbH mandates Celesio

with the management of its company. Celesio AG is accordingly authorised to issue instructions to the management teams of GEHE Immobilien Verwaltungs-GmbH with respect to how the company is to be managed. This authority to issue instructions is intended to ensure that GEHE Immobilien Verwaltungs-GmbH is placed under uniform management, reinforcing its group relationship with Celesio AG.

- Article 2 of the agreement grants information and disclosure rights to Celesio AG with regard to GEHE Immobilien Verwaltungs-GmbH, including relating to its business documents, its legal, economic, commercial and organisational matters and its commercial development.
- The domination agreement is combined with a profit transfer agreement. This means that, for the duration of the agreement, GEHE Immobilien Verwaltungs-GmbH must transfer all of its profits to Celesio AG. As a basic principle, the net income for the year that would have accrued had the agreement not been in place is transferred. Conversely, Celesio AG undertakes to offset any losses incurred by GEHE Immobilien Verwaltungs-GmbH in accordance with the provisions of section 302 of the current version of the AktG, insofar as these losses are not offset by withdrawing amounts from the free reserves that had been allocated to those reserves during the term

of the agreement. In this respect, Celesio AG bears the economic risk of GEHE Immobilien Verwaltungs-GmbH.

- The domination and profit transfer agreement becomes effective upon entry into the commercial register of GEHE Immobilien Verwaltungs-GmbH and – with the exception of the authority to issue instructions – shall apply retrospectively from 1 January 2014. In this way, the advantages of the fiscal unity can also apply to the financial year 2014.
- The agreement is concluded for an indefinite period. It can be terminated at the end of any fiscal year at GEHE Immobilien Verwaltungs-GmbH upon six months' written notice. However, this may not happen before 31 December 2019, the end of the five year minimum term required for a fiscal unity. Under certain conditions that are specified in more detail in the agreement, either party can terminate it for good cause with immediate effect. This might happen, for example, if Celesio is no longer the majority owner of GEHE Immobilien Verwaltungs-GmbH, if Celesio AG sells GEHE Immobilien Verwaltungs-GmbH or offers it as part of an exchange deal, or in the event of a change in legal form or liquidation of either party to the agreement.

- The conclusion of this domination and profit transfer agreement establishes a fiscal unity for corporation and trade tax purposes, thus optimising the tax situation. This means that the profits and losses of GEHE Immobilien Verwaltungs-GmbH as the controlled company are attributed, under tax law, to Celesio AG as the parent company, and can be offset against positive and negative income for tax purposes within the fiscal group. Depending on the results achieved by the companies in the fiscal group, this can lead to tax advantages.
- As GEHE Immobilien Verwaltungs-GmbH is a wholly owned subsidiary of Celesio AG, the agreement does not contain any compensation or settlement provisions for other shareholders, and an audit by a court-appointed auditor is not required. Apart from this obligation of Celesio AG to offset any losses, the agreement does not entail any particular consequences for the shareholders of Celesio AG.
- This concludes the explanation of agenda item 9.

- I will now turn to **agenda item 10**, under which the conclusion of a new domination and profit transfer agreement between Celesio AG as the controlling company and Dragonfly GmbH & Co. KGaA as the controlled company is to be submitted to the AGM for approval. Dragonfly GmbH & Co. KGaA, based in Frankfurt am Main, is an indirect wholly owned subsidiary of McKesson Corporation, which has its head office in San Francisco. Both parties signed the agreement on 22 May 2014. The Annual General Meeting of Dragonfly GmbH & Co. KGaA has already approved the conclusion of the domination and profit transfer agreement. This was done by a resolution of 21 May 2014. The agreement must be recorded in the commercial register at the registered offices of Celesio AG and approved by the Annual General Meeting of Celesio AG to become effective, which is why it appears under item 10 on the agenda today.
- A joint report from the Management Board of Celesio AG and the management team of Dragonfly GmbH & Co KGaA explains and justifies in detail the corporate agreement, its background and the amount of compensation offered to the outside shareholders in the form of the guaranteed dividend and/or compensatory payment along with the settlement offered, as well as the valuation of Celesio AG which forms the basis for this.

