Annual Report 2017

Celesio AG

celesio

The Celesio Group

Celesio is a leading international wholesale and retail company and provider of logistics and services to the pharmaceutical and healthcare sector. The proactive and preventive approach ensures that patients receive the products and support that they require for optimum care.

With strong brands and about 39,000 employees, the group is active in 13 European countries (thereof with own operations in ten countries; additionally Celesio manages operations in three countries and participates in one country in a joint venture). Every day, the company serves over 2 million customers – at more than 2,100 pharmacies of its own, at about 300 managed pharmacies and at over 5,700 participants in the brand partnership schemes. With 110 own and seven managed wholesale branches in Europe, Celesio supplies more than 55,000 pharmacies and hospitals every day with up to 130,000 pharmaceutical products.

McKesson Corporation, San Francisco, USA, is the majority shareholder in Celesio AG. The company acquired more than 75 percent of Celesio AG shares in February 2014. McKesson is a global leader in healthcare supply chain management solutions, retail pharmacy, community oncology and specialty care, and healthcare information technology.

The fiscal year at a glance (01/04/2016 – 31/03/2017)

KEY FIGURES OF THE CELESIO GROUP		Fiscal 2016	Fiscal 2017	Change on EUR basis %
Continuing operations				
Revenue	EUR m	21,192.5	**20,643.7**	−2.6
Gross profit	EUR m	2,475.9	**2,125.7**	−14.1
adjusted [1)]	EUR m	2,475.9	**2,125.7**	−14.1
EBIT	EUR m	621.5	**−699.4**	/
adjusted [1)]	EUR m	426.6	**302.6**	−29.1
Profit before taxes	EUR m	573.6	**−748.9**	/
adjusted [1)]	EUR m	378.7	**253.1**	−33.2
Net profit/loss	EUR m	491.1	**−804.5**	/
adjusted [1)]	EUR m	291.2	**191.3**	−34.3
Earnings per share (basic)	EUR	2.40	**−3.97**	/
Earnings per share (basic), adjusted [1)]	EUR	1.41	**0.93**	−34.5
Cash inflow/outflow from operating activities	EUR m	321.8	**441.1**	37.1
Net cash flow from investing activities	EUR m	−411.9	**−25.0**	93.9
Free cash flow	EUR m	−140.1	**350.4**	/
Employees (full-time equivalent) [2)]		23,404	**26,329**	/
Retail pharmacies [2)]		1,913	**2,140**	/
Wholesale branches [2)]		107	**110**	/
Discontinued operations				
Net profit/loss	EUR m	−94.3	**−159.4**	−69.0
Earnings per share (basic)	EUR	−0.47	**−0.79**	−66.7
Employees (full-time equivalent) [2)]		3,311	**0**	/
Continuing and discontinued operations				
Total assets	EUR m	8,081.8 [5]	**6,857.7 [2]**	−15.1
Equity	EUR m	2,752.5 [5]	**1,892.5 [2]**	−31.2
Equity ratio	%	34.1 [5]	**27.6 [2]**	/
Net financial debt	EUR m	1,097.9 [5]	**838.3 [2]**	−23.6
Net Financial Debt/EBITDA adj. [1) 3) 4)]		2.05 [5]	**1.30 [2]**	/
Employees (full-time equivalent) [2)]		26,715	**26,329**	/
Employees [2)]		35,610	**35,716**	/
Net profit/loss for the period	EUR m	396.8	**−963.9**	/
Earnings per share (basic)	EUR	1.93	**−4.76**	/

1) Adjusted for special effects from defined non-recurring expenses and income (including tax effect), incl. goodwill impairments.
2) Closing figures at the end of the reporting period.
3) Based on EBITDA of the last twelve months ending on the respective reporting date.
4) Previous year figures as reported.
5) Closing figures as at 31 March 2016.

To our shareholders

Celesio AG

2017

The Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD OF CELESIO AG AS AT 31 MARCH 2017

John H. Hammergren [2) 3) 4)]	(Chairman)
Ihno Goldenstein [1) 2) 3)]	(Deputy Chairman)
W.M. Henning Rehder [2)]	(Deputy Chairman)
James A. Beer	
Klaus Borowicz [1)]	
Paul C. Julian [3)]	
Jörg Lauenroth-Mago [1)]	
Pauline Lindwall	
Susan Naumann [1) 3)]	
Ulrich Neumeister [1)]	
Lori A. Schechter	
Gabriele Katharina Stall [1)]	

[1)] Employee representative
[2)] General Committee
[3)] Mediation Committee
[4)] Chairman of respective Committee

Report of the Supervisory Board

Dear shareholders,
Ladies and gentlemen,

Throughout fiscal 2017 (1 April 2016 to 31 March 2017), we the Supervisory Board of Celesio AG regularly advised the Management Board in its management of the company and continuously supervised its management team. We performed the tasks required of us by law, our articles of association and our rules of procedure with great diligence. As the Supervisory Board, we dealt in detail with the commercial and financial development of the company, and its strategic alignment. Furthermore, we became involved in all decisions of fundamental importance to the company at an early stage.

Changes to the Supervisory Board

The working methods in the Supervisory Board were modified to make use of opportunities for simplification following the downlisting and the Audit and the Nomination Committee were abolished. Their previous tasks are now undertaken by the plenum. This takes account of the current legal requirements and enables a more efficient way of working. After Mr Patrick Schwarz-Schütte stepped down, Mrs Lori A. Schechter was initially appointed to the Supervisory Board by court order and then elected to the Supervisory Board in last year's Annual General Meeting. The Supervisory Board thanks Mr Patrick Schwarz-Schütte for his commitment and expert contribution.

Cooperation with the Management Board and monitoring

The cooperation between the Management Board and ourselves over the past fiscal year was marked by intensive and frank dialogue that was based upon trust. The Management Board regularly and comprehensively informed the Board and the Chairman of the Supervisory Board, both verbally and in writing, of the situation of the company. The main focus of our collaboration and monitoring included the results of operations, financial position and net assets of the Group, the course of business in the divisions, the development of the market, company strategy and planning, and the portfolio considerations. The Management Board was present at all eight meetings and resolutions of the Supervisory Board. In this context, the Supervisory Board dealt with various issues including the delisting and all relevant investments and acquisitions, e.g. in Belgium and in the IT sector. In addition, it passed resolutions on personnel matters concerning the Management Board and appointed Brian S. Tyler to succeed Marc E. Owen as the Chairman of the Management Board.

Annual financial and consolidated financial statements and the management report

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements of Celesio AG and the consolidated financial statements and the combined management report as at 31 March 2017, and issued an unqualified audit opinion. The audit was commissioned by the Supervisory Board in accordance with the resolution of the Annual General Meeting on 10 August 2016.

The required documentation and the auditor's reports were provided to each member of the Supervisory Board and discussed extensively with the auditor in the balance sheet meeting of the Supervisory Board on 21 June 2017. Following the final outcome of its extensive review and discussion, the Supervisory Board had no objections to raise. It approved the outcome of the audit of the financial statements, the annual financial statements prepared by the Management Board of Celesio AG and the consolidated financial statements.

Thanks

The Supervisory Board thanks the Management Board, the management teams of the Group companies as well as all employees for their immense personal commitment, continuous dedication, strong performance and loyalty during fiscal 2017. We are confident that together Celesio and McKesson are on a solid path to success and have the expertise to seize the opportunities and overcome the challenges that fiscal 2018 will bring. It offers its special thanks to Chairman of the Management Board Marc E. Owen, who retired at the end of the fiscal year, for his circumspect and energetic commitment to Celesio.

STUTTGART, JUNE 2017

ON BEHALF OF THE SUPERVISORY BOARD

JOHN H. HAMMERGREN
CHAIRMAN

Combined Management Report Celesio AG 2017

(01/04/2016 – 31/03/2017)

Background of the group/ Business activity and organisation

This combined Management Report is based on the fiscal year 2017 (01/04/2016 – 31/03/2017). Celesio AG is the management holding of the group and provides its subsidiaries and managed entities central financial and liquidity management as well as services on the basis of service agreements.

Since the course of business, the economic position, and the opportunities and risks associated with the future development of Celesio AG do not differ from those of the group, the management report of the group has been combined with that of Celesio AG in accordance with section 315(3) HGB (German Commercial Code).

The down listing of the Celesio AG shares from the regular markets in Frankfurt, Berlin, Düsseldorf, Stuttgart and Munich impacted the content of our annual report. Since last year we are no longer obligated to publish the following information within the management report: Corporate Governance report and declaration, remuneration system of the Management Board and the expanded disclosures on capital and shareholder structure. Furthermore we are no longer obligated to publish a half year financial report from fiscal year 2018 onwards.

The shares of Celesio AG were listed on the m:access in Munich and the Primary Market in Düsseldorf until 31 March 2017 and on Xetra in Frankfurt until 26 April 2017.

Our business model

We manage strong brands in 13 pharmaceutical and healthcare markets in Europe, making Celesio one of the leading international trading companies and service providers in the pharmaceutical market. We have own operations in 10 countries and manage McKesson operations in two Scandinavian countries and the wholesale operations in Ireland. Our core business consists of pharmaceutical wholesale and pharmacies – we operate our own retail pharmacies and maintain partnership schemes with independent, owner-run pharmacies.

Around 39,000 employees cover the supply chain from the pharmaceutical industry right through to the patient, offering supply chain services for pharmaceutical manufacturers and selling medicines, healthcare products and special services for pharmacies via our pharmaceutical wholesale business and retail pharmacies.

Our wholesale network consisting of 110 own and seven managed branches delivers to some 55,000 pharmacies every day in eleven European countries.

We operate more than 2,100 pharmacies and manage more than 300 pharmacies in six European countries. With a focus on professional advice, we support patients and consumers by supplying medicines and numerous pharmaceutical services for health and well-being.

Our aim is to actively help people through effective, efficient and innovative healthcare services. We are developing our core business through new concepts and innovative approaches as part of our strategy

Optimising key areas of business activities together with McKesson

McKesson is the majority shareholder in Celesio, with more than 76% of Celesio shares. The existence of a domination and profit and loss transfer agreement between Celesio Holdings Deutschland GmbH & Co. KGaA (formerly named McKesson Deutschland GmbH & Co. KGaA and Dragonfly GmbH & Co. KGaA), a wholly owned subsidiary of McKesson, and Celesio AG, empowers both companies to work together as an integrated global company and create even more value for their stakeholders.

Group structure and management

The organisation and reporting structure of the Celesio Group is divided into two divisions which are aligned to the needs and demands of the respective customer groups. Consumer Solutions is aimed at patients and consumers and mainly is comprised of the pharmacy business. Pharmacy Solutions serves pharmacies and is primarily concerned with the group’s wholesale activities.

The organisational structure of the Celesio Group is arranged functionally. The businesses in the countries are supported by corporate functions.

Management and control

The management board manages the Celesio Group based on legal requirements and the rules of procedure laid down by the supervisory board. The management board is supported by a leadership team, but the management board makes the ultimate decision.

The management board is advised and controlled in its management function by the supervisory board. The supervisory board is made up of an equal number of shareholder and employee representatives and is responsible for appointing

members of the management board; any major transactions by the management board must be approved by the supervisory board.

An essential element of the domination agreement, which is registered in the Commercial Register and effective since 2 December 2014, is granting the parent company the authority to issue instructions. Celesio Holdings Deutschland GmbH & Co. KGaA is authorised to issue instructions to Celesio AG with regard to the management of the company. Celesio nevertheless remains a legally independent company with its own executive bodies, as described above. It also continues to be the responsibility of the Celesio 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.

Internal performance measurement system

EBIT (earnings before interest and taxes) and EBIT adjusted are two of the main key performance indicators for our performance measurement of our business. A detailed description of special effects leading to the adjustments on EBIT is provided on page 19. EBIT allows us to measure the operating business success including amortisation and depreciation and to compare ourselves with other international companies.

Additionally, we budget and measure a number of financial and non-financial key performance indicators on a monthly basis, such as net working capital, net debt, free-cash flow, headcount and full-time equivalents (FTE).

Demographic change is one of the main drivers of growth in the global pharmaceutical markets

The growth of the global pharmaceutical and healthcare markets will continue to be driven primarily by global demographic trends in the coming years.

Overall, the global pharmaceutical and healthcare markets will grow by 5.6% per year on average until 2020. Through strong population growth, rising affluence, higher expectations as to the quality of life, increased quality in healthcare as well as improved access to it, the developing and emerging economies will contribute to global growth with double-digit growth rates. Industrialised nations on the other hand will mostly only generate growth in the single digits (source: IMS Global).

Cost pressure on healthcare systems as a driver of competition and development in Europe

In the advanced and highly regulated markets of Europe, moderate growth of around 3.2% per year is expected through 2020, according to IMS Health. According to IMS Health the competition on the European pharmaceutical and healthcare markets will remain high, primarily as a result of structural reforms in those countries in Europe that are economically weaker.

Government cost reduction programmes will cause competition in pharmaceutical distribution to remain high. In the medium term, this pressure will lead to further consolidation in the pharmaceutical business in order to realise economies of scale and purchasing advantages. In addition, traditional pharmaceutical distribution models are increasingly adding services for manufacturers and pharmacies with corresponding new compensation models. The pharmaceutical wholesale business is thus positioning itself as a full service provider between manufacturers and pharmacies. In the pharmacy sector, too, the higher competitive pressure is resulting in a concentration of pharmacies in cooperation concepts and – in less regulated markets – in further consolidation to pharmacy networks. In many European countries, the pharmacy is also shifting more into focus in terms of providing medical care. This relates to both the support of patients suffering from chronic illnesses (advice, helping them take their medication regularly) and the

rendering of simple medical services such as measuring blood pressure. This will increase the quality of healthcare and reduce healthcare costs.

Primary objective: people's health

More so than ever, patients and consumers are determining the success of the pharmaceutical and healthcare markets.

Celesio aims to contribute to healthier, more positive lives by providing innovative and effective healthcare services.

Our entire strategy is based on this ultimate goal. We continuously strive to improve the quality of services for patients and consumers as well as the efficiency of the supply chain through a strategy of innovation. Our corporate mission serves as a framework and directional aid for the Celesio strategy and structure.

The way we do business

To reach our ambitious goals, we focus on our five priorities, which are

- Enhance customer value
- Encourage a growth mindset
- Strengthen leadership
- Improve collaboration and
- Develop our talent pool.

We will enhance customer value through operational excellence, value added services and broader partnerships. We will leverage the great growth opportunities we see over the years through core growth, consolidation, channel expansion and innovation. In order to achieve growth and emphasise customer value across the board, we need the right people and the right organisation.

Fundamental for Celesio’s success is a very good collaboration between and amongst countries and group functions. As countries differ greatly in terms of regulations and health care systems, in general decisions should be made as close to the customers as possible, i.e. by the local management. In areas like procurement, European Pharmacy Network (EPN) or IT, it is important that we are acting

as a large entity. Last but not least, developing our employees is an overarching task and management process.

The Celesio strategy is to focus on European core markets that offer the right mix of economic growth potential, competitive landscape and customer type, coupled with an ability to scale and leverage our operations to generate maximum efficiencies. Following a business review, Celesio decided in March 2015 to sell its Brazilian operations. On 31 May 2016 the transaction closed. The sale allows Celesio's management to focus on markets that demonstrate more attractive characteristics and which utilise Celesio's strong European footprint. As already announced during the fiscal year 2016, we did further acquisitions in fiscal year 2017 to extend our footprint within countries in which we already operate.

On 1 June 2016 Celesio acquired the pharmaceutical distribution division of UDG based in Northern Ireland (UD Sangers) and England (MASTA).

On 1 July 2016 we closed the transaction to purchase Bupa Home Healthcare in the United Kingdom, a clinical homecare provider. Celesio expands its home healthcare expertise and capabilities with this acquisition.

On 1 September 2016 LloydsPharmacy in the UK closed the transaction to acquire Sainsbury's pharmacy business.

Additionally we closed smaller transactions in Portugal and Belgium during the last fiscal year.

Dependency on economic environment

The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly dependent on economic stability. The pharmaceutical retail business is slightly dependent on the overall economy, typically for non-prescription products sold. However, we have not seen any precise dependency on the overall economic environment in the past.

On 23 June 2016 the UK voted to leave the European Union (EU) (BREXIT). The outcome of the referendum led to high uncertainty in the markets and to a devaluation of the British Pound. Nine months after the referendum on 29 March 2017 the UK government officially requested to leave the EU. UK and the EU have now two years to resolve all interdependencies between them.

Furthermore, in October 2016, the UK Department of Health issued a final and revised funding structure for community pharmacies in the UK (one of our major markets). The new funding structure significantly cut the funds available to community pharmacies and was phased in partially from December of 2016 with further cuts effective April 2017. This new funding structure along with the reimbursement price cuts on prescription products in 2016 to reach target government spending levels, led already in fiscal year 2017 to a significantly worse than expected performance as well as a lower outlook for our UK retail pharmacy business. Against this background we have adopted the long-term planning for our British entities and as a consequence the impairment of these entities has been examined and corresponding depreciations have been done.

In Ireland likewise considerable cuts in the health care sector were announced in fiscal year 2017, which led to price reductions and changes in the reimbursement prices. We also adopted the revenue and earnings outlook, examined the impairment and did corresponding depreciations for our entities.

Beside the development in the UK and Ireland, the basic parameters of the economic environment in our European markets remained stable in fiscal year 2017.

Revenue and earnings development

CELESIO GROUP REVENUE AND OPERATING RESULTS	Fiscal 2016		Fiscal 2017		Change on EUR basis
	EUR m	of revenue %	EUR m	of revenue %	%
Revenue	21,192.5	100.0	20,643.7	100.0	−2.6
Gross profit	2,475.9	11.7	2,125.7	10.3	−14.1
adjusted [1]	2,475.9	11.7	2,125.7	10.3	−14.1
EBIT	621.5	2.9	−699.4	−3.4	/
adjusted [1]	426.6	2.0	302.6	1.5	−29.1
Profit before taxes	573.6	2.7	−748.9	−3.6	/
adjusted [1]	378.7	1.8	253.1	1.2	−33.2
Net profit from continuing operations	491.1	2.3	−804.5	−3.9	/
adjusted [1]	291.2	1.4	191.3	0.9	−34.3
Net profit from discontinued operations	−94.3	−0.4	−159.4	−0.8	−69.0
Net profit/loss from continuing and discontinued operations	**396.8**	**1.9**	**−963.9**	**−4.7**	**/**

1) Adjusted for special effects from defined non-recurring expenses and income (including tax effect), incl. goodwill impairments.

Additional notes

On 16 February 2016 our Norwegian and Swedish entities were sold to McKesson Norway Holding AS, a subsidiary of McKesson Corporation.

Revenue

Group revenue came to EUR 20,643.7m in fiscal year 2017, down 2.6% on the fiscal year 2016 figure of EUR 21,192.5m. Revenue in fiscal year 2017 was adversely impacted by the devaluation of the British Pound. Overall negative exchange rate effects, primarily related to the British pound, came to EUR 940.2m. Additionally the sale of our Norwegian and Swedish activities weighted on revenue. These effects were partially offset by revenue growth in our German wholesale operation and the acquisitions completed in fiscal year 2017. On a constant currency basis and excluding the disposals in the fiscal year 2016 figure our revenue grew driven by acquisitions by 5.8% in fiscal year 2017.

As in the past fiscal year, UK made the largest contribution to revenue (30.5%; fiscal year 2016: 29.8%) followed by France (28.5%; fiscal year 2016: 28.3%), and Germany (22.9%; fiscal year 2016: 21.2%).

Gross profit

Gross profit declined by 14.1% in fiscal year 2017 from EUR 2,475.9m to EUR 2,125.7m. This decrease is due to the sale of our Norwegian and Swedish activities, negative exchange rate effects mainly from the British pound of EUR 164.7m and state-imposed price reductions mainly in the United Kingdom. At 10.3%, the gross profit margin in the reporting period was below the level in fiscal year 2016 of 11.7%.

EBIT

EBIT (earnings before interest and taxes) for continuing operations saw a significant decrease from EUR 621.5m to EUR –699.4m.

In fiscal year 2017, non-recurring expenses amounted to EUR 1,002.0m (fiscal year 2016: earnings of EUR 194.9m). Expenses of EUR 990.9m result from goodwill impairment for the cash-generating units Consumer Solutions UK and Ireland. The goodwill impairment in CS UK was mainly driven by unexpected governmental actions described above. The goodwill impairment in CS Ireland was mainly the result the unexpected governmental actions in fiscal year 2017 and the consequently decline in the long-term revenue and earnings outlook.

Additionally EUR 29.0m were incurred for legal and other consultancy expenses in connection with acquisitions and the integration of newly acquired entities and EUR 8.9m for efficiency improvements and restructuring measures within the Celesio Group.

By contrast a gain of disposal of EUR 19.9m resulted from the disposal of pharmacies in the UK, due to a strategic review of our pharmacy portfolio and obligations from the Competition and Market's Authority (CMA) in connection with the acquisition of the Sainsbury's pharmacy business. Additional earnings of EUR 6.9m result from the reclassification gain of a small entity within the German wholesale operations, which was classified as disposal group in the short fiscal year 2015 and whose plan to sell was suspended.

In the income statement, we show the non-recurring expenses and income described above as non-recurring effects in EBIT.
Celesio defines an effect as non-recurring, once this effect is derived from

- impairment losses/ reversals recorded on non-current assets and revaluations pursuant to IFRS 5 regarding the expected amount of net sales proceeds,
- deconsolidation,
- impairment losses / reversals recognised on intangible or tangible assets,
- restructuring charges from changes in strategy, of ordinary business, including changes to the management
- integration activity of newly acquired entities as well as the integration into McKesson Corporation.

EBIT adjusted for these special effects mentioned above fell by 29.1% to EUR 302.6m compared to EUR 426.6m in fiscal year 2016. EBIT adjusted in the reporting period was adversely impacted by UK governmental reimbursement cuts, the sale of our Norwegian and Swedish activities in the previous fiscal year and the devaluation of the British pound. Thereby overall negative exchange rate effects amounted to EUR 24.6m, mainly related to the British pound. On a constant currency basis and excluding the disposals in the previous fiscal year EBIT adjusted fell by 18.5% in fiscal year 2017 compared to fiscal year 2016.

EBIT, ADJUSTED	Fiscal 2016		Fiscal 2017	
BY CURRENCY				
	EUR m	%	EUR m	%
Group total	**426.6**	**100.0**	**302.6**	**100.0**
EUR	108.6	25.5	127.4	42.1
GBP	286.4	67.1	169.2	55.9
Others	31.6	7.4	6.0	2.0

Taking into account the holding's expenses incurred in euro, the euro share in EBIT adjusted increased by 16.6 percentage points.