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed by both parties to produce an expert opinion on the calculation of the value of Celesio AG as a company, which is enclosed as an appendix to the agreement report and forms an integral part thereof. In addition, a report on the audit of the domination and profit transfer agreement was produced by Ebner Stolz GmbH & Co. KG

Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft, which was selected and appointed by Stuttgart District Court at the joint request of the two parties to the agreement. All of these documents have been available to shareholders since the date the Annual General Meeting was called, and can also be viewed at the meeting today.

- Next, I am going to make some additional comments on the domination and profit transfer agreement, and on the reasons for concluding it. However, I will restrict myself to summarising the major aspects, so please refer to these documents for the specifics. Besides, we will, of course, be available to answer questions on the corporate agreement during the discussion session.

Reasons for concluding the agreement

- Please allow me to begin by giving the reasons for

concluding the domination and profit transfer agreement.

- Concluding the agreement marks a decisive step towards creating an integrated healthcare group, as it allows for a closer working relationship between us and McKesson. The authority to issue instructions afforded to Dragonfly GmbH & Co. KGaA under the agreement makes it possible to standardise the group's management, structures and strategy while involving Celesio AG. This is an essential requirement for the planned partnership between McKesson and ourselves, particularly with regard to purchasing.
- Through joint purchasing activities and targeted tax savings in particular, we anticipate benefits which we believe would not be possible if we were collaborating simply as a de facto group, i.e. without a domination and profit transfer agreement.
- In order to achieve purchasing synergies, for instance, we and McKesson must function as a single entity when dealing with pharmaceutical product manufacturers. This requires the fundamental, long-term integration of management and organisational structures, as well as the complete integration of the relevant IT resources of McKesson and Celesio. Only through such an integration

will it be possible for each company to access and use the other's data, including highly confidential information.

These integration measures also require considerable financial investment, which both we and McKesson are only willing to take on within the framework of a long-term legal guarantee provided by a domination and profit transfer agreement.

- At present, the legal limitations of the de facto group relationship that we currently have with Dragonfly GmbH & Co. KGaA are preventing us from leveraging any synergies. In a de facto group relationship, the Management Board is entitled and obliged under the AktG to run the business under its own responsibility. All measures and legal transactions initiated by McKesson must be reviewed on an individual basis by the Management Board of Celesio AG with regard to their effects on the company. If the legal transactions or measures instigated by McKesson are detrimental to Celesio AG, they may only be adopted if McKesson compensates for the resulting disadvantage. Therefore, all measures and legal transactions of Celesio AG initiated at the request of McKesson would have to be evaluated in terms of their potential disadvantages and compensation obligations, which in particular places considerable demands on our time and resources as a de facto

controlled company.

- Concluding the domination and profit transfer agreement will also make it possible to establish a fiscal unity for corporation tax and trade tax purposes between Dragonfly GmbH & Co. KGaA as the parent company and Celesio AG as the controlled company. This combines the companies involved into a single taxable entity, which can result in a reduction in the tax burden and thus an increase in each company's financial performance.
- **Fundamental content of the agreement**
- Ladies and gentlemen, please allow me now to summarise the key provisions of the domination and profit transfer agreement:
- An essential element of any domination agreement is granting the parent company the authority to issue instructions. Under this agreement, therefore, Celesio AG as the controlled company is mandating Dragonfly GmbH & Co. KGaA as the controlling company with the management of its company. Dragonfly is authorised to issue instructions to Celesio AG with regard to the management of the company. Instructions that are detrimental to Celesio may also be issued if they serve the

interests of Dragonfly or the companies affiliated to it or to Celesio. Impermissible instructions, however, such as might threaten the existence of Celesio, do not have to be followed. Celesio is nevertheless to remain a legally independent company with its own executive bodies, and it continues to be our responsibility as the Management Board to run and represent the company. If no instructions are issued, the Celesio Management Board can and must run the company on its own authority.