Investment result

At EUR 16.7m the investment result was above the previous year level of EUR 15.8 m. This was primarily attributable to the non-recurring costs in fiscal year 2016 of the Dutch investment Brocacef Holding N.V. relating to the at that time pending acquisition of Mediq Apotheken Netherland B.V. This acquisition was completed in June 2016.

Financial result

The financial result, the balance of the items interest expense, interest income and other financial result, deteriorated to EUR –66.1m in fiscal year 2017, compared to EUR –63.6m in fiscal year 2016. The slight deterioration results from a shift of short term intra-group loans to long term intra-group loans received by subsidiaries of the McKesson Corporation and was partially offset by lower bank fees. The adjusted interest coverage ratio (defined as EBIT adjusted divided by financial result) was 4.6 (fiscal year 2016: 6.7). The unadjusted interest coverage ratio came to –10.6 (fiscal year 2016: 9.8).

Income taxes

At EUR 55.6m (fiscal year 2016: EUR 82.5m), the tax expenditure decreased by 32.6%. This results in an effective tax rate of –7.4% for the reporting period (fiscal year 2016: 14.4 %). The fiscal year 2017 tax rate is mainly driven by the non-tax deductible goodwill impairment for UK and Ireland. Adjusted for the special effects mentioned above, the adjusted tax rate is 24.4% in fiscal year 2017 compared to 23.1% in fiscal year 2016. The movement in the adjusted tax rate is mainly due to the mix of different tax rates and the earnings mix of the different countries in which Celesio operates.

Net profit/loss from continuing operations

The net profit from continuing operations at the Celesio Group came to EUR –804.5m compared to EUR 491.1m. in fiscal year 2016. After adjustments for special effects net profit from continuing operations is at EUR 191.3m, down 34.3% on the fiscal year 2016 figure of EUR 291.2m, which results mainly from the previously described decrease in EBIT adjusted. The basic and diluted earnings per share of the Celesio Group decreased from EUR 2.40 in fiscal year 2016 to EUR –3.97.

Net profit/loss from discontinued operations

The closing conditions for the sale of our Brazilian activities were fulfilled as of 31 May 2016 and the transaction was closed as of this date.

Discontinued operations generated revenue of EUR 260.3m in the first two months of fiscal year 2017 compared to EUR 1,440.9m in the twelve months of fiscal year 2016.

EBIT amounted to EUR 3.9m in the first two months of fiscal year 2017 (fiscal year 2016: EUR –14.4m). Overall, negative currency effects on EBIT, caused by the Brazilian Real amounted to EUR 0.2m.

On the closing of the transaction EUR 158.1m were recorded as an expense through profit and loss. Whereas EUR 127.2m relate to the foreign currency translation reserve as of 31 May 2016 and EUR 30.9m relate to the loss recognized upon the disposal and to adjustments to amounts previously presented in discontinued operations that are directly related to the disposal.

Thus the net loss incurred by discontinued operations deteriorated to EUR –159.4m compared to EUR –94.3m in fiscal year 2016.

Net profit/loss

Net profit and loss from continuing and discontinued operations came to EUR –963.9m in fiscal year 2017 compared to a net profit and loss of EUR 396.8m in fiscal year 2016. Accordingly, basic and diluted earnings per share came to EUR –4.76 compared to EUR 1.93 in fiscal year 2016.

Investments and capital expenditures

Investments and capital expenditures of continuing operations recognised in the statement of financial position came to EUR 494.1m in fiscal year 2017 (fiscal year 2016: EUR 416.3m). In line with the company's internal reporting guidelines, Celesio differentiates between investments in acquisitions and new pharmacies and capital expenditures of the operating business.

Balance sheet additions to Property, plant and equipment and Intangible assets from acquisitions and new pharmacies came to EUR 340.3m in fiscal year 2017. This figure includes the acquisitions of UD Sangers, MASTA and the Sainsbury’s pharmacy business for which we already did the prepayments in fiscal year 2016 as well as further acquisitions in the Netherlands, Belgium and Portugal and the continued optimisation of our pharmacy portfolio.

In fiscal year 2016 cash flow relevant investments in acquisitions and new pharmacies totalled EUR 270.2m including the prepayments for UD Sangers, Masta and the Sainsbury’s pharmacy business.

In fiscal year 2017, the capital expenditure of Celesio for its operating business totalled EUR 153.8m compared to EUR 146.1m in fiscal year 2016, a rise in the investment level. This development generally reflects the high IT investments and investments in a new warehouse in France.

Changes in the investment portfolio

In June 2016 Brocacef Group, a joint venture of the PHOENIX Group and Celesio, closed the acquisition of Mediq Apotheken Nederland B.V. The acquisition involves pharmacies, the pharmaceutical wholesale distribution business, and pre-wholesale activities.

Consumer Solutions

Market environment and business development

The Consumer Solutions division is aimed at patients and consumers. It includes the entire logistics chain from purchasing merchandise to handing it over to the end customers. In particular, the division includes activities relating to retail and mail-order pharmacies, homecare as well as brand partner shops.

Celesio is one of the largest pharmacy operators in Europe. As of the end of fiscal year 2017 Celesio operated 2,140 retail pharmacies in four countries.

Due to the ongoing optimisation of our portfolio and including the Sainsbury's pharmacy business we acquired 281, opened two, closed 13 and sold 43 pharmacies in fiscal year 2017 – a net increase of 227 pharmacies. The high number of sold pharmacies results from a strategic review of our pharmacy portfolio in the UK and obligations from the Competition and Market's Authority (CMA) in connection with the acquisitions of the Sainsbury's pharmacy business.

In two of our markets, UK and Ireland, the economic parameters changed in the past fiscal year, as described on page 16 and impacted our earnings.

Revenue and earnings development

CONSUMER SOLUTIONS REVENUE AND OPERATING RESULTS	Fiscal 2016		Fiscal 2017		Change on EUR basis %
	EUR m	of revenue %	EUR m	of revenue %	%
Revenue	4,140.4	100.0	**3,836.5**	**100.0**	−7.3
Gross profit	1,332.6	32.2	**1,059.2**	**27.6**	−20.5
adjusted [1)]	1,332.6	32.2	**1,059.2**	**27.6**	−20.5
EBIT	365.1	8.8	**−888.7**	**−23.2**	/
adjusted [1)]	207.4	5.0	**108.6**	**2.8**	−47.6

1) Adjusted for special effects from defined non-recurring expenses and income.

Revenue

Revenue in the Consumer Solutions division decreased by 7.3% in fiscal year 2017 from EUR 4,140.4m in fiscal year 2016 to EUR 3,836.5m. The sale of our Norwegian and Swedish business weighed on the revenues in fiscal year 2017. Additionally, negative exchange rate effects related to the British pound amounted to EUR 502.0m. The governmental cuts on prescription products also adversely impacted the revenue in fiscal year 2017. Those effects were partially offset by the

acquisitions in fiscal year 2017. On a constant currency basis and excluding disposals in the previous period our revenue in Consumer Solutions grew driven by acquisitions in fiscal year 2017 by 24.3% compared to fiscal year 2016

Gross profit

In fiscal year 2017, the division's gross profit decreased by 20.5% from EUR 1,332.6m in the comparison period to EUR 1,059.2m. The decrease is due to the sale of our Norwegian and Swedish business in fiscal year 2016, the overall negative exchange rate effects which amounted to EUR 129.3m related to the British pound. Adjusting for those two items gross profit increased year over year where acquisitions and organic growth offset the unfavourable impact of reimbursement cuts in the UK. The gross profit margin decreased from 32.2% in fiscal year 2016 to 27.6% in fiscal year 2017.

EBIT

EBIT amounted to EUR –888.7m in fiscal year 2017 compared to EUR 365.1m in fiscal year 2016. EBIT adjusted for the special effects mentioned above decreased by 47.6% from EUR 207.4m in fiscal year 2016 to EUR 108.6m in fiscal year 2017. Primary reason for the decrease in EBIT adjusted is the government reimbursement cuts in the UK. The sale of our Norwegian and Swedish operations in the previous fiscal year additionally weighed on EBIT adjusted. Negative exchange rate effects, related to the British pound, of EUR 12.4m also adversely impacted EBIT adjusted.

Pharmacy Solutions

Market environment and business development

Celesio bundles its wholesale activities with pharmaceutical products in its Pharmacy Solutions division.

With 110 wholesale branches as of end of fiscal year 2017, Celesio subsidiaries are active in nine European countries.

Celesio is one of the top players in all countries with the exception of Italy, where we only operate regionally.

Celesio offers supplementary services for pharmacists such as the organisation and management of pharmacy cooperation programmes in Germany, France, Portugal and Belgium. Within the framework of these cooperation programmes, we also support our business partners with offers and campaigns and provide platforms to facilitate the exchange of information. Celesio offers different services to suppliers, manufactures and other third parties in the pharmaceutical and healthcare sector.

The pharmaceutical wholesale business operates in a relatively stable market environment that is not directly dependent on economic stability.

Revenue and earnings development

PHARMACY SOLUTIONS REVENUE AND OPERATING RESULTS

	Fiscal 2016		**Fiscal 2017**		Change on EUR basis %
	EUR m	of revenue %	**EUR m**	**of revenue %**	%
Revenue	17,052.2	100.0	**16,813.2**	**100.0**	−1.4
Gross profit	1,143.4	6.7	**1,066.5**	**6.3**	−6.7
adjusted [1]	1,143.4	6.7	**1,066.5**	**6.3**	−6.7
EBIT	311.4	1.8	**229.6**	**1.4**	−26.3
adjusted [1]	262.1	1.5	**230.2**	**1.4**	−12.2

1) Adjusted for special effects from defined non-recurring expenses and income.

Revenue

In fiscal year 2017 the Pharmacy Solutions division generated revenue of EUR 16,813.2m compared to EUR 17,052.2m in fiscal year 2016, a decrease of 1.4%. The overall negative exchange rate effect of EUR 438.4m, mainly derived from the British Pound has been partially compensated by the growing business in several countries.

Gross profit

In fiscal year 2017, the division's gross profit decreased by 6.7% from EUR 1,143.4m in fiscal year 2016 to EUR 1,066.5m. Overall negative currency exchange rate effects amounted to EUR 35.4m mainly caused by the British pound. Gross profit in fiscal year 2017 was adversely affected by indirect effects of the governmental cuts in the UK and exchange rate effects on the sourcing cost of non-British pound denominated products. The gross profit margin in fiscal year 2017 of 6.3% was slightly below the level of fiscal year 2016 of 6.7%.

EBIT

In fiscal year 2017, the division's EBIT decreased by 26.3% from EUR 311.4 m to EUR 229.6m. EBIT adjusted for special effects decreased by 12.2% from EUR 262.1m in fiscal year 2016 to EUR 230.2m in fiscal year 2017. Negative currency effects, mainly caused by the British pound, of EUR 12.2m weighed on EBIT adjusted. In particular our UK operations in the pharmacy solutions segment were down year on year due to indirect effects of government cuts and exchange rate effects on the sourcing cost of non-British pound denominated products

Statement of cash flows

EUR M	Fiscal 2016	Fiscal 2017	Dev.
CASHFLOW STATEMENT - CONTINUED OPERATIONS			
Net cash flow from operating activities - continuing activities	321.8	**441.1**	119.3
Net cash flow from investing activities - continuing operations	−411.9	**−25.0**	386.9
Interest paid and received	−50.0	**−65.7**	−15.7
Free cash flow	**−140.1**	**350.4**	**490.5**
Payments made to shareholders (including non-controlling interests)	−10.0	**−130.2**	−120.2
Net cash flow from change in borrowings	259.0	**−22.4**	−281.4
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	−0.6	**0.0**	0.6
Net change in cash and cash equivalents - discontinued operations	**−2.4**	**−144.7**	**−142.3**
Payments for group hedging activities	**−31.9**	**24.1**	**56.0**
Net change in cash and cash equivalents	**74.0**	**77.2**	**3.2**
Net foreign exchange rate difference	−19.2	**−24.4**	−5.2
Change in cash and cash equivalents	**54.8**	**52.8**	**−2.0**

The cash flow from operating activities came to EUR 441.1m for continuing operations in fiscal year 2017, compared to a cash flow of EUR 321.8m generated in the previous fiscal year 2016. This development was primarily the result of changes in operating net assets. Inventories increased significantly due to a vaccine initiative in UK and higher stockpiling in Germany. The increased cash outflow for inventories was overcompensated by an increase in trade payables. This increase is for the most part based on cut-off effects.

Cash flow from operating activities came to EUR −18.8m for discontinued operations, compared to EUR −21.3m in fiscal year 2016.

The cash flow from investing activities for continuing operations amounted to EUR −25.0m, compared to EUR −411.9m in the previous fiscal year 2016.

Significant acquisitions in 2017 were the following: Bupa Home Healthcare Limited, Masta Limited and Sangers NI Limited in UK, Grupo Holon in Portugal, MDD Pharma N.V. in Belgium as well as two stand-alone pharmacies. For discontinued operations, cash flow from investing activities came to EUR −94.7m, compared to EUR −8.1m in the previous year.

Cash and cash equivalents came to EUR 476.3m as of 31 March 2017, an increase of EUR 52.8m compared to the end of the fiscal year 2016.

Free cash flow, the balance of net cash flow from operating activities, net cash flow from investing activities, interest paid and received amounted to EUR 350.4m for continuing operations in fiscal year 2017 compared to EUR −140.1m in fiscal year 2016.

EUR M	31/03/2016	31/03/2017	Change in statement of financial position	Net change in cash and cash equivalents continuing operations*
CHANGE IN NET OPERATING ASSETS				
Inventories	1,376.7	**1,483.5**	106.8	−100.3
Trade receivables	2,224.6	**2,290.2**	65.6	8.0
Trade payables	−2,306.2	**−2,594.8**	−288.6	234.0
Net operating assets	−107.6	**−86.4**	21.2	−23.8
Net operating assets	**1,187.5**	**1,092.5**	**−95.0**	**117.8**
Other assets and liabilities	**44.6**	**−327.0**	**−371.6**	**−103.4**
Net cash flow from change in net working capital				**14.4**

* Change in the statement of financial position adjusted for currency effects, changes in the consolidated group, assets and liabilities held for sale and impairment of operating assets

Net debt decreased from EUR 1,097.9m as of 31 March 2016 to EUR 838.3m as of 31 March 2017. The key performance indicator net debt/EBITDA (adjusted) improved from 2.05 as of 31 March 2016 to 1.30 as of the 2017 reporting date.

Cash outflow from financing activities for continued operations amounted to EUR –194.2m in the reporting period compared to a cash inflow of EUR 166.5 m in the previous fiscal year 2016. The cash inflow from borrowing decreased by EUR 258.8m to EUR 338.8m, while cash outflow for the settlement of financial liabilities increased by EUR –22.6m to EUR –361.2m.

As of 31 March 2017, net working capital amounted to EUR 1,092.5m (31 March 2016: EUR 1,187.5m).

Financing strategy and financial management

Our financing strategy is founded on the following principles:

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

Celesio consistently pursues a conservative financing strategy that is aligned to our long-term needs. Our financing agreements do not contain any financial covenants.

FINANCIAL LIABILITIES	31/03/2016	**31/03/2017**
EUR m		
Liabilities to banks	24.7	**22.2**
Promissory notes and bonds	847.7	**499.6**
Lease liabilities	4.7	**3.3**
Liabilities to McKesson entities	637.6	**784.2**
Other financial liabilities	6.7	**5.2**
Group/total	**1,521.4**	**1,314.5**

Celesio is driving efforts to limit bank financing and to make use of internal funding sources. Local lines of credit are only used where it is not possible or not practical to draw on central sources.

Financial instruments

Credit lines and intercompany long term loans

In October 2015 Celesio transformed the existing uncommitted credit facility with Celesio Holdings Deutschland GmbH & Co. KGaA to a three year EUR 1,000m committed credit facility (before EUR 500m). Following this credit lines provided by banks to Celesio AG have been reduced to less than EUR 100m.

As of 31 March 2017 Celesio had no drawdown under the committed credit facility with Celesio Holdings. The terms and conditions of the facility are at arm's length and mainly replace short-term working capital drawings under uncommitted bilateral credit lines from banks.

In addition to that our English entities are mostly directly funded in GBP by a subsidiary of McKesson Corporation since the second half of fiscal year 2016.

Bonds

At the beginning of fiscal year 2017 Celesio had two bonds outstanding:

OUTSTANDING NOMINAL VOLUME	31/03/2016	31/03/2017	Coupon	Maturity
EUR m			%	
Corporate bond 2016	349.7	**0.0**	4.00	18/10/2016
Corporate bond 2017	499.7	**499.7**	4.50	26/04/2017
Total EUR	**849.4**	**499.7**		

The bond 2016 matured on 18 October 2016 and has been refinanced by Celesio Holdings Deutschland GmbH & Co. KGaA.

The bond 2017 matured on 26 April 2017 and was refinanced by an intercompany loan from a subsidiary of McKesson Corporation.

Financing costs

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

On 31 March 2017, Celesio AG and its group companies had met all loan obligations from financing agreements.

Assets position

As of 31 March 2017, the Celesio Group had total assets of EUR 6,857.7m; a decrease of EUR 1,224.1m compared to 31 March 2016.

The gearing, which expresses the ratio of net debt to equity, deteriorated as of 31 March 2017 to 0.44 compared to 0.40 as of 31 March 2016. This development was mainly driven by a decrease in equity of EUR 859.1m while net financial debt decreased by EUR 259.6m.

ASSETS EUR m	31/03/2016	31/03/2017
Non-current assets	**2,908.7**	**1,962.9**
Current assets	**5,173.1**	**4,894.8**
Total assets	**8,081.8**	**6,857.7**

Non-current assets decreased by a total of EUR 945.8m to EUR 1,962.9m compared to 31 March 2016. Intangible assets decreased by EUR 837.2m to EUR 1,127.4m, mainly driven by the goodwill impairment of EUR 946.9m for the cash-generating unit Consumer Solutions UK and EUR 44.0m for the cash-generating unit Consumer Solutions Ireland. The goodwill impairment in CS UK was mainly driven by unexpected governmental actions. The goodwill impairment in CS Ireland was particularly the result of a decline in the long-term earnings outlook based on unexpected governmental actions.

Property, plant and equipment increased by EUR 35.2m to EUR 486.2m, the main drivers being the construction of a new warehouse in France and business acquisitions, mostly in the UK. Investments in associates increased by EUR 78.7m to EUR 232.2, mainly due to a capital increase for our at equity investments in the Netherlands. Other financial assets decreased to EUR 57.4m by EUR 234.6m, mainly driven by the reclassification of previous year prepayments for the acquisitions of UD Sangers and the Sainsbury's pharmacy business, both fully consolidated since fiscal year 2017.

As of 31 March 2017, current assets came to EUR 4,894.8m, a decrease of EUR 278.3m compared to 31 March 2016. Inventories increased by EUR 106.8m to EUR 1,483.5m, mainly due to higher year-end purchases, business acquisitions and decreasing downstream demand in the UK wholesale business. Inventories were reduced by currency effects. Trade receivables increased by EUR 65.6m to EUR 2,290.3m, mainly impacted by the business acquisitions in the UK, the increase being partly offset by a negative currency effect. As of 31 March 2017, cash

and cash equivalents came to EUR 476.3m compared to EUR 423.5m as of 31 March 2016. This increase of EUR 52.8m was mainly driven by a decrease in net working capital, offset to a large part by the cash-out due to business acquisitions. Other receivables and other assets decreased by EUR 169.8m to EUR 603.1m. This decrease was mainly due to the repayment of a McKesson loan of EUR 511.6m. Conversely, other receivables increased by EUR 275.0m due to a payment from Celesio AG to Celesio Holdings Deutschland KGaA.

As of 31 March 2017, the Celesio Group reported assets as held for sale of EUR 4.8m. The decrease of EUR 339.6m compared to 31 March 2016 is caused by the sale of the Brazilian activities in the reporting period.

EQUITY AND LIABILITIES EUR m	31/03/2016	31/03/2017
Equity	**2,752.5**	**1,892.5**
Liabilities	**5,329.3**	**4,965.2**
Non-current liabilities	**1,483.7**	**1,168.5**
Current liabilities	**3,845.6**	**3,796.7**
Total assets	**8,081.8**	**6,857.7**

As of 31 March 2017, we recorded a decrease of EUR 860.0m in equity to EUR 1,892.5m compared to 31 March 2016. This development is mainly driven by the decrease in revenue reserves by EUR 943.2m to EUR 174.7m, which results from the net loss of the period. This decrease was partially offset by an increase of EUR 80.8m in capital reserves to EUR 1,864.0m, which results from a relief for prior year tax liabilities in the UK from McKesson UK. The revaluation reserves improved by EUR 1.8m to EUR –425.7m as of 31 March 2017. This increase is mostly resulting from currency translation effects. On the contrary, lower interest rates had a negative impact and consequently lead to actuarial losses on pension liabilities. The equity ratio was 27.6% on 31 March 2017, a declineof 6.5 percentage points compared to 31 March 2016.

Non-current liabilities decreased by EUR 315.2m compared to 31 March 2016, equating to EUR 1,168.5m as of 31 March 2017. Non-current financial liabilities declined by EUR 360.3m to EUR 806.1m as of 31 March 2017. This decrease is primarily driven by the reclassification of the outstanding corporate bond, due in April 2017, from non-current to current, partly offset by a loan from McKesson Information Solutions Finance S.a.r.l.

Current liabilities came to EUR 3,796.7m as of 31 March 2017 and decreased by EUR 48.9m compared to 31 March 2016. Current financial liabilities increased by EUR 153.4m to EUR 508.4m mainly as a result of the reclassification of the corporate bond from non-current into current, partly offset by the repayment of another corporate bond by EUR 349.7m in October 2016. Trade payables increased by EUR 288.7, mainly driven by business acquisitions in the UK and cut-off effects in Germany and the UK. This increase was adversely affected by currency effects. Current tax liabilities decreased by EUR 53.0m to EUR 80.1m, mainly due to a relief for prior year tax liabilities in the UK from McKesson UK.

As of 31 March 2017, the group disclosed total liabilities held for sale of EUR 0.0m compared to EUR 437.4m at 31 March 2016, the decrease being driven by the sale of the Brazilian activities.

Net debt decreased from EUR 1,097.9m as of 31 March 2016 to EUR 838.3m as of 31 March 2017. The key performance indicator net financial debt/EBITDA (adjusted) improved from 2.05 as of 31 March 2016 to 1.30 as of 31 March 2017.