- The domination agreement is combined with a profit transfer agreement. This means that, for the duration of the agreement, Celesio AG must transfer all of its profits to Dragonfly GmbH & Co. KGaA. The highest amount permitted under section 301 of the current version of the AktG is to be transferred – subject to any reserves set aside or released in accordance with the agreement. Based on the current wording of section 301 AktG, the net income for the year that would have accrued had the agreement not been in place, less any loss carried forward from the previous year, the amount to be transferred to the statutory reserves under section 300 AktG and the amount that is blocked from distribution pursuant to section 268 paragraph 8 of the Handelsgesetzbuch (German Commercial Code), is to be transferred as profit. As the statutory reserves of Celesio are fully set aside at present,

it is not necessary to make any further transfers in accordance with section 300 no. 1 AktG. Other reserves and retained earnings from before the start of the agreement may not, however, be transferred as profit or used to offset a net loss for the year. The corresponding provisions are standard practice in profit transfer agreements. The obligation to transfer profits shall apply for the first time to the profit for the fiscal year in which the agreement becomes effective upon entry into the commercial register of Celesio AG; however, this can apply at the earliest to the profit for the fiscal year beginning on 1 January 2015.

- As a counterbalance to the right to issue instructions and to transfer profit, the duty of Dragonfly GmbH & Co. KGaA to offset losses is an essential provision in the agreement. Accordingly, Dragonfly GmbH & Co. KGaA is obligated to assume the losses of Celesio AG under section 302 of the current version of the AktG in its entirety. Based on the current wording of the law, Dragonfly GmbH & Co. KGaA must therefore offset any annual net loss that "would otherwise" occur, i.e. that would occur otherwise if the duty to offset losses did not apply, and must do so for the duration of the agreement. The obligation does not apply insofar as amounts are withdrawn from the other profit reserves that had been allocated to those reserves during the term of the agreement in order to offset the net loss for

the year. The duty to assume losses serves to safeguard the pecuniary interests of Celesio, our shareholders and our creditors while the agreement is in place.

- This obligation shall apply for the first time to the full fiscal year in which the agreement becomes effective upon entry into the commercial register of Celesio. If the agreement is registered on or before 31 December 2014, the obligation will therefore cover any losses incurred in the 2014 fiscal year.
- The agreement will become effective upon entry into the commercial register at the registered office of Celesio AG. The agreement is concluded for an indefinite period. It can be terminated at the end of a Celesio fiscal year giving six months' written notice – however, in order to comply with the minimum term required for a fiscal unity, the first date on which it can be terminated is the end of the Celesio fiscal year that ends at least five years (60 months) after the beginning of the fiscal year in which the obligation of Celesio to transfer profits becomes effective. Either party can terminate the agreement for good cause with immediate effect, such as – and in particular – when there is good cause to terminate the agreement for tax purposes.

- **Compensation and settlement**

- Ladies and gentlemen, the domination and profit transfer agreement provides outside shareholders with a fundamental safeguard.
- Dragonfly GmbH & Co. KGaA guarantees the outside shareholders in Celesio the payment of a set dividend in the form of a guaranteed dividend for the 2014 fiscal year by way of appropriate compensation. This guaranteed dividend will be paid out if the agreement takes effect in 2014 – in other words, during the period of control without an obligation to transfer profits, this obligation as we know not entering into force until the fiscal year beginning on 1 January 2015 at the earliest. If the dividend including any down payments per Celesio share paid for the 2014 Celesio fiscal year is less than the guaranteed dividend, Dragonfly will pay each outside shareholder of Celesio the difference per share. If required, the difference is to be paid on the first banking day after the Annual General Meeting of Celesio for the 2014 fiscal year.
- After the obligation to transfer profits comes into effect, in other words for the Celesio fiscal year beginning on 1 January 2015 at the earliest, Celesio will, as a basic principle, no longer record any net income for the fiscal year in question or those which follow. From this point in

time, the shareholders of Celesio will routinely no longer be entitled to make decisions on the appropriation of net income. As compensation for the loss of the dividend entitlement, Dragonfly GmbH & Co. KGaA is obliged for the duration of the agreement to grant the outside shareholders of Celesio appropriate compensation in the form of an annual compensatory payment, with this replacing the obligation to pay the guaranteed dividend. The compensatory payment is due on the first banking day after the Annual General Meeting of Celesio for the preceding fiscal year, but no later than eight months after the end of that Celesio fiscal year.