Celesio AG financial statements (Holding)

The annual financial statements of Celesio AG reflect the company's activity as a management holding company. Celesio AG has shareholdings directly in the primarily operating national companies or indirectly via national holding companies. Furthermore, the short-term resource requirements of the operating companies are predominantly financed via Celesio AG. The annual financial statements of Celesio AG were compiled in Euro (EUR) in accordance with Sections 242 et seqq. and Sections 264 et seqq. of the Handelsgesetzbuch (HGB, German Commercial Code) and the relevant regulations of the Aktiengesetz (AktG, German Stock Corporation Act).

Assets position

Total assets fell by EUR 536.9m to EUR 4,131.1m as of 31 March 2017. The fixed assets increased by EUR 199.9m to EUR 3,237.1m, while the current assets fell by EUR 739.7m to EUR 888.0m.

Intangible assets increased by EUR 21.7m to EUR 60.0m, primarily due to capitalisations of self-developed assets as part of the ERP software project. The rise in non-current assets resulted primarily from a capital increase in a subsidiary, as well as loans granted and the capital increase in an associated company. In addition, there was unscheduled depreciation of financial assets to the amount of EUR 61.6m for an Irish subsidiary, mostly offset by write-ups of EUR 56.0m for two subsidiaries in Belgium and Denmark.

The current assets reduced in particular due to McKesson taking over the financing of an UK subsidiary with the corresponding repayment of receivables, as well as the partial repayment by the parent company of moneys due under a loan.

The equity of Celesio AG, amounting to EUR 3,125.5m, has not changed year-on-year. On the basis of the domination and profit and loss transfer agreement of 22 May 2014, the net loss of EUR 23.6m will be reimbursed by Celesio Deutschland Holdings GmbH & Co. KGaA.

The equity ratio increased by 8.7 percentage points to 75.6% (previous year 66.9%) due to the decline in total assets.

Financial position

The financing strategy is based on the principles of safeguarding liquidity, guaranteeing entrepreneurial freedom, and minimising financing costs. We also make reference to the statements on the financial strategy and financial management of the Group.
Of the liabilities amounting to EUR 918.6m, 0.9% is due to other business partners, 9.3% is due to Celesio Deutschland Holdings GmbH & Co. KGaA and 89.8% is due to affiliated companies. The company records extensive cover for interest-bearing liabilities and for interest-bearing assets (net gearing). Also, taking into account the loan from Celesio Deutschland Holdings GmbH & Co. KGaA, gearing is only -1.5% (previous year: -1.7%). On April 26, 2017, the outstanding debt of Celesio Finance B.V., Amsterdam, Netherlands, with a nominal value of EUR 499.7m, was repaid. This reduced the Group's liabilities. The refinancing was provided by a subsidiary of McKesson Corporation.

Financial performance

The annual net income for the 2017 fiscal year is EUR 0.0m (previous year: EUR 0.0m). On the basis of the domination and profit and loss transfer agreement of 22 May 2014, the net loss of EUR 23.6m (EUR 127.5m gain in the fiscal year running from 01/04/2015 to 31/03/2016) will be reimbursed by Celesio Deutschland Holdings GmbH & Co. KGaA.
The profit from ordinary activities before tax is primarily due to the investment result, interest result, and income from cost allocations to subsidiaries.
Due to the application of the Bilanzrichtlinien-Umsetzungsgesetz (BilRUG, Accounting Standards Implementation Act) for the first time, the company records now revenue (reclassification from other income), as well as costs of purchased services (reclassification from other expenses). The revenues mainly include the services provided to subsidiaries.
The investment result is composed of domestic subsidiary profit transfers as well as foreign subsidiary profit distributions, as well as value changes to the financial assets, and improved by EUR 206.3m year-on-year to EUR -6.2m. Other income decreased by EUR 454.2compared to the previous year. This decrease is mainly due to the sale of a Norwegian subsidiary in the previous year with anon-

recurring significant gain. Income resulted primarily from Group allocations and exchange rate gains.

Net expense for the executive management holding company is composed primarily of personnel expenses of EUR 35.6m (previous year: EUR 57.4m), amortisation of non-current intangible assets and depreciation of property, plant and equipment of EUR 8.8m (previous year: EUR 10.6m), and other expenses of EUR 144.3m (previous year: EUR 208.2m). The decrease in other operating expenses is mainly due to the GBP / EUR relation at year-end compared to the previous year, accompanied by the reduction of a loan to an UK subsidiary. The decline in personnel costs results primarily from operational improvements. The expenses essentially comprise exchange rate losses, costs of IT services, consultancy, and personnel services in Group companies. A domination and profit and loss transfer agreement (DPLA) has been in place since 2 December 2014 between the company and majority shareholder Celesio Deutschland Holdings GmbH & Co. KGaA, a wholly owned indirect subsidiary of the McKesson Corporation, which has its head office in San Francisco, California, USA. In accordance with Section 4 Paragraphs 2 and 3 of the DPTA, Celesio Deutschland Holdings GmbH & Co. KGaA guarantees that it will pay the external shareholders a dividend of EUR 0.83 per no-par value share for the duration of the contract and therefore also for the 2017 fiscal year.

Forecast

The business and earnings development of Celesio AG as a management holding company is closely connected to that of the Celesio Group. The earnings of Celesio AG for the 2018 fiscal year will therefore also depend primarily on the profit distributions from foreign subsidiaries, profits transferred from investments in Germany and the result of the financing function. We expect a positive net operational earnings between one-digit to a low double-digit million EUR amount (without divestment effects) for Celesio AG (before implementing a profit transfer or balancing of losses), as compared to a corresponding operating loss in fiscal year 2017 of EUR 8.0m. The investment result will be similar to that of the 2017 fiscal year due that we do not await any amortisation in subsidiaries. Due to the existing domination and profit and loss transfer agreement, we expect that equity will remain unchanged in the next fiscal year.

Employees

CELESIO GROUP EMPLOYEES	Full-time equivalents annual average		Full-time equivalents reporting date		Employees reporting date	
	31/03/2016	31/03/2017	31/03/2016	31/03/2017	31/03/2016	31/03/2017
Continuing operations Consumer Solutions	15,210	15,460	13,671	16,335	20,155	23,662
Continuing operations Pharmacy Solutions	9,565	9,860	9,383	9,633	11,410	11,673
Group holding	331	343	350	361	374	381
Discontinued operations	3,395	0	3,311	0	3,671	0
Continuing and discontinued operations	**28,502**	**25,663**	**26,715**	**26,329**	**35,610**	**35,716**

Employee figures

As of 31 March 2017, 26,329 full-time equivalents (FTEs) worked for Celesio. The decrease of 1.4% against 31 March 2016 results from the sale of our Brazilian businesses and was partially offset by the acquisitions, mainly in the UK.

A total of 16,335 FTEs were employed in the Consumer Solutions division at the end of fiscal year 2017, an increase of 19.5% compared to 31 March 2016. The sharp increase results from the acquisition of the Sainsbury's pharmacy business and the acquisition of BUPA Home Healthcare. At 62.0% this division accounted again for the largest share of FTEs in the group.

The Pharmacy Solutions division had 9,633 FTEs as of the end of fiscal year 2017, an increase of 2.7%. There were 361 FTEs working at group level as of 31 March 2017 (31 March 2016: 350 FTEs). With 92.5% (31 March 2016: 92.5%) of our employees working outside of Germany, we are one of the most international German groups.

Corporate governance declaration in accordance with Sec. 289f, para. 4 of the Handelsgesetzbuch (HGB, German Commercial Code) – targets for the proportion of positions held by women

In accordance with Sec. 111, para. 5, clauses 1 and 3 of the Aktiengesetz (AktG, German Stock Corporations Act), the Supervisory Board of Celesio AG has determined a target range for the proportion of women in the management board and the supervisory board that equates to a quota not smaller than the current quota and with a maximum target of 50%. For the supervisory board this means a target range of between 25% and 50%, and for the management board the range is between 0% and 50%.

In accordance with Sec. 76, para. 4, clauses 1 and 3 of the AktG, for the first time the Management Board of Celesio AG has furthermore set the target figure for the proportion of women in the first management level below the management board to 27%, and has set a target of 30% for the next level down.

In accordance with Sec. 25, para. 1 of the Einführungsgesetz zum Aktiengesetz (EGAktG, Introductory Act of the Stock Corporation Act), the date by which these target figures are to be attained has been set as 30 June 2017.

Research and development

As a healthcare trading company and service provider, we have no need to pursue research and development activities in the course of our business. Of course we still develop our range of services and our IT infrastructure on a rolling basis. More information on this can be found in sections concerning the development of each division.

Overall picture of the economic situation

The pharmaceutical and healthcare markets in which we operate as a leading service provider are characterised by good long-term prospects for development. In contrast, government intervention in pricing and margin-setting is associated with negative effects for Celesio in many of the European markets.

In fiscal year 2017, the revenue development in all countries met our expectations. Negative currency exchange rate effects of EUR 940.2m, mostly related to the British pound and the sale of our Norwegian and Swedish activities weighted on revenue.

In fiscal year 2017 a few items impacted gross profit and the gross profit margin in both segments. In particular the UK government reimbursement cuts on prescription products adversely impacted our gross profit as well as the devaluation of the British pound.

Non-recurring expenses came to EUR 1,002.0m in fiscal year 2017. They mainly result from the goodwill impairments in the Consumer Solutions division for UK and Ireland and legal and other consultancy expenses in connection with the acquisition and integration of newly acquired entities.

The EBIT adjusted development in fiscal year 2017 in the UK was burdened by the decision of the UK to leave the European Union and the consequential devaluation of the British Pound as well as the government reimbursement cuts, which were higher than originally expected for fiscal year 2017. For the other countries except the Consumer Solution division in Ireland EBIT adjusted development exceeded our expectations. The Consumer Solutions division recorded a decrease in EBIT adjusted higher than originally foreseen due to the developments in the UK. EBIT adjusted in the Pharmacy Solution division also recorded a considerable decrease in fiscal year 2017.

As expected the adjusted tax rate slightly increased due the mix of different tax rates and the earnings mix of the different countries.

In line with our expectations the investment level increased due to the acquisitions completed in fiscal year 2017 as well as high IT investments.

The cash flow from operating activities as well as the free cash flow saw an increase in fiscal year 2017 compared to 2016.

While we recorded an EBIT adjusted result lower than our original outlook, we consider the economic situation of the Celesio Group to be positive as the deviations to outlook were in isolated markets rather than widespread effects on the group as a whole.

Risk and opportunities report

As an international company, we encounter various risks and opportunities in the course of our varied business operations. Each and every corporate decision is based on a conscious weighing up of the opportunities and risks involved. We have set up a comprehensive opportunity and risk management system, which allows us to identify and analyse risks in good time and take suitable countermeasures if necessary. The objective of Celesio's risk management system is to identify risks at an early stage, react promptly to any changes in the environment and contain the negative influences on our company.

Risk management

Celesio has a well-established risk management system across the group. Celesio's risk management system is made up of a number of components, including the finance and accounting-related reporting system, planning and controlling processes, the internal audit function as well as the separate group-wide risk reporting. Group-wide guidelines and reporting systems form another key component.

Opportunity management

Alongside risk management, opportunity management is an important component of our group-wide planning and management systems. However, there is no separate opportunity reporting. This is rather a component of the annual planning process. For us, opportunities are internal and external factors and events with the potential to exert a positive influence on our operations. The healthcare market is a dynamic market, offering a wide range of opportunities. In order for our opportunity management to be successful, we observe the business climate very closely. This also involves us consulting market research findings and participating in active dialogue with various market participants. From this, we can derive concrete market opportunities that the management board coordinates with operational management in the planning process. Opportunities particularly arise from the business combination with the McKesson Group. This has created some excellent opportunities and considerable long-term growth potential for Celesio,

primarily thanks to the pooling of purchasing activities and the standardised IT systems.

Significant specific risks and opportunities

Unless stated otherwise, the following risks relate to both the retail and wholesale business.

Environment/market risks and opportunities

Regulatory risks and opportunities

The pharmaceutical and healthcare markets are subject to various regulatory interventions. Growing demand for healthcare services – driven by demographic change – often collides with the interests of squeezed healthcare systems whose financial difficulties have been further heightened by the weak economic development in Europe. As seen recently, national governments respond accordingly through intervention by adjusting remuneration structures to cut spending as seen for example in the UK, Ireland, Austria and France. As experienced in previous years, these measures have a direct impact on the development of our business and on our income. As the potential loss and likelihood of occurrence is deemed to be high, these represent the greatest risk for Celesio. Besides lean cost management, we rely on a range of strategic projects including our European Pharmacy Network and the optimisation of the entire value-added chain to compensate for this risk (read more about our strategy → page 13).

Moreover, Celesio is party to contracts with public institutions such as national health services and subject to regulation and regulatory decisions and changes to existing regulation. Failure to comply with any such contract terms or regulation could lead to litigation, fines, sanctions, increased cost of compliance (in order, amongst other things, to change operation practices) as well as reputational damage.

Specific market risks and opportunities

Overall, the healthcare sector with its constantly shifting parameters is a dynamic market and can be associated with a number of risks:

- **Tougher competition**
  The pharmaceutical wholesale business is experiencing high levels of competition. Besides attempts from traditional logistics firms to encroach on the pharmaceutical distribution business, our competitors' activities result in a constant pressure on our margin and may have a negative effect on our earnings. We aim to reduce and offset potential effects through cost reduction and efficiency optimisation programmes. Further countermeasures include fostering customer loyalty by improving and expanding our services and customer loyalty programmes.

- **Innovative wholesale distribution models**
  In certain countries and for particular product categories, manufacturers are increasingly keen to reduce the role of the wholesaler and are turning instead to models such as direct-to-pharmacy (DTP) supply by the manufacturer or the so called reduced-wholesale model where the manufacturer maintains exclusive agreements with just a few wholesalers. This is actually seen as an opportunity rather than a risk at present because Celesio is represented in countries with a strong market position in wholesale in these exclusive distribution models. Celesio is sharpening its focus on communication with manufacturers to position itself as an attractive business partner with new offerings for manufacturers. The extension of our logistics competence to the entire supply chain and the seamless integration of all logistics steps offer us the opportunity to leverage synergy effects and provide a basis for future growth potential.

- **Patent expiry**
  A number of patents for top-selling original products are approaching expiry imminently and over the next few years. This will push up the market share of cheaper generics, impacting our revenue and, depending on the local reimbursement system, our earnings in the medium term. This situation represents a significant risk; however, it can to a large extent be controlled and offset by carrying out comprehensive monitoring of the patents expiring internationally and implementing appropriate countermeasures.

- **BREXIT**
  On 23 June 2016 the UK voted to leave the European Union. Nine months after the referendum on 29 March 2017 the UK government officially requested to

leave the EU. UK and the EU have now two years to resolve all interdependencies between them.
BREXIT may affect Celesio in various aspects during the course of its business, especially with the UK entities. Hence, various uncertainties may affect Celesio's business activities negatively, for instance, when it comes to the overall business environment, access to labour, the exchange rate and trading opportunities.

Corporate strategy risks and opportunities

The optimisation of the portfolio, through purchases or sales, is associated with both opportunities and risks. Acquisition and investment plans are therefore verified as part of a due diligence process and analysed with regard to return and risk factors by the departments Group M&A and (where necessary) Corporate Development. We may further be exposed to risks due to changes in the market environment during integration of acquired operations as well as whilst holding investments in companies in which our responsibility for the company is shared or limited. On the other hand, the strategic decision of disposal of a business unit could pose additional risks, mainly in the legal area. Further, exchange rate fluctuations may influence such transaction financially which in turn may have an impact on the sales price to be redeemed for the business unit to be sold.

Operating business risks

There are a number of special risks relating to the safety and the consistently high quality of pharmaceuticals supply in all countries where operations are taking place:

- **Interruption of operating business**
  Our operating processes, especially transport, storage and dispensing, demand a mature infrastructure and are also highly dependent on IT. As even short-term outages at peak times can already have a negative effect on operations, the interruption of operating business poses a risk of a high level of loss, but with a low likelihood of occurrence. Measures to safeguard operating business are e.g. division business continuity plans, which ensure that services can be provided to clients in the event of unforeseeable events. Insurance policies are also in place that will help in the event of business interruptions.

- **Compliance with pharmaceutical regulations**
  Medicines need to be handled with particular care. The latest EU guidelines, such as the Falsified Medicines Directive (2011/62/EU), or the guideline on Good Distribution Practice of medicinal products for human use (2013/C 343/01) further increased requirements.
  We face the Falsified Medicines Directive with a comprehensive package of measures and ensure that all requirements of the Directive and its Delegated Regulations are implemented to reduce risks such as those associated with the trading of falsified medicines and its threat to public health and safety. Therefore, the risk is deemed to be low due to the large number of measures in place and to be implemented.
  The Good Distribution Practice guideline focuses on the maintenance of the quality and the integrity of medicinal products during the entire supply chain, for example it refers to products such as vaccines, which require strict maintenance of a cold chain. If the cold chain is broken during storage or transport, such products have to be destroyed. We minimise this risk with a comprehensive quality management system and through a range of preventive measures such as round-the-clock temperature monitoring at warehouses and in insulated transport containers as well as through investment in infrastructure.

- **Dispensing errors**
  Dispensing the wrong medicines is an inherent risk at pharmacies. This risk is characterised by a low likelihood of occurrence thanks to the detailed process definitions for our pharmacists and pharmaceutical technicians and thanks to the regular training they receive. On the other hand, if this risk does materialise there can be a high level of potential loss, for example due to a loss of reputation.

Financial risks

Currency risks

Celesio is active in many currency areas, which can create currency risks. Internal guidelines ensure that these risks are systematically identified and reduced. We distinguish in this regard between transaction risks and translation risks:

Transaction risks

Celesio is exposed to exchange rate fluctuations impacting the value of assets to be bought or sold in a foreign currency. We minimise these through the use of hedges which we conclude with banks.

Translation risks

Celesio faces changes in the values of items in the balance sheet and in the income statement if these items are not originally reported in Euros. As in previous years, this represents a significant currency risk especially in British Pound given the importance of British activities for Celesio.

Risk of default on receivables

Celesio's business activities primarily comprise the supply of goods and rendering of services on the basis of invoices. Until these invoices are settled, Celesio is faced with a risk of bad debt which largely depends on the customer structure. The risk of significant payment defaults is lowered due to our diversified customer portfolio. We secure our receivables by having a lean and proactive receivables management system in place which comprises continuous checks of our customers' payment behaviour, regular testing of credit standing as well as changes in payment terms and conditions and the use of credit insurances.

Liquidity and financing risks

Celesio's financing portfolio, provided by a large degree by McKesson Corporation and its subsidiaries, ensures that it is in a position to meet its obligations at any time.

In our day-to-day operations, liquidity risks are reduced by making use of a cash pool and by constantly monitoring net working capital.

Interest rate risks

Celesio is exposed to changes of the price payable for floating-rate liabilities. The high share of fixed-interest financial liabilities reduces the risk from changes in interest rates significantly.

Counterparty risks from derivatives

Celesio reduces the counterparty risk from derivatives entered into with banks by applying strict regulations regarding the quality requirements of our trading partners. This counterparty risk is low due to the narrowly defined guidelines.

Measurement risks

Celesio faces fluctuations of securities prices, for example for pension obligations.

Information technology risks

Our business relies on the secure electronic transmission, storage, and hosting of sensitive information, including protected health information, financial information and other sensitive information relating to our customers, company and workforce.

We routinely process, store and transmit large amounts of data in our operations, including sensitive personal information, protected health information, financial information, and confidential information relating to our business or third parties. Some of the data that we process, store and transmit may travel outside of Europe. Additionally, we outsource some important IT functions to external service providers.

Despite our implementation of a variety of security measures, our and our customers' computer systems could be subject to cyberattacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering.

A failure or compromise of our or our customers' computer systems may jeopardize the confidential, proprietary, and sensitive information processed, stored, and transmitted through such computer systems. Such an event may result in significant damage to our reputation, financial losses, litigation, increased costs, regulatory penalties, customer attrition, brand impairment, or other business harm. These risks may increase in the future as we continue to expand our internet and mobile strategies and to build an integrated digital enterprise.

Moreover, Celesio has started a program to implement an ERP-solution in order to harmonize the ERP-system landscape across the business units.

Personnel risks

Celesio's skilled and committed employees are a key factor for the group's success. Attracting and retaining talent, we see therefore as success factor as well and is essential for the continued success of the company. We realize this by offering comprehensive training and further education programmes, attractive development prospects and incentives.

Higher employee turnover is a particular risk during periods of restructuring and organisational changes, which can lead to a loss of expertise. Systematic succession planning is in place to minimise this risk.

Legal risks and tax risks

Legal risks and tax risks

In principle, legal and tax risks are inherent to all operations, and Celesio is no exception. At present, the Celesio Group is involved in legal proceedings and disputes that could have a significant impact on our results of operations, financial position and assets position.

As regards the Slovenian privatisation process, the court of the second instance essentially confirmed the decision of the court of the first instance in favour of Kemofarmacija and referred the remainder back to the lower court; the opposing party has launched an appeal. Overall we assess the risk to be quite low.

On September 14, 2016, the German Federal Cartel Office carried out an onsite investigation at the headquarters of GEHE. The German Federal Cartel Office has to date not informed GEHE of the results of the investigation. In parallel, GEHE has carried out internal investigations. GEHE has no indications that it has participated in the alleged anti-competitive actions.

The Brazilian operations were divested on 31 May 2016. Based on the agreed closing account mechanism the buyer has put forward a claim for an adjustment of

the purchase price in the amount of BRL 225m (EUR 67.7m). Celesio has rejected the claim as the formal requirements for such claim have not been met. In addition, Celesio bears a risk as a result of contractual indemnification obligation towards the buyer. These are partially secured by bank guarantees. The obligation to indemnify the buyer is, subject to certain exceptions, capped at BRL 75m (EUR 22.6m). The claims that have been put forward by the buyers to date exceed the cap. They have largely been contested, but an unfavourable outcome in respect of individual claims cannot be ruled out. The liability cap does, among other things, not apply to risks attributable to the time prior to the majority participation of Celesio for which Celesio has contractual counter-claims against the former shareholders. For all of the above appropriate provisions have been made following the principles of commercial prudence and caution. Celesio will continue to defend itself vigorously against unjustified claims.

Celesio assesses its legal as well as tax risks at regular intervals, consulting external lawyers and other external advisors where necessary.

Compliance risks

In general, it is inherent to companies of the size of Celesio that operate in a highly regulated environment to face certain compliance risks. Celesio assesses and evaluates existing and potential Compliance risks at regular intervals, consulting external lawyers and other external advisors where necessary. Anti-trust and corruption are set priority risks to be addressed alongside all other compliance risks by the compliance organization in all countries. Data protection is also a priority risk that the compliance organization oversees.