- For each full Celesio fiscal year, the compensation in the form of the guaranteed dividend and the compensatory payment is 83 cents gross per Celesio share, which in this case also corresponds to the net amount.
- Dragonfly GmbH & Co. KGaA also undertakes to purchase, on request, the shares of outside shareholders who wish to leave Celesio AG, against a cash settlement in the amount of 22.99 euro per Celesio share. This undertaking shall end two months after the day on which the entry of the conclusion of the agreement in the commercial register was announced. This time period shall

be extended if court proceedings are initiated to determine the appropriate compensation or settlement, in which case it shall end two months after the day on which the decision on the last petition ruled upon was published in the German Federal Gazette.

- Outside shareholders can choose whether to receive compensation in the form of the guaranteed dividend or the annual compensatory payment and remain shareholders of Celesio AG, or to make use of the cash settlement option and tender their shares to Dragonfly GmbH & Co. KGaA.
- **Valuation**
- The compensation in the form of the guaranteed dividend and the annual compensatory payment of currently 83 cents net and gross per Celesio share, and the cash settlement offer of 22.99 euro were determined on the basis of a valuation of Celesio AG, which I would now like to explain to you in more detail.
- Both parties to the agreement appointed the audit firm KPMG as independent expert to value Celesio AG. The valuation by KPMG followed the principles for conducting company valuations set out by the Institute of Public

Auditors in Germany (IDW), in other words the current version of the standard IDW S1. The valuation date is 15 July 2014 – the date of today's Annual General Meeting.

- In accordance with these principles, KPMG began by calculating the value of Celesio AG using the income approach. This approach is based on the premise that the value of a company is essentially determined by the surpluses that can be distributed to its shareholders in the future. This present value of future profits is essentially calculated based on the freely available financial surpluses that could be generated from future business plus, if relevant, the liquidation value of assets not essential to business operations. The company's income taxes are subtracted and notional personal income tax burdens for the shareholders are taken into account when calculating the financial surpluses.
- The net incomes of the company's owners calculated in this way must be discounted as at the valuation date to produce a valuation of the company. To calculate the cash value of these forecast surpluses, a capitalisation rate is used which represents the return on an appropriate alternative investment. The cash value of the future surpluses thus represents the true value of a company, theoretically speaking.

- All forecast surpluses of Celesio AG were initially discounted to 1 January 2014. This is known as the technical valuation date. Interest was then added to the income value as of the technical valuation date up to today, the day of the Annual General Meeting, and this new updated value was used to determine the appropriate level of compensation and settlement.
- The income value of Celesio AG was calculated on the basis of its consolidated budget accounts, which encompass all fully consolidated, associated companies. As of 31 December 2013, the Celesio AG scope of consolidation also comprises nine associated companies and 22 other shareholdings, whose results were taken into account under "income from investments" in the consolidated financial statements. However, the consolidated budget accounts of Celesio AG only include the profitability of seven of the nine associated companies and 18 of the 22 other shareholdings in the income from investments. The value of the shareholdings not included in the budgeted figures was factored in as a special item.
- The Group planning figures for Celesio AG for the five fiscal years 2014 to 2018 were used as the basis for determining the income value. The budgeted figures

underpinning the valuation were updated by Celesio AG as part of the strategy discussions held as normal in April 2014 and finally discussed and decided upon by the Management Board of Celesio AG on 14 May 2014.

- In order to assess the current profitability and evaluate the plausibility of the budget accounts, past results were analysed using the consolidated financial data of Celesio AG for the 2011 to 2013 fiscal years, and expenses and income were broken down, adjusted and summarised to the extent necessary in order to ascertain past sources of profitability. KPMG calculated the long-term result – the so-called perpetual annuity – for 2019 and thereafter using the figures for the last budget year 2018.
- The projected dividends were then reduced by applying a notional tax rate at shareholder level. After the expected net dividends had been calculated in this way, KPMG calculated the income value by discounting using a capitalisation rate.
- The base rate derived from the yield curve for government bonds is initially used as the starting point for the capitalisation rate. Taking data published by the Deutsche Bundesbank on the term structure of interest rates as a basis and allowing for a growth rate of 1.0 per cent resulted in a uniform base rate of approximately 2.55 per

cent at the end of the valuation procedure. In accordance with the recommendations of the technical committee for business valuations and commerce of the Institute of Public Auditors in Germany, KPMG used this to calculate a uniform base rate rounded to 2.50 per cent before tax and 1.84 per cent after tax, and took this as the basis for its valuation.

- To account for the fact that the risks applying to investments in equities differ from those relating to government bonds, the base rate was increased by a market risk premium. This market risk premium was calculated on the basis of the tax capital asset pricing model and valued at 5.5 per cent after tax.
- The risk premium specific to Celesio AG was calculated by multiplying the market risk premium by the beta. The beta expresses how our company risk behaves in relation to the market risk. A beta of 1 means that the risk is equal to the market average. A beta of less than 1 means that the company is exposed to a lower risk, while a beta of greater than 1 means that the risk is above the market average.
- As Celesio is a listed company, betas can be taken from the capital market. KPMG first used the market price of Celesio AG to calculate the company's own beta for the

last five years, and found the average value. Looking at the beta for last year and the underlying share price trend, it became clear that the company's own beta was distorted. Takeover speculations from 8 October, McKesson's two subsequent takeover offers and the steadily shrinking free float caused the share price of Celesio AG to diverge from the general market trend, meaning that, from 8 October 2013 onwards, this beta no longer adequately reflected the company-specific risk for Celesio AG. For this reason, the five-year beta was adjusted to take account of the developments from October 2013. 2010 to 2013 shows an average unlevered beta for the company of 0.67, and the beta observed over the adjusted five-year period for Celesio AG is 0.77. Using these analyses, KPMG calculated an average unlevered beta of 0.72.

- In accordance with standard practice, KPMG compared the company's own beta with those of comparable listed companies to verify its plausibility. Peer group analysis confirmed the beta of 0.72 for Celesio AG.
- Multiplying this beta by the market risk premium of 5.5 per cent gives a risk premium for Celesio of 3.96 per cent for operational risk prior to adjustment to fit the financing structure for the specific period.
- In the medium- to long-term planning for Celesio AG,

realistic growth for 2014 to 2018 is reflected in the expected trends in income and expenses as well as in the balance sheet items. In this respect, it was not necessary to apply a so-called growth markdown for this period. In the continuation period from 2019 onwards, too, the items on the balance sheet and the income statement, and thus also the shareholders' net earnings, which can be calculated from the plans, will continue to develop. This long-term growth was incorporated in actuarial terms into the capitalisation rate as the growth markdown. Current demographic, regulatory and industry-specific conditions, as well as cost and revenue structure and development at Celesio AG, were taken into account when calculating the growth markdown. Also anticipated in the future are cost pressures affecting healthcare systems and the associated government intervention in healthcare markets. Owing to price competition, KPMG is expecting cost increases due to inflation to only be possible to a very limited extent in the future. It will probably only be possible to compensate partially for this trend by increasing efficiency through restructuring. In light of this, KPMG calculated a growth markdown of 1.0 per cent for the continuation period.

- Celesio AG holds interests in several subsidiaries not included in the consolidated financial statements and also not taken into account in the budget accounts relating to

income from investments. Most of these interests are of minor importance and contribute little or no income. In order to ensure a complete picture of the company value, these interests were categorised as a special item, valued based on pro rata shareholders' equity, with a total estimated value of around 2 million euro calculated on the basis of currently available carrying amounts and the stakes held by Celesio AG.

- As at 15 July 2014, the value of Celesio AG as calculated in this way by KPMG comes to 4,556 billion euro. This equates to a value per Celesio share issued of 22.42 euro.
- As well as calculating the company value using the income approach, KPMG and the parties to the agreement also took the market price of Celesio AG into consideration, which represents the lower limit when determining the settlement amount to be offered to the outside shareholders in accordance with the case-law of the German Federal Constitutional Court. The relevant market price must be calculated on the basis of a revenue-weighted average price within a three-month reference period prior to announcing any structural measures. McKesson and Dragonfly GmbH & Co. KGaA announced their intention to conclude a domination and profit transfer agreement between Dragonfly and Celesio on 23 January

2014. The relevant volume-weighted market price of Celesio shares for the three-month period before the announcement on this date was 22.99 euro, higher than the value per Celesio share calculated using the income approach.