In order to address and mitigate the identified compliance risks adequately and targeted throughout the Celesio Group, Celesio continues to move forward with constantly improving its Compliance Management System and implementing and integrating it in newly acquired businesses. The compliance organization also develops and grows organically with the business.

In fiscal year 2017 there were no cases with material impact on the Celesio group.

Overall assessment of risks and opportunities by management

Based on the information collected in our risk management system, we are currently not aware of any risks that could jeopardise the company's ability to continue as a going concern.

As compared with the previous year, the likelihood of occurrence of certain specific risks has remained stable. These relate to regulatory risks in relation to state healthcare systems, financial and operational risks including IT subjects. On the other hand, opportunities have been created for the future through the integration into the McKesson Group and the future synergies to be achieved from joint purchasing activities. All in all, we believe that the overall level of risk for the operating activities remains unchanged.

Outlook

Overall economic prospects

Development of the global economy is expected to continue to gather pace in 2017 and 2018. However, for the last two years of the decade it is expected that the growth rate of the global economy will slow down again as a result of the demographic change in the world. The IfW ["Institut für Weltwirtschaft der Universität Kiel": Kiel Institute for the World Economy] assumes the following for the next years:

Due to again increasing consumer prices, especially increasing prices for energy inflation within the euro zone is expected to be 1.5% in 2017 and to remain at this level in 2018 (1.4%). Experts at the IfW expect the euro zone to witness an increase in GDP of 1.8% in 2017 and 1.7% in 2018.

As in the past years France will most likely participate in the development to a lesser extent. GDP there is forecasted to grow only by 1.3% in 2017 and 1.4% in 2018. For Germany the IfW expects a growth rate in GDP slightly above the average growth rate for the Euro zone, 2.0% in 2017 and 2018.

After the decision of the United Kingdom to leave the European Union it is expected that the positive economic development will continue but the growth rate will slow down in the upcoming years. The experts at the IfW await GDP to increase by 1.8% in 2017 and by 1.5% in 2018.

Our industry: Growth of the pharmaceutical markets, consolidation and internationalisation

Growth of the pharmaceutical markets slowed worldwide as a result of the global economic and financial crisis in 2008/09, which induced cost-cutting measures by governments. Moreover, patents of many blockbuster products have expired leading to price reductions. However, stronger growth returned in the past few years and IMS Health expects that this development will continue in the coming years. IMS Health forecasts average annual growth of 5.8% in the global pharmaceutical markets through 2020. This development will mainly be the high growth rates in India, Africa and the non-EU countries, driven by steady population growth and a rise in the quality of and improved access to healthcare systems. For the markets within the European Union (EU) IMS Health forecasts an average annual growth of 3.2% until 2020.

Demographic change continues to be a significant factor in the development of the global pharmaceutical and healthcare markets. The over-65s account for just 8.5% of the global population at present. However, this is expected to rise continuously in the coming years to around 9.3% in 2020 and 16% in 2050. In the EU this level is already reached today, in 2016 20.1% of the population were 65 years old or older and in 2050 this figures will rise to 31%. We will also see a quite significant increase in the percentage of the over 80s in the population in the world as well as in EU. The global percentage will increase from currently 1.8% to 4.4% in 2050. In the EU this increase will be even more significant. It is expected that the figure will increase from currently 6% to 13% in 2050. This development is causing a rise in the demand for the treatment of chronic and age-related diseases which result in long-term medical treatment. This will cause costs to rise considerably as the amount spent on the elderly is far higher than the average per capita expenditure.

Additionally, changes in lifestyle and consumer behaviour in both developing and western industrialised nations and the inherent increase in so-called diseases of modern society are causing an increase in demand for healthcare services and medicine.

A constantly growing consciousness of health in the industrialised nations and the increasing willingness of consumers to pay for healthcare services themselves represent a further influencing factor and are causing the pharmaceutical and healthcare markets to grow.

Growth is also being driven by medicines manufactured using biotechnology and medicines for treating complex, often chronic diseases such as cancer, HIV or multiple sclerosis. These specialty pharmaceuticals are more expensive by comparison and are subject to particular storage and transportation requirements (short storage life, must be stored in a cold chain) which may generate additional value in the pharmaceutical supply chain. In addition new and innovative products and yet-to-launch products will also be one of the key drivers in the coming years, especially in North America but also in Europe.

The key challenge for the pharmaceutical and healthcare markets and especially for the pharmaceutical distribution markets continues to lie in the continued government price regulation along the entire pharmaceutical supply chain and the effects as increasing numbers of patents expire on blockbuster medicines and as comparatively less expensive generic products grow as a result. The persistently difficult market environment in our industry is resulting in further consolidation primarily in the established markets. Global purchasing cooperatives are also forming as a way of realising economies of scale and purchasing advantages, especially in the generics division.

Outlook for divisions

Consumer Solutions

In fiscal year 2018, we expect revenue considerably higher than in fiscal year 2017 in the Consumer Solutions division. Consumer Solutions segment revenue growth well above market is driven by organic growth and the acquisitions of Sainsbury’s pharmacy business and the Bupa Homecare business in the UK.

Adjusted earnings in the Consumer Solutions segment will be on a slightly lower level in fiscal year 2018 than in fiscal 2017. This is driven primarily by the second stage of the new pharmacy funding agreement reached by governing authorities in the UK. Outside of the UK, we expect all other countries to deliver a positive earnings development as compared to fiscal year 2017.

Pharmacy Solutions

For fiscal year 2018 in the Pharmacy Solutions segment, we expect slight revenue and adjusted earnings growth, when compared to fiscal year 2017. Moreover, we expect positive earnings development in all of our key Pharmacy Solutions segment markets.

Outlook for financial and non-financial figures

The following statements on future business development and assumptions as to how the market and industry will evolve are estimates that the Management Board considers realistic based on the information currently available. However, the future development of our divisions depends on various factors beyond the company's sphere of influence and so forecasts can only be made with a limited degree of accuracy. Examples of factors beyond our control are the future economic and regulatory environment, the conduct of competitors and other market participants as well as government intervention in healthcare and social systems. The following forecasts by the Management Board of Celesio AG are based on the assumption of a slight unfavourable development in the British Pound exchange rates along with otherwise stable exchange and interest rates, when compared to fiscal year 2017.

Investments and capital expenditures

The continuing expansion of our European pharmacy network will lead to significant investments in pharmacy refurbishments in fiscal 2018. We will also continue to standardise our software landscape, which will cause IT investments to further increase in fiscal 2018. Finally, we will also continue to invest in supply chain efficiency throughout our distribution network. Investments are nearly equally allocated to both divisions.

Depreciation, amortisation and impairment

We expect depreciation and amortisation to increase slightly in fiscal 2018.

Financial result

With regard to the financial result, we expect interest expenses in fiscal year 2018 to be slightly lower than in fiscal year 2017, due to the repayment of the Corporate Bonds and the refinancing by McKesson with lower interest rates.

Tax rate

The adjusted tax rate may be influenced by a change in the earnings mix returned by the different countries in which the group operates or a change in the specific effective tax rates in each country. The adjusted figure is expected to remain stable or slightly increase compared to fiscal year 2017 due to non-recurring favourable tax rate changes in fiscal year 2017 and the potential changes in the earnings mix.

Employees

The headcount is expected to slightly increase in fiscal year 2018.

Other non-financial items

In fiscal year 2018, we do expect a slight increase in the number of warehouses operated due to the acquisition of Belmedis in Belgium. We expect that the number of pharmacies will not change significantly in fiscal year 2018.

Revenue and earnings forecast

The European market continues to be an environment of opportunity for Celesio. Despite continued pressure from governments to contain the rising costs of healthcare, our industry is expected to outpace GDP growth in our core markets. Celesio will benefit from this market growth. We will differentiate ourselves from competition through focus on our key fiscal 2018 priorities- driving operational excellence, invest in business solutions that expand our value proposition to our customers, manufacture partners and patients and taking advantage of the combined scale we generate with our largest shareholder, McKesson, to optimize our purchasing power across the globe. Finally, we will continue to look for appropriate opportunities to invest our capital that leverage our scale and distribution network to enable us to achieve greater efficiencies in the European healthcare market.

In fiscal year 2018, our consolidated revenue and earnings will benefit from market growth, new business, and acquisition-related growth. However, earnings will continue to be burdened by the second phase of newly agreed pharmacy funding cuts in our key market, the United Kingdom. As a result we expect for continued operations revenue slightly above fiscal 2017 and a slight decrease in adjusted EBIT compared to fiscal 2017.

Consolidated financial statement Celesio AG 2017

Group income statement for the 2017 fiscal year

EUR M	Notes No.	2016	2017
Revenue	1	**21,192.5**	**20,643.7**
Cost of materials		−18,716.6	**−18,518.0**
Gross profit		**2,475.9**	**2,125.7**
Other operating income	2	305.1	**98.4**
Other operating expenses	3	−786.6	**−709.3**
Personnel expenses	4	−1,261.6	**−1,120.9**
EBITDA		**732.8**	**393.9**
Amortisation of intangible assets held as non-current assets and on property, plant and equipment	5	−110.1	**−97.7**
Impairment losses recorded on intangible assets and property, plant and equipment	5	−1.2	**−995.6**
EBIT		**621.5**	**−699.4**
Result from associates accounted for using the equity method	6	14.7	**16.0**
Result from other investments	6	1.0	**0.6**
Interest expense	7	−61.2	**−73.0**
Interest income	7	5.1	**8.6**
Other financial result	7	−7.5	**−1.7**
Profit before tax from continuing operations		**573.6**	**−748.9**
Income taxes	8	−82.5	**−55.6**
Net profit/loss from continuing operations		**491.1**	**−804.5**
Net profit/loss from discontinued operations	16	**−94.3**	**−159.4**
Profit / Loss		**396.8**	**−963.9**
Of which attributable to non-controlling interests		3.9	**3.0**
Of which attributable to shareholders of Celesio AG		**392.9**	**−966.9**
Loss assumption (previous year profit transfer)		**127.6**	**−23.7**
Earnings per share – undiluted		**EUR**	**EUR**
Net profit/loss from continuing operations	9	2.40	**−3.97**
Net profit/loss from discontinued operations		−0.47	**−0.79**
Profit / Loss		1.93	**−4.76**
Earnings per share – diluted		**EUR**	**EUR**
Net profit/loss from continuing operations	9	2.40	**−3.97**
Net profit/loss from discontinued operations		−0.47	**−0.79**
Profit / Loss		1.93	**−4.76**

Group statement of comprehensive income for the 2017 fiscal year

EUR M	2016	2017
Net profit/loss for the period	**396.8**	**−963.9**
Items that will not be recycled through profit or loss	**39.1**	**−13.3**
Revaluation of defined benefit pension plans	39.1	**−13.3**
Share in the revaluation of defined benefit pension plans attributable to associates accounted for using the equity method	0.0	**0.0**
Items, that are recycled through profit or loss	**−90.8**	**15.3**
Unrealised gains/losses from the current year	0.3	**−0.2**
Gains/losses recycled through profit or loss	0.0	**0.0**
Unrealised gains/losses from the market valuation of financial assets available-for-sale	0.3	**−0.2**
Foreign currency translation posted directly to other comprehensive income	−135.7	**−111.8**
Release to profit or loss due to loss of control	44.6	**127.3**
Exchange differences	−91.1	**15.5**
Other comprehensive income after tax	**−51.7**	**2.0**
From continuing operations	−45.0	**−130.0**
Of which attributable to non-controlling interests	0.0	**0.0**
Of which attributable to shareholders of Celesio AG	−45.0	**−130.0**
From discontinued operations	−6.7	**132.0**
Of which attributable to non-controlling interests	−0.1	**0.2**
Comprehensive income	**345.1**	**−961.9**
From continuing operations	446.1	**−934.5**
Of which attributable to non-controlling interests	3.9	**3.0**
Of which attributable to shareholders of Celesio AG	442.2	**−937.5**
From discontinued operations	−101.0	**−27.4**

Further information regarding other comprehensive income can be found in note (10) Components of other comprehensive income.

Group statement of financial position as of 31 March 2017

ASSETS	Notes No.	31/03/2016	31/03/2017
EUR m			
Non-current assets		**2,908.7**	**1,962.9**
Intangible assets	11	1,964.6	**1,127.4**
Property, plant and equipment	12	451.0	**486.2**
At equity investments	13	153.5	**232.2**
Other financial assets	13	292.0	**57.4**
Other non-current assets		13.1	**26.3**
Income tax receivables		1.1	**0.5**
Deferred tax assets	14	33.4	**32.9**
Current assets		**5,173.1**	**4,894.8**
Inventories	15	1,376.7	**1,483.5**
Trade receivables	17	2,224.7	**2,290.3**
Income tax receivables		30.9	**36.8**
Other receivables and other assets	17	772.9	**603.1**
Cash and cash equivalents	18	423.5	**476.3**
Assets held for sale	16	344.4	**4.8**
Total assets		**8,081.8**	**6,857.7**

EQUITY AND LIABILITIES	Notes No.	31/03/2016	31/03/2017
EUR m			
Equity	**19**	**2,752.5**	**1,892.5**
Issued capital		260.1	**260.1**
Capital reserves		1,783.2	**1,864.0**
Revenue reserves		1,117.9	**174.7**
Revaluation reserves		−427.5	**−425.7**
Stake of the shareholders of Celesio AG		**2,733.7**	**1,873.1**
Non-controlling interests		18.8	**19.4**
Liabilities		**5,329.3**	**4,965.2**
Non-current liabilities		**1,483.7**	**1,168.5**
Financial liabilities	23	1,166.4	**806.1**
Pension provisions	20	252.4	**265.5**
Other non-current provisions	21	40.0	**54.4**
Other liabilities	22	6.1	**11.1**
Deferred tax liabilities	14	18.8	**31.4**
Current liabilities		**3,845.6**	**3,796.7**
Financial liabilities	23	355.0	**508.4**
Trade payables	24	2,306.1	**2,594.8**
Other current provisions	21	101.4	**102.4**
Income tax liabilities		133.1	**80.1**
Other liabilities	24	512.6	**511.0**
Liabilities held for sale	16	437.4	**0.0**
Total assets		**8,081.8**	**6,857.7**

Group statement of cash flows for the 2017 fiscal year

EUR M	2016	2017
Net profit/loss from continuing operations	**491.1**	**−804.5**
Amortisation, depreciation and impairment of non-current intangible and property, plant and equipment	111.3	1093.3
Result from associates accounted for using the equity method and other equity investments	−15.7	−16.6
Dividends received	10.6	10.3
Financial result	63.6	66.1
Net result from the disposal of non-current assets and subsidiaries	−234.0	−23.2
Impairment losses on items classified as operating assets	17.4	21.4
Deferred taxes and income tax	82.5	55.6
Income taxes paid	−21.3	−18.7
Other non-cash income and expenses	13.4	42.9
Change in net operating assets	−156.1	117.9
Change in inventories	−98.9	−100.3
Change in trade receivables	−164.5	8.0
Change in trade payables	150.8	234.0
Change in other net operating assets	−43.5	−23.8
Change in other assets and liabilities	−40.9	−103.4
Change in other assets	−21.4	−46.3
Change in other liabilities	−19.6	−57.1
Net cash flow from operating activities - continuing activities	**321.8**	**441.1**
Net cash flow from operating activities - discontinued operations	**−21.3**	**−18.8**
Net cash flow from operating activities - continuing and discontinued operations	**300.5**	**422.3**
Proceeds from the disposal of non-current assets	10.9	6.7
Proceeds from longterm loans	0.0	511.6
Issue of longterm loans	0.0	−275.0
Capital expenditure on non-current assets	−161.5	−155.7
Proceeds from the disposal of subsidiaries	0.0	40.7
Cash paid for business combinations [1)]	−261.4	−153.3

1) Including capital increases at associates.

EUR M	2016	2017
Net cash flow from investing activities - continuing operations	**−411.9**	**−25.0**
Net cash flow from investing activities - discontinued operations	**−8.1**	**−94.7**
Net cash flow from investing activities - continuing and discontinued operations	**−420.0**	**−119.7**
Payments made to shareholders (including non-controlling interests)	−10.0	**−130.2**
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	−0.6	**0.0**
Proceeds from borrowings	597.6	**338.8**
Repayment of borrowings	−338.6	**−361.2**
Interest paid	−54.5	**−74.1**
Interest received	4.5	**8.4**
Payments for group hedging activities	−31.9	**24.1**
Net cash flow from financing activities - continuing operations	**166.5**	**−194.2**
Net cash flow from financing activities - discontinued operations	**27.0**	**−31.2**
Net cash flow from financing activities - continuing and discontinued operations	**193.5**	**−225.4**
Net change in cash and cash equivalents	**74.0**	**77.2**
Non-cash change in cash and equivalents	−19.2	**−24.4**
Cash and cash equivalents at the beginning of the period	371.6	**423.5**
Cash and cash equivalents at the end of the period	**426.6**	**476.3**
Cash and cash equivalents of discontinued operations and disposal groups at the end of the period	3.1	**0.0**
Cash and cash equivalents at the end of the period (according to the group statement of financial position)	**423.5**	**476.3**

Group statement of changes in equity for the 2017 fiscal year

EUR m	Issued capital	Number of shares (in units)	Capital reserves	Revenue reserves
As of 01/04/2016	**260.1**	**203,220,932**	**1,783.2**	**1,117.9**
Changes in equity	0.0	0.0	80.8	0.0
Dividends	0.0	0.0	0.0	0.0
Changes in the amount of the shareholding in subsidiaries involving no loss of control	0.0	0.0	0.0	0.0
Changes to the consolidated group	0.0	0.0	0.0	0.0
Other comprehensive income	0.0	0.0	0.0	0.0
Net profit/loss for the period	0.0	0.0	0.0	−966.9
Total comprehensive income / expenses	0.0	0.0	0.0	−966.9
Loss assumption	0.0	0.0	0.0	23.7
As of 31/03/2017	**260.1**	**203,220,932**	**1,864.0**	**174.7**
As of 01/04/2015	**260.1**	**203,220,932**	**1,783.2**	**952.4**
Changes in equity	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Changes in the amount of the shareholding in subsidiaries involving no loss of control	0.0	0.0	0.0	1.4
Changes to the consolidated group	0.0	0.0	0.0	−101.2
Other comprehensive income	0.0	0.0	0.0	0.0
Net profit/loss for the period	0.0	0.0	0.0	392.9
Comprehensive income	0.0	0.0	0.0	392.9
Profit transfer	0.0	0.0	0.0	−127.6
As of 31/03/2016	**260.1**	**203,220,932**	**1,783.2**	**1,117.9**

1) Of which attributable to discontinued operations and disposal groups EUR 0,0m (previous year EUR 132,0m).

Translation reserves	Revaluation reserves: Revaluation of defined benefit plans	Asset revaluation reserves	financial assets held for sale	Other comprehensive income from associates accounted for using the equity method	Stake of the share-holders of Celesio AG	Non-controlling interests	Equity
−302.5	**−125.6**	**0.0**	**0.6**	**0.0**	**2,733.7**	**18.8**	**2,752.5**
0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
0.0	0.0	0.0	0.0	0.0	**0.0**	**−2.5**	**−2.5**
0.0	0.0	0.0	0.0	0.0	**80.8**	**0.0**	**80.8**
0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
15.3	−13.3	0.0	−0.2	0.0	**1.8**	**0.2**	**2.0**
0.0	0.0	0.0	0.0	0.0	**−966.9**	**3.0**	**−963.9**
15.3	−13.3	0.0	−0.2	0.0	**−965.0**	**3.2**	**−961.9**
0.0	0.0	0.0	0.0	0.0	**23.7**	**0.0**	**23.7**
−287.2 [1]	**−138.9**	**0.0**	**0.4**	**0.0**	**1,873.1**	**19.4**	**1,892.5**
−211.5	**−265.9**	**0.0**	**0.3**	**0.0**	**2,518.6**	**18.8**	**2,537.4**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**−0.1**	**−0.1**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**−2.1**	**−2.1**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**1.4**	**−1.6**	**−0.2**
0.0	**101.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
−91.0	**39.1**	**0.0**	**0.3**	**0.0**	**−51.6**	**−0.1**	**−51.7**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**392.9**	**3.9**	**396.8**
−91.0	**39.1**	**0.0**	**0.3**	**0.0**	**341.3**	**3.8**	**345.1**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**−127.6**	**0.0**	**−127.6**
−302.5 [1]	**−125.6**	**0.0**	**0.6**	**0.0**	**2,733.7**	**18.8**	**2,752.5**

Notes
Celesio AG
2017

Group segment reporting by division for the 2017 fiscal year

FISCAL 2017

EUR m
Income statement
Revenue
External revenue
Inter-segment revenue
Gross profit
EBITDA
Other significant non-cash income
Other significant non-cash expenses
Amortisation of intangible assets held as non-current assets on property, plant and equipment
Impairment losses recorded on intangible assets and property, plant and equipment
EBIT
Result from associates accounted for using the equity method
Segment assets
Of which non-current assets and disposal groups held for sale
Of which goodwill
Of which associates accounted for using the equity method
Capital expenditures
Employees
Headcount annual average
Headcount as of 31/03
Full-time equivalents annual average
Full-time equivalents as of 31/03

	Consumer Solutions	Pharmacy Solutions	Others	Consoli-dation	**Group (continuing operations)**	Discontinued operations
	3,836.5	**16,813.2**	**0.0**	**−6.0**	**20,643.7**	**260.3**
	3,836.5	16,807.2	0.0	0.0	**20,643.7**	260.3
	0.0	6.0	0.0	−6.0	**0.0**	0.0
	1,059.2	**1,066.5**	**0.0**	**0.0**	**2,125.7**	**25.5**
	154.3	271.2	−31.6	0.0	**393.9**	−129.4
	190.1	76.0	0.3	0.0	**266.4**	0.0
	−2.4	−32.7	0.0	0.0	**−35.1**	0.0
	−48.4	−40.7	−8.6	0.0	**−97.7**	0.0
	−994.5	−1.0	−0.1	0.0	**−995.6**	0.0
	−888.7	**229.6**	**−40.3**	**0.0**	**−699.4**	**−129.4**
	9.9	6.1	0.0	0.0	**16.0**	0.0
	808.0	**1,844.7**	**26.8**	**−0.1**	**2,679.4**	**0.0**
	4.8	0.0	0.0	0.0	**4.8**	0.0
	391.1	557.3	13.3	0.0	**961.7**	0.0
	166.1	66.1	0.0	0.0	**232.2**	0.0
	61.7	**100.6**	**30.4**	**−0.1**	**192.6**	**0.0**
	22,488	11,899	373	0.0	**34,761**	0
	23,662	11,673	381	0.0	**35,716**	0
	15,460	9,860	343	0.0	**25,663**	0
	16,335	9,633	361	0.0	**26,329**	0

For detailed specifications and explanations of the discontinued activities, please refer to section (16) of the notes.

Group segment reporting by division for the 2016 fiscal year

FISCAL 2016

EUR m	
Income statement	
Revenue	
External revenue	
Inter-segment revenue	
Gross profit	
EBITDA	
Other significant non-cash income	
Other significant non-cash expenses	
Amortisation of intangible assets held as non-current assets on property, plant and equipment	
Impairment losses recorded on intangible assets and property, plant and equipment	
EBIT	
Result from associates accounted for using the equity method	
Segment assets	
Of which non-current assets and disposal groups held for sale	
Of which goodwill	
Of which associates accounted for using the equity method	
Capital expenditures	
Employees	
Headcount annual average	
Headcount as of 31/03	
Full-time equivalents annual average	
Full-time equivalents as of 31/03	

	Consumer Solutions	Pharmacy Solutions	Others	Consoli-dation	**Group (continuing operations)**	Discontinued operations
	4,140.4	**17,052.2**	**−0.1**	**0.0**	**21,192.5**	**1,440.9**
	4,140.4	17,052.2	−0.1	0.0	**21,192.5**	1,440.9
	0.0	0.0	0.0	0.0	**0.0**	0.0
	1,332.6	**1,143.4**	**−0.1**	**0.0**	**2,475.9**	**126.4**
	426.0	351.4	−44.7	0.1	**732.8**	−14.4
	190.1	76.0	0.3	0.0	**266.4**	0.0
	−2.4	−32.7	0.0	0.0	**−35.1**	0.0
	−59.9	−39.9	−10.4	0.0	**−110.2**	0.0
	−1.0	−0.2	0.0	0.0	**−1.2**	0.0
	365.1	**311.4**	**−55.1**	**0.1**	**621.5**	**−14.4**
	9.2	5.6	0.0	0.0	**14.7**	0.0
	1,938.5	**1,649.7**	**384.6**	**0.2**	**3,973.0**	**0.0**
	0.4	−4.9	0.0	0.0	**−4.5**	0.0
	1,443.1	429.1	0.0	0.0	**1,872.2**	0.0
	92.3	61.2	0.0	0.0	**153.5**	0.0
	88.6	**58.9**	**29.8**	**0.0**	**177.3**	**7.4**
	22,229	11,560	366	0.0	**34,155**	3,748
	20,155	11,410	374	0.0	**31,939**	3,671
	15,210	9,565	331	0.0	**25,106**	3,395
	13,671	9,383	350	0.0	**23,403**	3,311

For detailed specifications and explanations of the discontinued activities, please refer to section (16) of the notes.

Group segment reporting by country for the 2017 fiscal year

EUR m	Germany 2016	Germany 2017	France 2016	France 2017
External revenue	4,502.4	**4,727.3**	6,182.7	**5,879.0**
Segment assets	702.5	**612.1**	195.4	**240.3**
Of which non-current assets [1)]	117.4	**145.1**	188.1	**225.9**

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

United Kingdom		Other countries		Group (continuing operations)		Discontinued operations	
2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
6,320.3	**6,294.7**	4,408.8	**3,742.7**	21,414.2	**20,643.7**	1,440.9	**260.3**
2,090.5	**1,019.6**	984.5	**858.4**	3,972.9	**2,679.4**	0.0	**0.0**
1,673.2	**825.4**	437.0	**417.3**	2,415.7	**1,613.6**	0.0	**0.0**

Please refer to → page 179 of the notes for further explanations and comments on segment reporting.

RECONCILIATION OF SEGMENT REVENUE	2016	2017
EUR m		
Revenue of the reportable segments	**21,192.6**	**20,649.8**
Consolidation	0.0	**−6.1**
Group revenue	**21,192.6**	**20,643.7**

RECONCILIATION OF SEGMENT EARNINGS	2016	2017
EUR m		
EBIT	**621.5**	**−699.4**
Result from associates accounted for using the equity method	14.7	**16.0**
Result from other investments	1.0	**0.6**
Interest expense	−61.2	**−73.0**
Interest income	5.1	**8.6**
Other financial result	−7.5	**−1.7**
Profit before tax from continuing operations	**573.6**	**−748.9**

RECONCILIATION OF SEGMENT ASSETS	31/03/2016	31/03/2017
EUR m		
Segment assets of the reportable segments	**3,973.0**	**2,679.4**
Consolidation	0.2	**0.0**
Segment assets of the group	**3,973.2**	**2,679.4**
+ Interest-bearing other financial assets	287.4	**53.4**
+ Non-current and current income tax receivables	32.0	**37.3**
+ Deferred tax assets	33.4	**32.9**
+ Other assets	23.1	**306.4**
+ Cash and cash equivalents	423.5	**476.3**
+ Assets of discontinued operations	344.4	**0.0**
- Other non-current provisions	40.0	**54.4**
- Other current provisions	101.4	**102.4**
- Trade liabilities	2,306.1	**2,594.8**
- Other liabilities	517.3	**520.4**
Total net assets	**8,081.8**	**6,857.7**

General disclosures

Accounting policies

Celesio is an international service provider in the pharmaceutical and healthcare markets. The consolidated financial statements of Celesio AG and its subsidiaries for the fiscal year as of 31 March 2017, for the period from 1 April 2016 to 31 March 2017 – comprising the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of cash flows, the group statement of changes in equity and the notes to the financial statements – have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, UK, as endorsed by the European Union and applicable at the end of the reporting period, and supplemented by the provisions of Sec. 315a (1) Handelsgesetzbuch (HGB, German Commercial Code). The comparative period consists of the 2016 fiscal year from 1 April 2015 to 31 March 2016.

The consolidated financial statements have been prepared in euro (EUR) with all figures generally presented in million euros (EUR million, EURm). We would like to draw attention to the fact that differences may arise from use of amounts and percentages rounded to the nearest whole number.

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

The stock corporation is headquartered in Stuttgart, Germany. The address is Celesio AG, Neckartalstrasse 155, D-70376 Stuttgart, Amtsgericht Stuttgart, HRB 9517. The new address as of 15 May 2017 is Celesio AG, Stockholmer Platz 1, 70137 Stuttgart.

The consolidated financial statements were authorised for issue by the Management Board on 24 May 2017.

Basis of consolidation

The consolidated financial statements have been prepared from the separate financial statements of the consolidated group entities as of 31 March 2017. These

have been prepared in compliance with the group's uniform accounting policies, based on IFRS. An interim financial statement is prepared for any subsidiaries incorporated into the consolidated financial statement, where the individual statement reference date does not coincide with the consolidated financial statement.

Subsidiaries over which Celesio AG has either direct or indirect control as defined by IFRS 10 "Consolidated Financial Statements" have been fully consolidated in the consolidated financial statements. Subsidiaries are fully included in the consolidated financial statements on the date on which control is transferred to the group. They are deconsolidated on the date on which control passes from the group.

Control over a holding is deemed to exist when the investor is exposed to variable return flows from its investment in the holding and/or possesses rights to such return flows and has the ability to influence such yields through its power of disposal over the holding.

As a rule, owning the majority of the voting rights at a holding forms the basis for a controlling interest. If the investor does not own the majority of the voting rights, it must take all the relevant matters and circumstances into account when assessing whether a controlling interest exists.

Potential voting rights that can be presently exercised or converted, including potential voting rights held by other entities, are considered when assessing whether an entity is controlled or not. In the course of business combinations, put and call options and combinations of such options have been entered into for the remaining non-controlling interests. If the risks and opportunities inherent in the put option have already passed to Celesio, the entities acquired in the business combination are fully consolidated taking account of the existing shares and options. The shares attributable to the options are not treated as non-controlling interests but are recognised as a purchase price liability in accordance with IAS 32.23.

If the risks and opportunities inherent in the options remain with the former owner, the entities acquired in the business combination are consolidated taking account of any non-controlling interests. A purchase price liability was recognised through revenue reserves for put options of the former owner.

The consolidation of investments is performed in accordance with the acquisition method pursuant to IFRS 3. This entails revaluing assets, liabilities and contingencies that meet the recognition criteria of IFRS 3 at fair value on the date on which control passes to the group. Any difference remaining between the consid-

eration paid and the interest in the net assets of the acquired company is recognised as goodwill. The cost of a business combination is measured at the fair value of the assets issued to make the combination less the liabilities entered into or assumed on the date of acquisition. The acquisition-related costs of a business combination are expensed at the time they are incurred and presented under other expenses. Since 1 January 2010, contingent consideration is measured at fair value in the course of purchase accounting. Later adjustments to the fair value of this contingent consideration that constitute an asset or a liability are treated in accordance with IAS 39. Differences in debt instruments are recognised through profit or loss, but no adjustment is made in the case of equity instruments. For business combinations prior to 1 January 2010, any purchase price payments that were contingent on future events were only considered in the purchase accounting if they were probable and could be reliably estimated. A change in a contingent liability is recognised by adjusting the purchase price liability and the historic acquisition cost of the business combination, which impacts on goodwill accordingly.

For business combinations achieved in stages, the shares held are revalued through profit or loss at their fair value on the date control passes to the purchaser.

Transactions between owners, i.e., increases or reductions in shares that do not lead to a loss of control, are recorded as equity transactions in the statement of other comprehensive income. However, if transactions lead to a loss of control, the resulting gain or loss is posted through profit or loss. The profit or loss also includes the effect of revaluing any remaining shares in the equity of the investment at fair value.

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

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

Pursuant to IAS 28, associates are included in the consolidated financial statements using the equity method at the time significant influence is acquired. Entities over which Celesio exercises common control together with other parties (joint ventures) are consolidated using the equity method in accordance with IFRS 11 in conjunction with IAS 28. Other investments are recognised at fair value in accordance with IAS 39 or, if no fair value is available and fair value cannot be reliably determined, at acquisition cost.

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

Currency translation

All financial statements included in the consolidated financial statements that have been prepared in foreign currency are translated into euro using the functional currency concept. Since the companies of the Celesio Group operate their businesses independently, their functional currencies are the national currencies applicable in each case. Assets and liabilities are therefore translated at the rate at the end of the reporting period pursuant to IAS 21. Income statement items are translated using the monthly average exchange rates. Any differences arising from currency translation are posted to other comprehensive income. Goodwill arising from business combinations is recorded in the currency of the acquiree and thus translated using the exchange rate at the end of the reporting period. In the event that group companies are deconsolidated, any exchange differences carried in equity are released to profit or loss. The table below shows the year-on-year development in exchange rates relevant for the Celesio Group:

COUNTRY	Currency	Current exchange rate		Average exchange rate	
		31/03/2016	**31/03/2017**	2016	**2017**
United Kingdom	GBP	0.7916	**0.8488**	0.7801	**0.8656**
Brasil [1]	BRL	4.1174	**3.3255**	4.1179	**3.3415**
Norway [1]	NOK	9.4145	**9.1591**	9.4298	**9.0940**
Denmark	DKK	7.4512	**7.4386**	7.4569	**7.4357**
Sweden [1]	SEK	9.2253	**9.5559**	9.2845	**9.5312**

1) The Norwegian and Swedish operations were divested as at 16 February 2016.
2) The Brasilian operations were divested as at 31 May 2016.

Foreign currency positions in the separate statements of financial position of the consolidated companies are measured at the closing rate pursuant to IAS 21. Any unrealised gains or losses from these positions are offset against any gains or losses from marking to market any derivatives used to hedge the foreign exchange exposures in the group statement of comprehensive income. Translation differences arising from net investments in a foreign business (IAS 21.15) are recognised in the other comprehensive income. Non-monetary items denominated in foreign currency are recognised at their historical rates in the separate financial statements.

Amendment of the structure of the income statement

In order to enhance the comparability among other international companies as well as to further harmonise external and internal accounting and in exercising IFRS disclosure options, the disclosure of certain transaction types in the income statement was adjusted in the past fiscal year. In particular, all considerations from customers are now reported in the revenue and all considerations from suppliers appear in the cost of materials. Previously, these items were contained partly in the revenue and partly in the other income. Thanks to this change in the accounting methods, the following positions within the income statement of the comparative period in 2016 were affected:

	2016		
	Before restatement	Restatement	**After restatement**
Revenue	21,414.2	−221.7	**21,192.5**
Cost of materials	−19,074.1	357.5	**−18,716.7**
Other operating income	440.9	−135.8	**305.1**

For the current reporting period, there is a reduction in the revenue of EUR 235.7 million, in the other income of EUR 120.0 and in the cost of materials of EUR 355.7 million. Net profit as well as earnings per share remain unaffected by this change.

New international financial reporting standards

The IASB and the International Financial Reporting Interpretations Committee (IFRIC) have not passed any additions to existing IFRSs and new standards and interpretations whose application have been mandatory since 1 April 2016.

The IASB and the IFRIC have issued standards and interpretations and corresponding amendments to existing standards and interpretations that are not yet mandatory for the reporting period. The adoption of these standards is contingent upon the European Union recognising those standards which it had not as yet recognised by the date on which the financial statements were compiled. Specifically, the standards and interpretations concerned are:

IFRS STANDARD/INTERPRETATION		Published by the IASB	Mandatory for fiscal years starting on or after:	EU endorsement
IFRS 9	Financial Instruments	24/07/2014	01/01/2018	Yes
IFRS 15	Revenue from Contracts with Customers	28/05/2014	01/01/2018	Yes
IFRS 16	Leases	13/01/2016	01/01/2019	No
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08/12/2016	01/01/2018	No
Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IFRS 10; IAS 28)	11/09/2014	postponed indefinitely	No
Amendment	Income taxes: deferred tax - recovery of underlying assets (IAS 12)	19/01/2016	01/01/2017	No
Amendment	Disclosure Initiative (IAS 7)	29/01/2016	01/01/2017	No
Amendment	Classification and Measurement of Share-based Payment Transactions (IFRS 2)	20/06/2016	01/01/2018	No
Amendment	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12/09/2016	01/01/2018	No
Amendment	Annual Improvements to IFRS Standards 2014–2016 Cycle	08/12/2016	01/01/2017 / 01/01/2018	No
Amendment	Transfers of Investmenty Property (IAS 40)	08/12/2016	01/01/2018	No
Clarification	Revenue from Contracts with Customers (IFRS 15)	12/04/2016	01/01/2018	No

We don’t expect any significant impact on the financial statement due to the future application of IFRS 9 and IFRS 15 whereas we expect IFRS 16 in particular to have significant effects on the structure of the statement of financial position in high three-digit million due to the recognition of the risk of lease liabilities and the capitalisation of rights of use, which Celesio – as the lessee in an operating lease relationship in accordance with IAS 17 – currently does not disclose in the statement of financial position. From a current perspective, we believe that the other standards will not have any material impact on the assets position, financial position and earnings of the Celesio Group. However, some changes in the presentation in isolated cases and additional disclosures in the notes in general are expected. The group has not availed itself of the option to early adopt the standards and interpretations.

Accounting and measurement policies

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

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

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

Concessions, industrial rights, licences, patents and software have useful lives ranging between 2 and 20 years. Intangible assets that are amortised are subject to an impairment test if there are any material indications or changes in the underlying assumptions which suggest that the carrying value of the asset is no longer recoverable. Where necessary, impairment losses are recorded in accordance with IAS 36. These are reversed as soon as the reasons for the impairment cease to exist.

It is assumed that goodwill has an indefinite useful life. According to IAS 38, intangible assets with an indefinite useful life are not amortised. Rather, they are reviewed at least once annually in accordance with IAS 36 and, if there is any indication of impairment, subjected to an impairment test. Impairment losses are determined by allocating goodwill at the level of the cash-generating units. The cash-generating units in the Wholesale and Pharmacy business areas correspond, as in the previous year, to the business area of the respective country.

Impairment losses are recognised at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the two figures value in use and fair value, less costs of disposal. Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit concerned and is determined using the discounted cash flow method. This relies on the latest business planning approved by management for the next five years (detailed planning period). The planning projections are rolled

forward to the following years using a constant growth rate. The growth rates after the detailed planning period are based on historical growth rates, independent studies on medium-term market development – comparing the projected performance of Celesio to that of the market – and the expectation for long-term growth in the healthcare market in light of demographic and other developments.

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

The planning is based on past developments and expectations of future market developments at the level of the cash-generating unit. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period as well as expected direct synergies in procurement resulting from the business combination with McKesson, which can be allocated to the individual cash-generating units. The anticipated impact of definite or foreseeable government measures is also considered for pharmacies and the wholesale business.

Cash flows are discounted using the weighted average cost of capital (before tax) which is determined for each cash-generating unit. The cost of capital is composed of borrowing costs, which are based on the interest rates obtainable on the capital markets, and the costs of equity, which are calculated from a risk-free basic rate of return, a premium for the industry risk and a country-specific risk premium.

Celesio conducts scheduled impairment tests on goodwill in March of each fiscal year at the latest. In the previous year, the scheduled impairment test was carried out in March. The following overview summarises the parameters used in the impairment test for each division to determine the value in use as well as the fair value less cost to sell.

	Goodwill		WACC [1]		Growth rate after the detailed planning period [1]	
	31/03/2016 EUR m	31/03/2017 EUR m	2016 %	2017 %	2016 %	2017 %
Consumer Solutions	**1,443.1**	**391.1**	**7.4–9.9**	**8.2–10.4**	**1.0**	**1.0**
Thereof Pharmacies UK	1,302.4	**284.4**	7.4	**8.8**	1.0	**1.0**
Of which Pharmacies Ireland	73.3	**29.3**	7.5	**8.2**	1.0	**1.0**
Of which other	67.4	**77.4**	9.0–9.9	**8.9–10.4**	1.0	**1.0**
Pharmacy Solutions	**429.1**	**570.7**	**7.2–9.0**	**7.2–9.4**	**1.0**	**1.0**
Of which Wholesale United Kingdom	156.3	**287.9**	7.2	**8.7**	1.0	**1.0**
Of which Wholesale France	134.2	**134.2**	9.0	**9.4**	1.0	**1.0**
Of which Wholesale Austria	122.2	**122.2**	8.2	**8.3**	1.0	**1.0**
Of which other	16.4	**26.4**	8.8–9.0	**8.8–11.8**	1.0	**1.0**

1) Assumptions as of 31/03/2017.

For further information regarding the impairment test please see (5).

Property, plant and equipment are carried at amortised cost including all incidental costs of acquisition and less any trade discounts or rebates in accordance with IAS 16. The manufacturing costs of internally constructed property, plant and equipment include all costs which can be directly allocated to the production process as well as an appropriate portion of production-related overheads including depreciation.

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

Property, plant and equipment are depreciated on a straight-line basis over their useful lives; an indefinite useful life is assumed for land. The useful lives of the assets are as follows:

	years
Buildings	10 – 50
Plant and machinery	3 – 15
Property, plant and equipment	3 – 10

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

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

Generally, the leases are for real estate. These leases have terms of up to five years and some contain purchase options. There are no significant finance leases in place that contain contingent lease instalments.

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

Borrowing costs are capitalised if they are directly related to the acquisition or construction of a qualifying asset that needs a substantial period of time to prepare it for its intended use or sale. All other borrowing costs are expensed in the period. In the 2017 fiscal year, Celesio capitalised borrowing costs in the amount of EUR 0.5 million (previous year: EUR 0.4 million).

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

Financial instruments are allocated to the available-for-sale category if they are not loans or receivables and are not financial assets measured at fair value through profit or loss. They are initially recognised at fair value plus transaction costs. The unrealised gains and losses from their subsequent measurement are posted to the reserve for available-for-sale financial assets without affecting income until they are realised, taking account of any deferred taxes. If the fair value of an available-for-sale financial asset falls below its cost and there are objective indications that the asset is permanently impaired, an impairment loss is charged through profit or loss. The accumulated losses previously recorded under other comprehensive income are released to the income statement. Pursuant to IAS 39.59, the following criteria are considered to be objective indications of an impairment, particularly for debt instruments:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as a default or delinquency in interest or principal payments
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- The disappearance of an active market for that financial asset because of financial difficulties
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets

According to IAS 39.61, there is objective evidence of an impairment in an investment in an equity instrument if the fair value of an available-for-sale equity instrument falls below its cost significantly or for a prolonged time. If the reasons for an impairment loss no longer apply, the assets are reinstated accordingly. Reversals of impairment losses recorded on equity instruments are posted to other comprehensive income whereas debt instruments, provided they meet the criteria of IAS 39, are written up through profit or loss. When financial assets are sold, any gains previously recorded in other comprehensive income are reclassified to profit or loss. If no active market exists for the assets and their fair value cannot be determined without incurring an unreasonable expense, these financial assets are reported at historical cost.

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

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

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

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

Raw materials, consumables and supplies, finished goods and **merchandise** are recognised at cost based on weighted average purchase prices and the first-in-first-out method. In the Consumer Solutions division the retail method is also applied. Pursuant to IAS 2 the positions are measured at the lower of cost or net realisable value (selling price less costs of completion and the estimated costs necessary to make the sale). This involves accounting for risks associated with

holding and selling inventories by recognising valuation allowances. The company has not entered into any long-term construction contracts pursuant to IAS 11.

Non-current assets held for sale and assets and liabilities of disposal groups and discontinued operations classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell and no longer subject to amortisation and depreciation if their carrying amount is likely to be principally realised from a sale and not from their continued use. This is assumed if the sale is deemed to be highly probable and the relevant management level has agreed a plan for sale. This usually requires approval from the Management Board and if certain thresholds are reached, also from the Supervisory Board. Further requirements are that the asset is available for immediate sale in its present condition, there must be an intention to sell the asset and a sale is expected within twelve months.

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

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

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

Cash and **cash equivalents** contain liquid funds such as cash on hand, cheques and bank balances with a term to maturity of less than three months. They are recognised at nominal value. Foreign cash reserves have been valued using the rate at the end of the reporting period.

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

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

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

Currency derivatives used as hedges for fair value risks are not formally subject to the rules on hedge accounting. The changes in the fair value of these derivatives which, from an economic point of view, are effective regarding the group's hedging

strategy, are recognised in profit or loss. They are offset by the contrary movements in the fair value of the hedged items.

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

The fair values of derivatives are determined by reference to capital market data at the end of the reporting period and by use of suitable valuation methods such as the discounted cash flow method and other generally accepted option pricing models. The calculation uses the market interest rates applicable for the remaining term of the derivatives.

Deferred tax assets and liabilities are deferred in accordance with IAS 12 using the balance sheet liability method. This involves recognising deferred taxes for all temporary differences between the carrying amounts recognised in the consolidated financial statements and the tax base of assets and liabilities as well as any deferred taxes arising from consolidation. Deferred tax liabilities are only not recorded for the retained earnings of domestic and foreign subsidiaries if they are expected to remain within the company in the long term. Deferred tax assets are recognised on unused tax losses at the amount at which the associated tax benefits are likely to be realised through future taxable profit and these can be reliably measured. The amount is based on tax planning taking into account the future tax strategy and any limitations on carrying forward tax losses. The calculation of deferred taxes is based on the tax rates valid in the countries concerned at the time they were recognised or which had been enacted for future periods. A uniform tax rate of 30.7% is applied by the German companies; this is also used as the group tax rate.

Provisions for pensions and similar obligations are determined using the actuarial projected unit credit method in accordance with IAS 19. This method involves considering the biometric parameters and the respective long-term interest rates on the capital markets as well as the latest assumptions on future salary and pension increases. The net interest contained in the pension expense is reported under net interest income/loss.

Actuarial gains and losses (revaluations) are posted directly to other comprehensive income when they arise. The revaluations recorded under other comprehensive income are not recycled through profit or loss in subsequent periods. Rather, they remain as components of other comprehensive income.

The interest on defined benefit plans that are fully or partly funded by plan assets is calculated on the basis of the net assets or net liabilities of the plan. The same interest rate is used to calculate net interest income/loss.

Past service cost arises if an adjustment is made to the plan that has an impact on the benefit obligation arising from past service. Past service cost is recognised in the periods in which the adjustment is made to the plan. Consequently, there is no need to allocate past service cost to future periods.

When setting the discount rate, management refers to the interest rates of corporate bonds with top ratings in the country in question.

Pursuant to IAS 37, other provisions should be recorded if there is a constructive or legal obligation to a third party based on a past business transaction or event. The flow of economic benefits required to settle the obligation must be probable and reliably measurable. Provisions are measured at the amount needed to settle the obligation taking account of all discernible risks. The most likely amount is taken. Any reimbursement claims are not offset against provisions. If it is not possible to recognise a provision because one of the above criteria is not met, the obligation is disclosed under contingent liabilities. Provisions for onerous contracts are recognised if the contractual obligation is higher than the expected economic benefits. Provisions with a term of more than twelve months are discounted.

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

With the exception of derivative financial instruments, liabilities are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

The debt components of convertible bonds issued in 2009 and 2011 and converted in 2014 are measured using the market interest rate obtainable on a similar debt instrument but one that is not convertible. These debt components were measured as liabilities at amortised cost until they were converted into equity. The remaining component of the proceeds from the bond represented the value of the conversion right. This has been presented under capital reserves in equity after deducting any income tax impact. The financial liability increased over the course of time by the difference between the effective interest rate and the hypothetical market interest rate. Transaction costs related to the issue of the instrument were allocated to the debt and equity components of the convertible bond in proportion to the capital extended to the group by the instrument.

The corporate bonds issued in 2010 and 2012 are or rather were measured at amortised cost as a liability using the effective interest rate method.

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

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

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

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

Contingent liabilities include present obligations that arise from past events where an outflow of resources embodying economic benefits is not probable or where the amount of the obligation cannot be estimated reliably. Contingent liabilities are recognised at their fair value if they were acquired in the course of a business combination and meet the criteria for recognition pursuant to IFRS 3. Subsequent measurement is based on the obligation initially recognised. If the obligation has been extinguished – statute-barred, for example – the contingent liability is released. Contingent liabilities not assumed in the course of a business combination are not recognised, but are essentially explained in the notes. Contingent assets are not recognised.

Revenue in the Consumer Solutions and Pharmacy Solutions divisions mainly originates from the sale of merchandise and, to a lesser extent, from the provision of services and receipt of royalties. Revenue and other operating income are recognised when the goods or services are delivered provided that the amount can be reliably measured and it is likely that economic benefits will flow to the group.

Any deductions from sales such as returned goods, rebates, discounts allowed and bonuses are deducted from gross revenue.

Upon the sale of merchandise to customers, the date on which the goods are delivered is also the date on which economic title to the merchandise passes to the customer. In this case, the transfer of economic title is not attached to the transfer of legal title. Deliveries of merchandise where past experience shows that returns should be expected are not recognised in income until the deadline for the return has expired.

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

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

Income from sale and lease-back transactions is recognised immediately in profit or loss providing the lease qualifies as an operating lease and the sales price corresponds to the fair value of the asset. When classifying a lease as a finance lease, the income is deferred and released through profit and loss over the term of the agreement.

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

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

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

Management estimates and judgements

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

Accounting for business combinations

Goodwill is disclosed in the course of business combinations. Upon first-time consolidation, all the identifiable assets, liabilities and contingent liabilities are carried at fair value. The carrying amounts are subject to significant uncertainty. If intangible assets are identified, the fair value of the intangible asset is determined based on the nature of the asset using appropriate valuation techniques. These measurements are closely associated with assumptions of management about the future development of the value of the asset and the discount rates used.
Please refer to the disclosures on business combinations starting on → page 97.

Valuation of financial assets held for sale

The units classified as discontinued operations and disposal groups are measured at fair value less the costs of disposal. In this case, fair value is based on purchase agreements or preliminary offers of purchase and standard company valuation models (discounted cash-flow method).

Impairment of goodwill

The annual impairment test of goodwill with an indefinite useful life (31 March 2017: 961.8 EUR million; previous year EUR 1,872.2 million) is based to a large extent on assumptions pertaining to future assumptions. The management planning for the next five years is derived from past developments and the expectations with respect to future market developments and on principle doesnot include any restructuring activities that the group is not yet committed to or any capital expenditure related to its ordinary business that will enhance the earnings of the cash-generating unit being tested. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period as well as direct synergies in procurement resulting from the business combination with McKesson, which can be allocated to the individual cash-generating units. In addition, the expected impact of government measures in the health sector is of

special significance. The assessment of the cash flows from new business activities, on which the recoverable amount is based, is particularly reliant on management estimates of the future development of these market segments. In these cases, historical information is available to a limited extent only. Moreover, unforeseen government measures could have a negative impact on future revenue and cash flows of Wholesale and Pharmacies. If demand for these products and services does not develop as expected, or if unexpected government measures are introduced, this could reduce income and cash flows and possibly lead to a need to record an impairment loss. These premises and the underlying calculation model can have a material impact on the respective values and ultimately on the amount of a possible goodwill impairment. Please also refer to the notes on impairment testing for goodwill starting on → page 109.

Trade receivables and other assets

The allowance for bad debts totalling EUR 105.7 million (previous year EUR 106.2 million) is based to a large extent on estimates and judgements of individual receivables taking into account the creditworthiness of the respective customer, the current economic situation and the analysis of historical bad debts on a portfolio basis. To the extent that impairments are derived from historical bad debt rates on a portfolio basis, a drop in the total volume of receivables reduces such provisions and vice versa. For more information please refer to note (17).

Pension benefits

The cost of defined benefit post-employment plans and the fair value of the defined benefit obligation of EUR 642.1 million (previous year EUR 574.4 million) are determined using actuarial calculations. Actuarial calculations involve making assumptions about discount rates, future wage and salary increases, the mortality rate and future pension increases. All assumptions are reviewed at each reporting date. When determining the appropriate discount rate, management bases its decision on the interest rates of corporate bonds with top ratings in the country in question. In Norway, the recommendations of the national standards-setting committee on discount rates are also taken into account. Moreover, Celesio conducts sensitivity analyses for the corresponding parameters and their impact on the present benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates for the respective country. For more information please refer to note (20).

Provisions

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

Contingent liabilities

Contingent liabilities may arise from legal and tax risks among other things. Celesio assess those risks regularly and makes necessary estimates regarding the accounting decisions, also by consulting external lawyers. The assessment may change due to new information. Hence it might become necessary to recognize or adjust a provision according to IAS 37 or to disclose contingent liabilities in the notes that are not obliged to be recognized as liabilities in the balance sheet. As a result of changes in accounting estimates or utilization for such risks, expenses may arise for Celesio that exceed the original provision amount.

An estimation of the management regarding the disclosure of contingent liabilities was necessary in particular with regard to the divestment of the Brasilian business as well as the antitrust proceedings of the Slovenian subsidiaries. With regard to the sale of the Brasilian business, warranty claims as well as purchase price adjustments were agreed with the buyer.

Contingent liabilities were recognised for risks from the antitrust proceedings of the Slovenian subsidiary.

For more information please refer to note (26). For detailed specifications and explanations of the divested units, please refer to section (16) of the notes.

Deferred taxes

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

Contingent consideration from business combinations

The measurement of contingent consideration from business combinations requires management to make certain assumptions and estimates. The measurement is based on management planning, if available. The disclosure of the possible range of contingent consideration usually assumes a hypothetical increase or decrease in the relevant underlying earnings or other performance indicators. Please refer to the disclosures on business combinations starting on → page 97.

All assumptions and estimates are based on circumstances prevailing at the end of the reporting period. Future events and changes in conditions can mean that the actual amounts differ materially from the estimated figures. In such cases, the assumptions and, if necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly. At the time of preparing the consolidated financial statements, the underlying discretionary decisions and estimates were not expected to be subject to any major changes. Based on the information available today, no significant adjustment of the carrying amounts of the assets and liabilities disclosed in the consolidated financial statements is therefore expected in the 2017 fiscal year.

Consolidated group

The consolidated group comprises 330 (previous year 332) fully consolidated domestic and foreign companies. This includes six special purpose entities which are consolidated pursuant to “IFRS 10 – Consolidated Financial Statements”, even though Celesio AG does not hold the majority of the voting rights. The purpose of these companies is generally to lease properties. As of 31 March 2017, no entities were consolidated on the basis of potential voting rights (previous year none)

relating to shares not held by Celesio, although there is no longer any actual voting majority.

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

	Number
As of 01/04/2016	**332**
Acquisition of shares	20
Formations/First Consolidation	2
Mergers with other group entities	–10
Disposals	–8
Liquidation	–6
As of 31/03/2017	**330**
Of which domestic entities	19
Of which foreign entities	311

The Brazilian operations were divested in the 2017 fiscal year. Moreover, 6 (previous year 10) Group entities were liquidated in the 2017 fiscal year. 55 (previous year 53) associates were consolidated using the equity method in the consolidated financial statements.

There were no joint ventures (previous year none).

The breakdown of share ownership is included in the notes as from page 192.

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

Name	Domicile
AAH Pharmaceuticals Limited	Coventry, UK
GEHE Pharma Handel GmbH	Stuttgart, Germany
Herba Chemosan Apotheker-AG	Vienna, Austria
Lloyds Pharmacy Limited	Coventry, UK
OCP Portugal, Produtos Farmaceuticos, S.A.	Maia, Portugal
OCP Répartition S.A.	Saint Ouen, France
Kemofarmacija, veletrgovina za oskrbo zdravstva, d.d., Ljubljana	Ljubljana, Slovenia
Pharma Belgium S.A.	Brussels, Belgium
Lloyds Pharmacy Clinical Homecare Limited	Coventry, UK
Tjellesen Max Jenne A / S	Rodovre, Denmark

Business combinations and disposals in the 2017 fiscal year

Business combinations

As at 1 April 2016, 100% of MDD Pharma N.V., domiciled in Kortrijk, Belgium, was acquired in the Customer Solutions division. This company offers the production and delivery of pharmaceuticals in patient-specific packaging for care institutions in Belgium. With this takeover, Celesio is expanding its business activities into other B2B segments and is becoming one of the leading suppliers of retirement/care homes in Belgium.

Also in the Consumer Solutions division, the full acquisition of Masta Limited, based in Leeds in the United Kingdom, was concluded as at 1 June 2016. This company is a supplier of travel health consulting and vaccinations, as well as a wholesale supplier of travel vaccinations.

Bupa Home Healthcare Limited, domiciled in Harlow in the United Kingdom was acquired 100% as at 1 July 2016, and is also disclosed under the Consumer Solutions division. The core business in this case is services in the field of domestic patient care; Celesio intends to expand its strength in this particular area with this takeover.

In addition, the pharmacy business of Sainsbury's Supermarkets Ltd. was also acquired as at 1 September 2016, and will add 281 pharmacies to the Consumer Solutions business LloydsPharmacy in the United Kingdom.

Sangers NI Limited, domiciled in Belfast in the United Kingdom, was acquired 100% as at 1 June 2016 in the Pharmacy Solutions division. The acquisition of UD Sangers will expand the Pharmacy Solutions division in Northern Ireland, and particularly the wholesale business.

Moreover, all the full shares in the Grupo Holon, domiciled in Amora, Portugal, were acquired as at 31 May 2016. This is a large network of independent pharmacies, offering the members a large selection of pharmaceutical services, marketing and advantageous purchasing terms. With this takeover, Celesio intends to expand its expertise and strength in the pharmaceutical retail market.

Furthermore, one retail pharmacy each in the United Kingdom and Belgium were acquired 100% and fully consolidated in the 2017 fiscal year as a result of measures to optimise the portfolio in the Consumer Solutions division.

In addition, McKesson Belgium Holdings SPRL and Sofarmex BVBA were acquired 100% and fully consolidated in the Pharmacy Solutions division.

The table below provides the significant details of the companies acquired in the 2017 fiscal year overall:

EUR M	Sainsbury's	Bupa Home Healthcare	Sangers & Masta	Others	Total
Consideration transferred	**151.2**	**35.5**	**125.9**	**31.2**	**343.8**
Purchase price payment	151.2	35.5	125.9	24.7	**337.3**
Purchase price liability	0.0	0.0	0.0	0.0	**0.0**
Contingent consideration	0.0	0.0	0.0	6.5	**6.5**
Cash purchase price	**151.2**	**34.7**	**112.5**	**24.0**	**322.4**
Fair value of assets and liabilities assumed					
Total assets	**26.3**	**126.6**	**124.7**	**27.1**	**304.7**
Intangible assets	0.2	12.4	27.6	12.8	**53.0**
Property, plant and equipment	4.1	4.8	13.6	1.8	**24.3**
Deferred tax assets	0.0	1.0	2.0	0.3	**3.3**
Inventories	22.0	20.2	20.5	2.2	**64.9**
Trade receivables	0.0	77.1	46.4	5.5	**129.0**
Cash and cash equivalents	0.0	0.8	13.4	0.7	**14.9**
Other assets	0.0	10.3	1.2	3.8	**15.3**
Total liabilities	**6.4**	**104.2**	**52.5**	**16.3**	**179.4**
Financial liabilities	0.0	0.0	0.6	3.7	**4.3**
Deferred tax liabilities	0.0	2.6	6.6	3.7	**12.9**
Trade payables	0.0	84.1	34.3	7.6	**126.0**
Other liabilities	6.4	17.5	11.0	1.3	**36.2**
Goodwill	**131.3**	**13.1**	**53.7**	**20.4**	**218.5**
Non-controlling interests	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

At the time of writing these consolidated financial statements, the necessary market evaluations and other calculations for the accounting of the pharmacy business of Sainsbury’s Supermarkets Ltd. had not yet been completed. The incorporated values are based on provisional calculations which may be adjusted, if necessary, during the course of the measurement period of one year. With regard to Masta Limited, Sangers NI Limited and Bupa Home Healthcare Limited, the market evaluations were completed to a large extent in the 2017 fiscal year.

Purchase-price payments for Sainsbury's in the converted amount of EUR 147.4 million and an initial tranche for Sangers NI Limited and Masta Limited in the amount of EUR 85.4 million had already been made in the previous year as advance payments. In addition, a purchase-price payment in the converted amount of EUR 3.8 million was made in the current fiscal year for Sainsbury's, which settled the difference between the amount of the net working capital at the time of acquisition and the agreed value.

Incidental acquisition costs of EUR 5.6 million were recognised in other expenses.

No treasury shares were issued to settle purchase price liabilities.

For all transactions, the fair value of the acquired receivables amounts to EUR 144.3 million. This contains trade receivables of EUR 129.0 million.

The resulting goodwill in the amount of EUR 218.5 million essentially reflects the expected future cash flows that will be generated by the business combinations and the expertise of the employees. A portion of the goodwill resulting from the acquisition of Sainsbury's Supermarkets Ltd pharmacy business belongs to synergies that are expected in the wholesale business of the United Kingdom and hence was allocated to this business unit respectively. No tax deductibility is expected for any of the goodwill resulting from these acquisitions.

Revenue and net profit were attributable to the entities acquired in the 2017 fiscal year in the following amounts:

	Sainsbury's	Bupa Home Healthcare	Sangers & Masta	Others	**Total**
Profit after taxes from acquisition date till end of reporting period	−16.0	1.6	1.3	0.9	**−12.2**
Revenue from acquisition date till end of reporting period	126.8	460.6	161.6	21.2	**770.2**
Profit after taxes in the reporting period	−19.0	2.6	1.5	1.0	**−13.9**
Revenue in the reporting period	217.3	606.7	193.9	24.8	**1,042.7**

Change in contingent consideration

The contingent considerations increased by EUR 6.5 million in the 2017 fiscal year due to the acquisition of the Grupo Holon. In the context of the agreement concerning the contingent consideration with the sellers of the Grupo Holon, the group is obliged to pay an amount of up to EUR 1.6 million per annum over a period of four years, if the EBITDA of the fiscal years 2017 to 2020 reaches the agreed thresholds. Based on the long-term planning of the Grupo Holon and the estimation of the management, we assume that the upper limit will be achieved and that the contingent consideration will amount to EUR 6.5 million.

Disposals

43 retail pharmacies in the UK were disposed of in the 2017 fiscal year in the course of the fulfilment of control requirements of the Sainsbury acquisition as well as to streamlining the portfolio. All disposals were carried out as asset deals.

The table below provides the significant details of the companies divested in the 2017 fiscal year overall:

EUR m	Total
Consideration received	**40.7**
Gain/loss on disposal	**20.3**
Total assets	**−20.4**
Goodwill	**−16.9**
Property, plant and equipment	**−1.0**
Inventories	**−2.5**

The disclosures on the disposal and deconsolidation during the reporting period of Pharmacy Solutions Brazil, which was classified as a discontinued operation, can be found in the section on “Discontinued operations and disposal groups”.

Business combinations and disposals in the 2016 fiscal year

Business combinations

In the fiscal year 2016, six retail pharmacies in Ireland, five retail pharmacies in Belgium, two retail pharmacies in Norway and one retail pharmacy each in the Sweden and the United Kingdom were acquired 100% in the Consumer Solutions division. These acquisitions contribute to strengthening the market position of the Consumer Solutions division and have been fully consolidated.

The table below provides the significant details of the companies acquired in the 2016 fiscal year overall, as they are not material when considered individually:

EUR M	Total
Consideration transferred	**23.2**
Purchase price payment	19.2
Contingent consideration	3.5
Shares previously recognised using the equity method	0.5
Revaluation of shares previously recognised using the equity method	0.0
Cash purchase price	**18.0**
Fair value of assets and liabilities assumed	
Total assets	**6.7**
Property, plant and equipment	1.0
Deferred tax assets	0.1
Inventories	1.7
Trade receivables	1.6
Cash and cash equivalents	1.2
Other assets	1.1
Total liabilities	**4.4**
Financial liabilities	1.5
Deferred tax liabilities	0.0
Trade payables	1.7
Other liabilities	1.2
Goodwill	**20.9**
Non-controlling interests	**0.0**

Moreover, there were premature payments of purchase price components for the pharmacy business of Sainsbury's and the acquisition of UD Sangers and UD Masta.

Incidental acquisition costs of EUR 0.4 million were incurred in the previous year period.

No treasury shares were issued to settle purchase price liabilities.

The fair value of the receivables acquired amounts to EUR 2.7 million and corresponds to the gross amounts of the contractual receivables. This contains trade receivables of EUR 1.6 million.

The resultant goodwill mainly represents the future prospects expected with the respective business combinations and the value of the experience among the employees acquired and is tax deductible in the amount of EUR 1.2 million.

Revenue of EUR 11.9 million and a net profit of EUR 0.5 million are attributable to the companies acquired in the 2016 fiscal year. If these companies had been acquired at the beginning of the fiscal year, they would have contributed EUR 26.1 million to the revenues and EUR 1.1 million to the net profit of the Group.

Change in contingent consideration

The contingent consideration carried as liabilities in accordance with IFRS 3, which was revised in 2008 and has been mandatory since 2010, fell by EUR 0.5 million in the 2016 fiscal year. Access to a new contingent consideration of EUR 0.5 million was offset by repayment of already existing contingent considerations amounting to EUR 0.5 million. In addition, the contingent considerations were reduced by EUR 0.5 million by the sale of the Norwegian wholesale business and the pharmacy business in Norway and Sweden.

Disposals

In the 2016 fiscal year, the Norwegian wholesale distribution and the pharmacy business in Norway and Sweden were sold to McKesson Norway Holding AS as part of the integration into the McKesson Group.

The table below provides the significant details of the companies divested in the 2016 fiscal year overall:

EUR m	Pharmacy Solutions Norway	Consumer Solutions Norway	Consumer Solutions Sweden	Total
Consideration received	**139.9**	**290.2**	**81.5**	**511.6**
Thereof non cash-effective	139.9	290.2	81.5	**511.6**
Currency reserve	−17.8	−25.5	−1.3	**−44.6**
Gain/loss on disposal	58.6	133.0	40.9	**232.5**
Total assets	**163.3**	**319.5**	**63.0**	**545.7**
Goodwill	**0.0**	**196.5**	**25.5**	**222.0**
Intangible assets	1.2	2.6	2.6	**6.5**
Property, plant and equipment	7.7	39.1	11.4	**58.2**
At equity investments	1.6	0.3	0.0	**1.9**
Deferred tax assets	4.1	1.9	0.0	**6.0**
Inventories	38.6	57.3	16.9	**112.9**
Trade receivables	83.7	3.3	2.7	**89.8**
Cash and cash equivalents	0.0	8.6	0.8	**9.3**
Other receivables and other assets	26.4	9.9	3.0	**39.2**
Total liabilities	**99.8**	**187.8**	**23.5**	**311.1**
Financial liabilities	3.9	0.0	0.0	**3.9**
Pension provisions	20.5	73.6	0.0	**94.1**
Other provisions	1.0	1.9	1.0	**3.9**
Income tax liabilities	0.0	3.9	0.0	**3.9**
Trade payables	66.2	69.1	14.2	**149.5**
Other liabilities	8.2	39.3	8.4	**55.9**

Notes to the group income statement

Non-recurring expenses in the consolidated income statement

In the fiscal year 2017, non-recurring effects amounting to EUR 1,002.0 million overall that weighed on earnings were incurred. These effects were essentially attributable to amortisation of the goodwill of the cash-generating unit pharmacies United Kingdom and pharmacies Ireland in total of EUR 990.9 million. Moreover, legal and other consultancy expenses concerning the acquisition and integration of new entities were incurred in the amount of EUR 29.0 million, as well as measures to improve efficiency and to restructure in the amount of EUR 8.9 million. This was offset by income in the amount of EUR 19.9 million due to pharmacy sales in the United Kingdom and EUR 6.9 million due to the re-integration, after dispensing with the plan to sell, of a small sub-unit of the wholesale business in Germany, which was classified as a disposal group in the short fiscal year 2015.

In contrast to this, non-recurring effects on earnings in the amount of EUR 194.9 million improved the income performance of the continued activities in the 2016 fiscal year. Of this total, income in the amount of EUR 232.5 million was attributable to the sale of the Norwegian and Swedish subsidiaries. This was offset by a total of EUR 14.1 million which were attributable in particular to legal and consulting expenses in connection with the further integration into the McKesson Corporation. In addition, EUR 23.6 million were attributable to efficiency-improvement and restructuring measures, particularly in the United Kingdom, Austria, Celesio AG and Ireland.

(1) Revenue

A breakdown of revenue by division and country is part of segment reporting. The revenue generated by the group consists of EUR 19,308.1 million (previous year EUR 20,666.4 million) through sales of commercial goods and EUR 1,335.5 million (previous year EUR 747.8 million) through services rendered.

(2) Other income

EUR M	2016	2017
Net gain on the disposal of non-current non-financial assets	235.3	**24.1**
Income from receivables written down and bad debts collected	13.7	**10.4**
Income from rent and lease agreements	8.6	**7.7**
Sundry income	47.5	**56.2**
Total	**305.1**	**98.4**

Other income includes income from transactions that are not part of the core business of the Celesio Group. In the past fiscal year, this consisted mainly of income from the sale of non-current, non-financial assets which mainly resulted from the disposal of pharmacies in the UK in the reporting period. In the previous year, this income mainly came from the disposal of the Norwegian and Swedish activities.

In addition, the other income includes revenue from the rental of buildings.

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

The other income includes income from the internal cost allocation with related parties in the amount of EUR 10.1 million (previous year EUR 0.5 million). Furthermore reimbursement in the context of the SAP ERP program in the amount of EUR 6.4 million (previous year EUR 0.0 million) were included in the other income. In addition, own work capitalised from IT projects of EUR 5.7 million (previous year EUR 9.1 million) is included, among other items. Income from financial services in the amount of EUR 3.7 million (previous year EUR 3.7 million) was also generated. A further 0.6 million (previous year EUR 5.5 million) arose from income from affiliates for refunded costs. The other income also includes EUR 1.1 million (previous year EUR 0.0 million) arising from personnel services for McKesson and EUR 1.0 million (previous year EUR 0.0 million) arising from appreciation on intangible assets and property, plant and equipment.

(3) Other expenses

EUR M	2016	2017
Building expenses	−211.5	**−173.8**
Transportation costs	−205.2	**−203.1**
IT and communication expenses	−130.4	**−117.2**
Promotion and advertising expenses	−55.8	**−41.7**
Legal and consulting costs	−29.3	**−33.3**
Travel expenses	−25.1	**−13.5**
Valuation allowances for bad debts	−17.9	**−10.3**
Third-party personnel services	−17.0	**−13.6**
Office Supplies	−14.7	**−14.2**
Repair and Maintenance	−8.6	**−8.4**
Audit and Consultancy Services	−7.6	**−8.3**
Sundry expenses	−63.5	**−71.9**
Total	**−786.6**	**−709.3**

Building expenses include rent and lease expenses of EUR 90.2 million (previous year EUR 121.5 million).

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

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

Sundry expenses mainly relate to the general costs of administration and sales, such as the costs of other taxes and fees. Furthermore, other rental expenses in the amount of EUR 6.0 million (previous year EUR 4.9 million) are included. In addition, this line item includes expenses for membership fees in the amount of EUR 6.1 million (previous year EUR 6.3 million). Sundry expenses also include expenses for the security of land and buildings in the amount of EUR 5.3 million (previous year EUR 6.5 million). In the reporting period, expenses for the development of software of EUR 5.1 million (previous year EUR 6.9 million) were recorded under other expenses because the criteria for recognising them as assets pursuant to IAS 38 were not satisfied. Moreover, sundry expenses include expenses for conferences, seminars and meetings in the amount of EUR 3.9 million (previous year EUR 5.1 million) as well as insurance expenses of EUR 4.3 million (previous year EUR 4.5 million). In addition to that, sundry expenses include bank charges in

the amount of EUR 4.0 million (previous year EUR 5.3 million). The wealth tax in the amount of EUR 2.5 million (previos year EUR 2.1 million) and taxes that do not relate to income in the amount of EUR –2.0 million (previous year EUR 5.3 million) are recognised in the sundry expenses. Income from the reversal of provisions that are related to other expenses has been offset directly against sundry expenses.

(4) Personnel expenses/employees

EUR M	2016	2017
Wages and salaries	−1,000.3	**−888.2**
Social security	−158.0	**−139.8**
Personnel services	−51.2	**−62.5**
Post-employment expenses	−41.6	**−22.1**
Other personnel expenses	−10.5	**−8.4**
Total	**−1,261.6**	**−1,121.0**

Wages and salaries in the fiscal year include non-recurring effects in connection with the implementation of measures to improve efficiency and to restructure totalling EUR 2.9 million. In the previous year, the wages and salaries item also contained non-recurring effects in the amount of EUR 21.7 million, which particularly related to the implementation of efficiency-improvement and restructuring measures.

Personnel services essentially consist of expenses for freelance locum pharmacists used to fill in for absent employees at Celesio pharmacies, and for external field-service employees in the wholesale segment.

Income from the release of provisions for obligations towards personnel of EUR 9.0 million (previous year EUR 8.0 million) was offset against personnel expenses.

(5) Depreciation, amortisation and impairment

EUR M	2016	2017
Depreciation on property, plant and equipment	−86.4	−70.5
Amortisation of intangible assets	−23.7	−27.2
Impairment losses recorded on property, plant and equipment	−1.2	−3.7
Impairment losses recorded on intangible assets	0.0	−991.9
Total	**−111.3**	**−1,093.3**

In the fiscal year, impairment losses were recorded on property, plant and equipment in the amount of EUR 3.7 million (previous year EUR 1.2 million). There were also impairment losses on intangible assets in the amount of EUR −991.9 million (previous year EUR 0.0 million).

As a result of the scheduled impairment test, impairment losses at the amount of EUR 990.9 million were applied to goodwill for the cash-generating units of pharmacies in the United Kingdom and pharmacies in Ireland in the 2017 fiscal year.

The impairment losses recorded on goodwill are allocated as follows:

	Impairment losses	WACC	Growth rate after the detailed planning period
	2017	2017	2017
	EUR m	%	%
Pharmacies UK	946.9	8.8	1.0
Pharmacies Ireland	44.0	8.2	1.0

The impairment losses on goodwill at the cash-generating unit of pharmacies in the United Kingdom are essentially based on a reduction of state refunds (governmental measures) which have a significant impact on the long-range plan of the pharmacy business in the UK. In October 2016, the British government imposed a two-year funding package on community pharmacies, which leads to a GBP 113 million reduction in funding 2016/17. These actions mainly affected the time period between December 2016 and March 2017. This reduction will be followed

by an additional decerease of GBP 95 million in 2017/18. Additionally, the British Department of Health made reductions to Category M prices in 2016/17. After a detailed analysis and estimation of the earnings impacts to Lloyds, these impacts will carry on medium to long-term.

An increase of the long-term inflation expectations additionally increased the weighted average cost of capital.

Additionally, impacts from the BREXIT especially on cross-border activities in the sourcing sector, a delay of certain operational improvements and mitigation projects and a decline of direct synergies in procurement have affected the long-term earnings projections.

The impairment losses on goodwill at the cash-generating unit of pharmacies in Ireland was largely due to a deterioration in the long-term profit expectations. This deterioration is mainly based on cuts in the healthcare sector, published on August 2016 and effectively leading to medicine price cuts and a change of reimbursement prices.

These new insights were finally determined by the Celesio board in course of the long-range plan approval for the cash-generating units Pharmacies UK and Pharmacies Ireland in April 2017.

The achievable amount of a cash-generating unit is the higher of the two amounts of either the fair value less costs to sell and the value in use of the cash-generating unit. The “fair value less costs to sell” is the amount that could be achieved by a hypothetical sale of the respective cash-generating unit in a transaction at market rates between competent parties willing to enter a contract, following deduction of the costs to sell. The “value in use” is the cash value of the future cash flow which can presumably be derived from an asset or a cash-generating unit.

The achievable amount of the United Kingdom cash-generating unit is represented by the fair value less costs to sell. Potential reductions in the assignment of the internal cost allocations at Celesio and in certain administrative costs in the United Kingdom, the recognition of restructuring measures, which didn’t lead to a commitment under IFRS yet, as well as a decline in the net fair value due to internal group activities led to an increase in the fair value less cost to sell of this cash-generating unit. This was offset by a margin adjustment in the internal group sales structure. These adjustments led to an impairment on goodwill in the amount of EUR 946.9 million.

The value in use represents the achievable amount of the cash-generating unit of pharmacies in Ireland, which led to an impairment on goodwill in the amount of

EUR 44.0 million. The assessment of the fair value less costs to sell did not lead to any change of the recoverable amount for the unit.

No impairment on goodwill was carried out in the comparative period.

Further scenarios were analysed for the critical calculation parameters to verify the values in use as of 31 March 2017. Management considers the following scenarios to be possible:

- An increase in the total cost of capital of 1.0 percentage point
- A decrease in the growth rate after the detailed planning period of 0.5 percentage points and
- A one-year delay in planned revenue, retaining the margins of the base scenario, on account of prevailing market uncertainty and the strategic projects currently being implemented.

With the exception of the cash-generating units Pharmacies UK and Pharmacies Ireland no scenario led to an impairment. For the cash-generating units Pharmacies UK and Ireland, these scenarios would have the following results.

At the Pharmacy UK cash-generating unit, the total cost of capital amounted to 8.8%, while growth rates after the detailed planning period were 1.0%. If the total cost of capital were to increase by 1.0%, the impairment on goodwill would increase by EUR 95.8 million to EUR 1,042.7 million. A decrease in the growth rate after the detailed planning phase by 0.5 percentage points would increase the impairment by EUR 22.2 million to EUR 969.1 million. A delay in the projected sales revenue would increase the impairment by EUR 110.5 million to EUR 1,057.4 million.

At the Pharmacy Ireland cash-generating unit, the total cost of capital amounted to 8.2%, while growth rates after the detailed planning period were 1.0%. If the total cost of capital were to increase by 1.0%, the impairment on goodwill would increase by EUR 6.9 million to EUR 50.8 million. A decrease in the growth rate after the detailed planning phase by 0.5 percentage points would increase the impairment by 1.8 EUR million to EUR 45.8 million. A delay in the projected sales revenue would increase the impairment by EUR 7.9 million to EUR 51.9 million.

(6) Investment result

EUR M	2016	2017	Abw.	Abw. In %
Result from associates accounted for using the equity method [1)]	14.7	**16.0**	1.3	8.8
Result from other investments	1.0	**0.6**	−0.4	−40.0
Total	**15.7**	**16.6**	**0.9**	**5.7**

The result from other investments primarily comprises income from dividends from non-listed entities. The improvement in the result from holdings measured at equity in the reporting period was due to the positive performance of the Dutch holding, Brocacef Holding N.V., and of the other holdings in pharmacies in Europe.

(7) Financial result

EUR M	2016	2017
Interest and similar expenses	**−61.2**	**−73.0**
Of which received from affiliates	0.0	**−7.0**
Of which for finance leases	−0.6	**−0.1**
Of which for pensions	−5.6	**−4.3**
Interest and similar income	**5.1**	**8.6**
Of which received from affiliates	0.0	**3.0**
Other financial result	**−7.5**	**−1.7**
Total	**−63.6**	**−66.1**

The interest and similar expenses item contains total interest expenses of EUR 68.2 million (previous year EUR 55.6 million) for financial assets not measured at fair value through profit or loss.

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

The net interest portion contained in the additions to pension provisions is recognised under interest expenses.

The interest and similar income item contains total interest income of EUR 8.6 million (previous year EUR 5.1 million) for financial assets not measured at fair value through profit or loss.

Other financial income contains changes in the market value of derivatives used to hedge financial liabilities, which were recognised through profit or loss. Changes in the market value of currency hedge contracts gave rise to expenses of EUR 19.5 million (previous year income of EUR 86.0 million). The other financial result also includes exchange rate gains in the amount of EUR 53.8 million (previous year EUR 69.6 million) and exchange rate losses of EUR 36.0 million (previous year EUR 162.9 million). In addition, the other financial result contains impairments on loan receivables in the amount of EUR 0.1 million (previous year EUR 0.3 million) and income from impaired loan receivables of EUR 0.1 million (previous year EUR 0.0 million).

(8) Income taxes

EUR M	2016	2017
Current taxes	89.5	**50.1**
Deferred tax	−7.0	**5.5**
Income taxes	**82.5**	**55.6**

Tax expenses comprise income tax at foreign and German entities as well as deferred taxes. Other taxes (property tax, vehicle tax and VAT) are included in other expenses.

The deferred tax expense of EUR 5.5 million (previous year EUR 7.0 million tax income) resulted mainly from activities abroad, accounting for EUR 5.4 million (previous year EUR 6.0 million tax income). In Germany, there was deferred tax expense in the amount of EUR 0.1 million (previous year EUR 1.0 million tax income). Current taxes in the amount of EUR 2.2 million (previous year EUR 7.8 million) were attributable to Germany and EUR 47.9 million (previous year EUR 81.7 million) to other countries.

Temporary differences of EUR 0.0 million (previous year EUR 0.5 million) arose on the retained earnings of domestic and foreign subsidiaries and associates. Deferred tax liabilities of EUR 0.0 million (previous year EUR 0.1 million) were recognised on these differences. No deferred tax liabilities are recorded for the retained earnings of domestic and foreign subsidiaries if they are expected to remain within the company in the long term.

At the end of the reporting period, the group carried unused tax losses of EUR 407.7 million (previous year EUR 443.6 million) and interest carried forward of EUR 0.0 million (previous year EUR 92.4 million), which from a current perspective are

unlikely to be utilised. Consequently, no deferred taxes have been recognised. Of the total tax losses carried forward an amount of EUR 407.7 million can be carried forward indefinitely. No unused tax losses (previous year EUR 0.0 million) will expire over the next 12 years.

Deferred taxes of EUR 5.6 million (previous year EUR 3.8 million) on unused tax losses of EUR 21.0 million (previous year EUR 14.0 million) were capitalised.

In the reporting period, an amount of EUR 0.0 million (previous year EUR 0.8 million) deferred tax assets on unused loss carryforwards were written down.

Current taxes include a tax income from other periods of EUR 5.9 million (previous year EUR 2.5 million tax expense). Deferred taxes on temporary differences led to total expense of EUR 4.9 million (previous year EUR 4.1 million income).

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

	2016		2017	
	EUR m	%	**EUR m**	**%**
Profit before taxes	573.6	100.0	**−748.9**	**100.0**
Expected income tax expense	**176.1**	**30.7**	**−229.9**	**30.7**
Effect of differing national tax rates	−31.7	−5.5	**93.6**	**−12.5**
Tax from previous periods	−2.5	−0.4	**−5.9**	**0.8**
Tax effect of non-deductible expenses and tax-exempt income	−35.5	−6.2	**−2.4**	**0.3**
Impact of changes to tax rates on deferred taxes	−4.6	−0.8	**1.6**	**−0.2**
Non-recognition, adjustment or utilisation of tax losses	−7.8	−1.4	**0.1**	**0.0**
Impact of amortisation of goodwill	0.0	0.0	**194.8**	**−26.0**
Deferred taxes on distributable earnings	−4.0	−0.7	**−0.1**	**0.0**
Other tax effects	−7.4	−1.3	**3.6**	**−0.5**
Income tax expense	**82.5**	**14.4**	**55.5**	**−7.4**

The effective tax rate is -7.4 % for the reporting period compared to 14.4 % in the 2016 fiscal year. This was primarily due to the amortization of non tax deductible goodwill in UK and Ireland. Adjusted for non-recurring effects, the tax rate

would have been 24.4 % compared to 23.1 % in 2016. The slight worsening of the adjusted tax rate was essentially caused by a change in the earnings contributions of individual national companies..

(9) Earnings per share from continuing operations

	2016	2017
Profit/loss attributable to shareholders of Celesio AG (EUR m)	487.1	**−807.5**
Weighted number of no-par shares outstanding	203,220,932	**203,220,932**
Earnings per share – undiluted (EUR)	**2.40**	**−3.97**
Profit/loss attributable to shareholders of Celesio AG (EUR m)	487.1	**−807.5**
Adjustment to interest expense for convertible bond (net, EUR m)	/	**/**
Net profit used to determine diluted earnings per share	487.1	**−807.5**
Weighted number of no-par shares outstanding	203,220,932	**203,220,932**
Weighted adjustment to potentially convertible no-par shares	/	**/**
Weighted average number of shares used to determine diluted earnings per share	203,220,932	**203,220,932**
Earnings per share – diluted (EUR)	**2.40**	**−3.97**

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

The diluted earnings per share from continuing operations are a result of adding all options to Celesio shares associated with convertible bonds to the average number of shares outstanding. In the current fiscal year, no conversions were carried out (previous year: none) and there are no other options that could dilute the earnings.

(10) Components of other comprehensive income

The line items of other comprehensive income after tax – including non-controlling interests – developed as follows:

EUR m	2016 before taxes	2016 taxes	2016 after taxes	2017 before taxes	2017 taxes	2017 after taxes
Items that will not be recycled through profit or loss						
Revaluation of defined benefit plans	48.5	−9.4	39.1	**−15.2**	**2.0**	**−13.2**
Items that may be subsequently recycled through profit or loss						
Unrealised gains/losses from the current year	0.3	0.0	0.3	**−0.3**	**0.0**	**−0.3**
Gains/losses recycled through profit or loss	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Unrealised gains from marking available-for-sale financial assets to market	0.3	0.0	0.3	**−0.3**	**0.0**	**−0.3**
Foreign currency translation posted directly to other comprehensive income	−135.7	0.0	−135.7	**−111.9**	**0.0**	**−111.9**
Release to profit or loss due to loss of control	44.6	0.0	44.6	**127.3**	**0.0**	**127.3**
Exchange differences	−91.1	0.0	−91.1	**15.4**	**0.0**	**15.4**
Other comprehensive income	**−42.3**	**−9.4**	**−51.7**	**−0.1**	**2.0**	**1.9**

Notes to the group statement of financial position

(11) Intangible assets

EUR m	2016		
	Concessions, industrial rights and similar rights	Goodwill	Other intangible assets
Accumulated historical costs at the beginning of the fiscal year	**273.6**	**2,639.7**	**33.7**
Foreign currency translation differences	−6.7	−146.9	−0.3
Additions to the consolidated group	0.0	0.6	3.7
Additions	23.9	20.3	0.0
Reclassifications	7.4	0.0	−0.1
Disposals	−13.9	−0.4	−0.1
Disposals from the consolidated group	−24.3	−222.0	0.0
Reclassification to or from assets held for sale	0.0	0.0	0.0
Status at the end of the fiscal year	**260.0**	**2,291.3**	**36.9**
Accumulated amortisation and impairment at the beginning of the fiscal year	**232.7**	**419.2**	**21.3**
Foreign currency translation differences	−5.8	0.0	−0.1
Additions	22.4	0.0	1.3
Reclassifications	0.0	0.0	0.0
Disposals	−14.0	0.0	0.0
Disposals from the consolidated group	−19.9	0.0	0.0
Write-ups	0.0	0.0	0.0
Reclassification to or from assets held for sale	0.0	0.0	0.0
Status at the end of the fiscal year	**215.4**	**419.2**	**22.5**
Carrying amount at the end of the fiscal year	**44.6**	**1,872.1**	**14.4**

Information on goodwill impairment can be found in note (5) Depreciation, amortisation and impairment.

2016		2017				
Payments on account	Total	Concessions, industrial rights and similar rights	Goodwill	Other intangible assets	Payments on account	**Total**
55.8	3002.8	260.0	2,291.3	36.9	45.8	**2,634.0**
−3.5	−157.4	−4.0	−98.6	−3.4	−1.1	**−107.1**
0.0	4.3	1.2	218.9	51.9	0.0	**272.0**
30.4	74.6	10.9	0.0	−1.1	43.7	**53.5**
−7.3	0.0	0.6	0.0	0.0	−0.6	**0.0**
−27.5	−41.9	−1.8	−0.1	−0.4	−2.7	**−5.0**
−2.1	−248.4	0.0	−1.5	0.0	0.0	**−1.5**
0.0	0.0	0.7	−19.5	0.0	0.0	**−18.8**
45.8	**2,634.0**	**267.6**	**2,390.5**	**83.9**	**85.1**	**2,827.1**
42.9	**716.1**	**215.4**	**419.2**	**22.5**	**12.3**	**669.4**
−3.2	−9.1	−2.9	18.8	0.0	−0.5	**15.4**
0.0	23.7	21.3	990.9	6.9	0.0	**1,019.1**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
−27.4	−41.4	−1.8	−0.1	0.0	−2.3	**−4.2**
0.0	−19.9	0.0	0.0	−0.3	0.0	**−0.3**
0.0	0.0	−0.3	0.0	0.0	0.0	**−0.3**
0.0	0.0	0.7	0.0	0.0	0.0	**0.7**
12.3	**669.4**	**232.4**	**1,428.8**	**29.1**	**9.5**	**1,699.8**
33.5	**1,964.6**	**35.2**	**961.7**	**54.8**	**75.6**	**1,127.3**

(12) Property, plant and equipment

EUR m	2016 Land, land rights and buildings	2016 Plant and machinery	2016 Other equipment, furniture and fixtures
Accumulated historical costs at the beginning of the fiscal year	**707.3**	**299.4**	**691.3**
Foreign currency translation differences	−14.2	−7.4	−40.8
Additions to the consolidated group	0.6	0.0	0.3
Additions	15.1	20.1	49.2
Reclassifications	9.2	1.9	1.5
Disposals	−4.4	−3.6	−37.2
Disposals from the consolidated group	−52.8	−4.6	−63.7
Reclassification to or from assets held for sale	0.0	0.0	0.0
Status at the end of the fiscal year	**660.8**	**305.8**	**600.6**
Accumulated amortisation and impairment at the beginning of the fiscal year	**433.4**	**238.3**	**517.4**
Foreign currency translation differences	−7.4	−5.9	−32.3
Additions	25.6	14.0	48.0
Reclassifications	0.3	0.0	−0.3
Disposals	−4.2	−3.6	−35.9
Disposals from the consolidated group	−27.9	−2.3	−33.1
Write-ups	0.0	0.0	0.0
Reclassification to or from assets held for sale	0.0	0.0	0.0
Status at the end of the fiscal year	**419.8**	**240.5**	**463.8**
Carrying amount at the end of the fiscal year	**241.0**	**65.3**	**136.8**
Of which finance leases			
Carrying amoutn at the end of the fiscal year	14.0	0.0	0.1

Property, plant and equipment in the amount of EUR 29.8 million (previous year EUR 32.6 million) arising from continued operations were pledged as collateral.

2016		2017				
Payments on account and assets under construction	Total	Land, land rights and buildings	Plant and machinery	Other equipment, furniture and fixtures	Payments on account and assets under construction	Total
8.6	**1,706.6**	**660.8**	**305.8**	**600.6**	**8.2**	**1,575.4**
−0.1	−62.5	−9.2	−5.9	−28.8	0.0	**−43.9**
0.0	0.9	11.4	6.3	6.3	0.3	**24.3**
13.0	97.4	11.0	19.2	26.9	45.1	**102.2**
−12.6	0.0	1.0	4.7	1.0	−6.7	**0.0**
−0.5	−45.7	−4.0	−2.9	−14.6	−0.2	**−21.7**
−0.2	−121.3	−0.6	0.0	−5.4	0.0	**−6.0**
0.0	0.0	0.0	0.0	−0.4	0.0	**−0.4**
8.2	**1,575.4**	**670.4**	**327.2**	**585.6**	**46.7**	**1,629.9**
0.3	**1,189.4**	**419.8**	**240.5**	**463.8**	**0.3**	**1,124.4**
0.0	−45.6	−4.3	−4.2	−21.7	0.0	**−30.2**
0.0	87.6	20.3	17.0	36.9	0.0	**74.2**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
0.0	−43.7	−2.8	−2.7	−13.7	0.0	**−19.2**
0.0	−63.3	−0.5	0.0	−4.6	0.0	**−5.1**
0.0	0.0	0.0	0.0	−0.6	0.0	**−0.6**
0.0	0.0	0.0	0.0	0.1	0.0	**0.1**
0.3	**1,124.4**	**432.5**	**250.6**	**460.2**	**0.3**	**1,143.6**
7.9	**451.0**	**237.9**	**76.6**	**125.4**	**46.4**	**486.3**
0.0	14.1	7.7	0.0	0.0	0.0	**7.7**

(13) Other financial assets and associates accounted for using the equity method

Other financial assets mainly contain investments in entities that are not listed on a public exchange and over which the group has neither control nor the ability to exercise a significant influence. In the previous year, this item included not only holdings in unlisted companies where no controlling interest is held and there is no essential influence, but also advance payments for the acquisition of UD Sangers in the amount of EUR 85.4 million and for the acquisition of Sainsbury Pharmacy in the amount of EUR 157.9 million, both in the UK.

If there are no active markets, these financial assets are shown at amortised cost. As of 31 March 2017, investments in entities not listed on a public exchange with a carrying amount of EUR 0.3 million (previous year EUR 0.3 million) were measured at amortised cost for this reason.

Associates accounted for using the equity method consist primarily of the investments in Brocacef Holding N.V., Netherlands. Brocacef Holding N.V. has a closing date of 31 January, but it is being incorporated as of 31 March on a pro-rata basis using an interim financial statement. The following table shows the essential financial information of the Brocacef Groep N.V.:

EUR M	2016	2017
Received (dividend) payments from Brocacef	3.9	**3.6**
Revenue	1,409.0	**2,341.5**
Net profit/loss from continuing operations	19.6	**21.0**
Total profit / loss after taxes from discontinued operations	0.0	**0.0**
Other comprehensive income / expenses	0.0	**0.0**
Total comprehensive income / expenses	19.6	**21.0**
Current assets	231.8	**388.2**
Non-current assets	246.4	**677.0**
Current liabilities	175.3	**336.4**
Non-current liabilities	32.2	**300.2**
Equity	271.0	**436.4**
Equity net of goodwill	103.2	**−118.3**
Proportion of Celesio Group's ownership (45.0%)	46.4	**−53.3**
Carrying amount of intangible assets and goodwill identified during the purchase price allocation	45.7	**219.2**
Book value as of 31/03	**92.1**	**165.9**

The share of the net profit of all other associates accounted for using the equity method attributable to Celesio, including amortisation of intangible assets identified during the purchase price allocation, amounted to EUR 6.1 million (previous year EUR 5.6 million). No amount was recognised in the other comprehensive income either in this fiscal year or the previous one. The carrying amount of holdings accounted for using the equity method came to a total of EUR 66.3 million (previous year EUR 61.4 million).

(14) Deferred taxes

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

EUR m	31/03/2016 assets	liabilities	31/03/2017 assets	liabilities
Intangible assets	6.4	41.3	**0.1**	**39.1**
Property, plant and equipment	10.2	15.8	**15.5**	**4.7**
Other non-current assets	5.4	7.9	**2.4**	**5.0**
Current assets	5.6	0.0	**2.8**	**0.5**
Financial liabilities	1.9	0.0	**2.2**	**0.0**
Provisions	30.2	10.2	**31.1**	**5.7**
Other liabilities	27.3	1.0	**2.2**	**5.5**
Sum of deferred taxes on temporary differences	**87.0**	**76.2**	**56.3**	**60.5**
Deferred taxes on unused tax losses	3.8	0.0	**5.6**	**0.0**
./. Less offsetting	−57.4	−57.4	**−29.0**	**−29.0**
Total	**33.4**	**18.8**	**32.9**	**31.5**

The translation reserves recognised in other comprehensive income include deferred tax assets totalling EUR 9.7 million (previous year EUR 7.0 million). These assets resulted from the revaluation of defined benefit pension plans. More information on deferred taxes can be found in note (8) Income taxes.

(15) Inventories

EUR M	2016	2017
Raw materials, consumables and supplies	0.9	**0.9**
Finished goods and merchandise	1,375.8	**1,482.6**
Payments on account	0.0	**0.0**
Total	**1,376.7**	**1,483.5**

Inventories were written down by EUR 4.9 million in the reporting period (previous year EUR 0.1 million). This was offset by write-ups of inventories of EUR 1.7 million (previous year EUR 3.4 million) that were sold after having previously been written down. The carrying amount of inventories, measured at the lower of cost and net realisable value, came to EUR 13.0m (previous year EUR 13.2 million).

(16) Discontinued operations and disposal groups

General

Following careful scrutiny and analysis of the strategic options, the Management Board of Celesio passed a resolution at the end of March 2015 to initiate the sales process for the Panpharma and Oncoprod units. These were previously recorded in the Pharmacy Solutions division and no longer form part of the core business of Celesio AG. With the sale of the Brazilian subsidiaries, Celesio is setting its focus on European markets and customers.

The sale of the Brazilian entities was concluded as of 31 May 2016.

With effect from 8 August 2016, the small sub-unit of the wholesale business in Germany, which was classified as a disposal group in the short fiscal year 2015, was re-integrated after the plan to sell was dispensed with. This re-integration had no material financial effects.

Revaluation differences and disposals

The key information on the deconsolidation in the reporting period of the Brazilian wholesale unit, which was classified as a discontinued operation, can be summarised as follows:

EUR M	Pharmacy Solutions Brazil
Consideration received	**0.0**
Thereof non cash-effective	0.0
Currency reserve	−127.2
Gain/loss on disposal	−133.2
Total assets	**380.8**
Inventories	48.6
Trade receivables	225.2
Cash and cash equivalents	47.3
Other receivables and other assets	59.6
Total liabilities	**374.7**
Financial liabilities	113.5
Other provisions	38.2
Income tax liabilities	−0.3
Trade payables	194.6
Other liabilities	28.7

Assets and liabilities held for sale

The assets and liabilities held for sale at the end of the reporting period are summarised below:

EUR m	31/03/2016 Non-current assets held for sale	**31.03.2017 Non-current assets held for sale**
Intangible assets	0.0	**4.1**
Property, plant and equipment	0.4	**0.7**
Inventories	28.5	**0.0**
Trade receivables	233.0	**0.0**
Cash and cash equivalents	3.1	**0.0**
Other assets	79.4	**0.0**
Assets	**344.4**	**4.8**
Financial liabilities	135.2	**0.0**
Trade payables	235.2	**0.0**
Other liabilities	67.0	**0.0**
Equity and liabilities	**437.4**	**0.0**

Due to the planned disposal of pharmacies in the United Kingdom, non-current assets are reported as held for sale in the Consumer Solutions division.

Net profit/loss from discontinued operations

The net profit/loss from the business operations of the Brazilian wholesale segment and the small wholesale sub-unit in Germany can be summarised as follows:

EUR M	Total 2016	Total 2017
Revenue	1,440.9	**260.3**
Cost of materials	−1,314.5	**−234.8**
Gross profit	126.4	**25.5**
EBITDA	−14.4	**3.9**
EBIT	−14.4	**3.9**
Profit/loss before tax from discontinued operations	−33.9	**−1.0**
Income taxes	−4.0	**−0.3**
Profit/loss after tax from discontinued operations	−37.9	**−1.3**
Profit/loss after tax from the measurement and disposals of discontinued operations	−56.4	**−158.1**
Net profit/loss from discontinued operations	**−94.3**	**−159.4**

(17) Receivables and other assets

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

EUR M	31/03/2016	31/03/2017
Trade receivables	**2,224.7**	**2,290.3**
Income tax receivables	**30.9**	**36.8**
Receivables from associates and other investments	2.9	**2.4**
Derivative financial instruments	19.7	**0.1**
VAT and other tax receivables	41.5	**49.2**
Other assets	708.8	**551.4**
Other receivables and other assets	**772.9**	**603.1**
Total	**3,028.5**	**2,930.2**

The other assets essentially include a short-term financial receivable against Celesio Holdings Deutschland GmbH & Co. KGaA in the amount of EUR 275.0 million (previous year EUR 511.9 million), as well as supplier bonuses, creditors with debit balances, receivables from employees and other short-term receivables.

In both the reporting period and the previous year, derivative financial instruments were used to hedge foreign exchange rates. Derivative financial instruments are discussed in more detail in note (25).

Receivables from related parties, which are due from the McKesson Group, and receivables from associates and other investments were neither impaired nor past due at the end of the reporting period.

Bad debt allowances developed as follows over the reporting period:

EUR M	2016	2017
As of 01/04	**103.2**	**100.3**
Additions	16.8	10.4
Utilisations	−4.1	−6.5
Reversals	−12.9	−9.6
Currency, consolidated group and other changes	−2.7	5.6
As of 31/03	**100.3**	**100.2**

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

EUR M	31/03/2016	31/03/2017
Trade receivables that are neither impaired nor past due	2,019.5	1,984.1
Trade receivables that are not impaired but are past due	101.9	131.6
Of which < 3 month	83.1	100.6
Of which 3 – 6 month	9.5	18.6
Of which 6 – 12 month	1.7	2.3
Of which > 12 month	7.6	9.9
Impaired trade receivables	103.3	174.7
Trade receivables	**2,224.7**	**2,290.3**

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

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

EUR M	2016	2017
As of 01/04	**2.9**	**5.9**
Additions	7.0	**1.2**
Utilisations	−3.5	**−1.4**
Reversals	−0.4	**−0.1**
Currency, consolidated group and other changes	−0.1	**−0.1**
As of 31/03	**5.9**	**5.5**

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

EUR M	31/03/2016	31/03/2017
Receivables reported under other assets that are not impaired but are past due	103.6	**117.9**
Receivables reported under other assets that are not impaired but are past due	20.6	**20.2**
Of which < 3 month	14.1	**19.7**
Of which 3 – 6 month	3.9	**0.1**
Of which 6 – 12 month	0.1	**0.0**
Of which > 12 month	2.5	**0.5**
Impaired receivables reported under other assets	0.6	**6.3**
Impaired receivables reported under other assets	**124.8**	**144.5**

Impairments of EUR 0.6 million were recorded in addition to the allowances on trade receivables and receivables reported under other assets shown above (previous year EUR 0.5 million). The total amount of write-downs on trade receivables and receivables reported under other assets is therefore EUR 12.2 million (previous year EUR 24.3 million).

(18) Cash and cash equivalents

EUR M	31/03/2016	31/03/2017
Cash on hand	8.2	**7.3**
Cash at banks	415.3	**469.0**
Total	**423.5**	**476.3**

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

Cash at banks is only maintained at selected banks. No bank deposits have been assigned as collateral, either for existing loans or approved lines of credit.

(19) Equity

The subscribed capital of Celesio AG is subdivided into 203,220,932 (previous year: 203,220,932) no-par value registered shares, which are paid in full.

Authorised capital of EUR 130.1 million has been approved until 10 August 2020 (authorised capital 2015).

Reserves

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

In the UK, McKesson makes use of the possibility to shift tax losses between different companies within the Group. With regard to those activities, McKesson Corporation has shifted tax losses irreversible and free of charge to a British subsidiary of Celesio AG in financial year 2017 whereby the latter could reduce its tax liabilities from fiscal years 2014 to 2016 respectively by the equivalent of EUR 80.8 million in total. As the transfer was conducted without any financial reward, Celesio AG recorded this amount as contribution to capital reserve respectively.

Other reserves recorded under other comprehensive income mainly consist of the effects of foreign currency translation and the revaluation of defined benefit plans. The foreign currency translation reserve amounts to EUR –287.2 million (previous year EUR -302.5 million). The revaluation of defined benefit pension plans amounts to EUR –138.9 million as of 31 March 2017 and EUR –125.6 million as of 31 March 2016. In the fiscal year, an amount of EUR 127.3 million (previous year EUR 44.6 million), after considering deferred taxes, was reclassified from the

reserves and allocated to interest expense, the investment result, other operating result and the result from discontinued operations.

Capital management

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

The group monitors its capital based on the equity ratio, gearing and the interest coverage ratio. The loan agreements do not contain any covenants.

However, the bond agreements do contain a change of control clause which provides for premature termination by the bond creditors of all or some of the convertible bonds under certain circumstances.

EUR M	31/03/2016	31/03/2017
Equity	2,752.5	1,892.5
/ Total assets	8,081.8	6,857.7
Equity ratio (%)	**34.1**	**27.6**
Net financial debt	1,097.9	838.3
/ Equity capital	2,752.5	1,892.5
Gearing	**0.40**	**0.44**
EBIT	621.5	−699.4
/ Financial result	63.6	66.0
Interest coverage ratio	**9.8**	**−10.6**
Adjusted interest cover ratio	**6.7**	**4.6**

(20) Pension provisions

Depending on the economic, legal and tax environment of the respective country, the employees of the Celesio Group are entitled to join various pension schemes. These include both defined benefit schemes and defined contribution schemes.

The obligations arising from the defined benefit schemes are covered by external pension funds and appropriate provisions and are determined using the actuarial projected unit credit method in accordance with IAS 19 (revised 2011). In order to avoid a concentration of risks, plan assets are invested in a range of differ-

ent investment categories. The investment strategy also takes account of the age structure of the assets and harmonises this with the expected date on which pensions will be paid out.

Most of the obligations relate to companies in the UK and Germany. These consist primarily of pension plans measured on the final salary. The pension payments to the beneficiaries are generally adjusted for inflation annually.

The obligation in Norway, which was divested with the sale of the Norwegian entity in the 2016 fiscal year, was largely related to a state-regulated pension scheme which is managed by the Norwegian Public Service Pension Fund.

In the UK there is a joint pension scheme in place for employees of Consumer Solutions and Pharmacy Solutions. This scheme is largely funded by external pension funds. The Trustee Board decides on the minimum contribution to the plan in association with selected employees of the entity. A valuation is performed at regular intervals in order to determine the amount of the contribution and ensure that the minimum contribution is made.

The pension obligation in Germany is financed via provisions with the exception of the contractual trust arrangement entered into in 2011 for some of the pension obligations for the Management Board.

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

	2016		2017	
%	UK	EU	UK	EU
Interest rate	3.4	1.9	**2.5**	**1.8**
Future salary increases	3.3	1.0–2.8	**3.6**	**1.0–3.0**
Future pension increases	2.9	1.75–2.0	**3.1**	**1.5–2.0**

In the domestic plans, the 2005 G mortality tables issued by Prof. Klaus Heubeck are used for the life expectancy. Comparable valuation principles are used for foreign pension plans. Net benefit expense recognised in the income statement in the reporting period can be broken down as follows:

EUR M	2016	2017
Service cost	28.8	**8.9**
Past service cost	0.0	**0.0**
Net interest expense	5.6	**4.4**
Gain or loss from settlements and other plan amendments	−1.6	**0.0**
Total	**32.8**	**13.4**

The net interest expense contained within pension expenses is reported under interest result.

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

EUR M	31/03/2016	31/03/2017
DBO, funded	−343.1	**−407.2**
Fair value of plan assets	335.0	**380.3**
Funded status	**−8.1**	**−26.8**
DBO, unfunded	−231.3	**−235.0**
Defined benefit obligation as of 31/03	−239.4	**−261.8**

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

EUR M	2016	2017
Defined benefit obligation at the beginning of the fiscal year	**1008.5**	**574.4**
Service cost	28.8	**8.9**
Interest expense	23.3	**15.5**
Contributions by plan participants	0.1	**0.2**
Benefits paid	−36.5	**−24.7**
Actuarial losses from changes in financial assumptions	−10.9	**50.9**
Actuarial losses from changes in demographic assumptions	0.0	**−1.5**
Experience-based adjustments	−20.9	**−5.6**
Past service cost	0.0	**0.0**
Gains and losses from plan settlements	−3.4	**0.0**
Currency changes	−94.0	**0.0**
changes in the consolidated group	−320.8	**23.9**
Other changes	0.2	**0.0**
Defined benefit obligation at the end of the fiscal year	**574.4**	**642.1**

EUR 331.8 million (previous year EUR 358.3 million) of the defined benefit obligation is attributable to the United Kingdom as well as EUR 189.2 million to Germany (previous year EUR 195.2 million).

EUR M	2016	2017
Fair value of plan assets at the beginning of the fiscal year	**604.9**	**335.0**
Interest income from plan assets	17.7	**11.1**
Contributions by employer	29.4	**2.3**
Contributions by plan participants	0.1	**0.2**
Benefits paid from plan assets	−26.2	**−16.9**
Difference between interest income recognised through profit and loss and actual return on plan assets	19.6	**28.7**
Currency changes	−82.0	**−1.0**
changes in the consolidated group	−226.7	**20.9**
Payments curtailments	−1.8	**0.0**
Other changes	0.0	**0.0**
Fair value of plan assets at the end of the fiscal year	**335.0**	**380.3**
of which based on an active market		
Cash and cash equivalents	2.0	**2.4**
Equity instruments	59.1	**99.8**
Notes and loans	163.4	**184.7**
Real estate	14.2	**14.7**
Derivatives	26.1	**19.5**
Mutual funds	16.8	**0.0**
Asset-backed securities	0.4	**0.0**
Insurance policies	1.8	**0.0**
Others	44.9	**52.9**
of which without an active market		
Cash and cash equivalents	0.4	**0.0**
Equity instruments	0.5	**0.6**
Notes and loans	0.9	**0.9**
Real estate	0.1	**0.1**
Derivatives	0.0	**0.0**
Insurance policies	2.7	**4.6**
Others	1.7	**0.0**

333.1 EUR million (previous year EUR 314.6 million) of the market value of the plan assets are attributable to the UK.

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

Employer contributions to plan assets are expected to come to EUR 0.8 million in the next twelve months.

The following table illustrates the impact of an isolated 0.5 % change in the interest rate:

	2016	2017
0.5 % increase		
Impact on defined benefit obligation	−41.8	**−51.5**
0.5 % decrease		
Impact on defined benefit obligation	49.7	**50.6**

The following table illustrates the impact of an isolated 0.5 % change in the benefit trend:

	2016	2017
0.5 % increase		
Impact on defined benefit obligation	21.3	**21.8**
0.5 % decrease		
Impact on defined benefit obligation	−16.9	**−22.1**

The following table illustrates the impact of an isolated 0.5 % change in the salary trend:

	2016	2017
0.5 % increase		
Impact on defined benefit obligation	10.4	**7.3**
0.5 % decrease		
Impact on defined benefit obligation	−8.3	**−7.8**

The following table illustrates the impact of a 10 % change in the life expectancy of the beneficiaries:

	2016	2017
10 % increase		
Impact on defined benefit obligation	20.1	**20.1**
10 % decrease		
Impact on defined benefit obligation	−18.6	**−23.9**

The following table contains the pension payments expected in the following reporting periods:

EUR M	2017	2018–2021	2022–2026
Expected payments	20.0	94.7	130.1

The average duration of defined benefit plans in the reporting year was 19.5 years (previous year 17.0).

For the defined contribution pension plan, there were no further obligations for Celesio Group companies at the end of the reporting period other than the payment of the defined contribution to external funds. The expenses from ongoing contributions amounted to EUR 13.1 million in the reporting period (previous year EUR 13.0 million). In addition, employer contributions were made to state pension funds. The employer's direct contribution amounted to EUR 30.3million (previous year EUR 37.8 million).

(21) Other provisions

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

EUR M	2016 Carrying amount as of 31/03	2016 Of which due within 1 year
Provisions for obligations to personnel	67.9	38.0
Provisions for litigation and other legal risks	5.1	4.6
Provisions for restructuring measures	19.8	19.7
Other provisions	48.7	39.1
Total	**141.5**	**101.4**

Provisions with a term of more than twelve months are discounted. This involves applying risk-free interest rates ranging from 0.0 bis 2.0% (previous year 0.0 bis 16.0%) depending on the term and currency zone.

Provisions with an expected term to maturity of more than five years amount to EUR 19.4 million (previous year EUR 24.2 million).

Provisions for obligations to personnel relate primarily to short-term bonuses and severance payments as well as long-term claims arising from the German phased retirement scheme (Altersteilzeit) and long-service bonuses.

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

Restructuring provisions in the reporting period mainly relate to claims in connection with termination benefits related to the implementation of the measures to improve efficiency and to restructure, and the reorganization of management structures in our entities.

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

2017							
Changes in currency and the consolidated group	Additions	Utilisation	Reversals	Unwinding	Reclassifications	