- Therefore, the parties to the agreement have decided to set the cash settlement at 22.99 euro per no-par-value share for shareholders wishing to sell their shares to Dragonfly GmbH & Co. KGaA once the domination and profit transfer agreement comes into effect.
- As already explained, shareholders who do not wish to take up the cash settlement offer from Dragonfly GmbH & Co. KGaA will receive compensation in the form of the guaranteed dividend or an annual compensatory payment of 83 cents net and gross per Celesio share. The value of Celesio AG as calculated by KPMG using the income approach was used to determine this compensation. Unlike the settlement calculation, the market price is irrelevant when calculating the compensation, because here we are determining the expected distributable dividend. The guaranteed dividend and the compensatory payment must match the amount which could be expected to be assigned to each share based on the operating results to date and future earnings prospects of Celesio

AG in the form of an average dividend, in other words as distributable profit under commercial law.

- Ladies and gentlemen, the appropriateness of the compensation and settlement has been confirmed by a court-appointed independent auditor. At the joint request of both parties to the agreement, Stuttgart District Court selected Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart to be appointed as joint auditor for the domination and profit transfer agreement. Ebner Stolz examined the amount of the settlement offer as mutually agreed by both parties to the domination and profit transfer agreement as well as the compensation amount and confirmed that these are appropriate in its audit report of 16 May 2014.
- The compensation and settlement payments defined in the domination and profit transfer agreement are also still appropriate on today's valuation date, as confirmed again today by both KPMG and Ebner Stolz.
- **Comfort letter**
- To finish, I would like to comment briefly on the comfort letter that McKesson Corporation submitted vis-à-vis Celesio AG.
- I have already mentioned that the obligation to pay the

compensation and settlement in accordance with the domination and profit transfer agreement rests with Dragonfly GmbH & Co. KGaA. We are satisfied that Dragonfly has sufficient financial clout to fulfil its obligation as stated in the agreement.

- Celesio also received the aforementioned comfort letter from McKesson Corporation. In this comfort letter, McKesson has undertaken, without becoming a party to the agreement, to ensure without restrictions and irrevocably that Dragonfly GmbH & Co. KGaA is provided with sufficient financial resources to always be able to completely fulfil all its obligations from or in connection with the agreement within the time stipulated. McKesson guarantees to the outside shareholders of Celesio, irrevocably and in principle without restrictions, that Dragonfly GmbH & Co. KGaA will fulfil all its obligations arising to them from or in connection with the agreement, in particular the payment of the guaranteed dividend, compensatory payment and settlement, in full and within the time stipulated. In this respect, the outside shareholders of Celesio are entitled to their own claim for payment to be asserted against Dragonfly GmbH & Co. KGaA.
- This concludes the discussion of the domination and profit transfer agreement between Dragonfly GmbH & Co. KGaA

as the controlling company and Celesio AG as the controlled company.

- I have thus finished explaining agenda item 10.
- Thank you for your patience and attention.

Final remarks

- Ladies and gentlemen, now that I have finished presenting these formal statements, please allow me to sum up the key points once again: the domination and profit transfer agreement submitted for approval is the right step for enabling the strategic initiatives I have presented to you to progress more quickly and extensively. This primarily involves developing our European pharmacy network, optimising the supply chain and enhancing our competitiveness overall – particularly through pooling our purchasing activities.
- To embark on this new chapter in the history of Celesio, we have to relinquish our independence. However, we will be giving it up to join forces with one of the top companies in our industry. As part of McKesson, Celesio will have even better prospects and will continue to grow.
- This is good for our employees, without whom our present

and past success would not have been possible. We will be counting on them in future too. They are the people who build relationships with our customers and business partners. I am convinced that, as part of McKesson and bolstered by the innovative strength of our employees, Celesio is on course for a successful future.

- Finally, allow me to say a few personal words: up until now, I have devoted all my energy to working for Celesio. That is why, as I mentioned at the start, today is a special day not just for Celesio AG, but also for me as Speaker of the Management Board.
- The years I have spent at this company – and especially the last twelve months – have undoubtedly been some of the most fascinating periods of my professional development. I am grateful and proud to have been involved in the developments at Celesio at this crucial time and I am sure that this is the right path to take us into the future.
- With all my heart, I wish my former colleagues all the best and great success. I would also like to wish my successor, Marc Owen, and the entire Management Board every possible success and that little bit of luck whenever you need it.

- Thank you very much.
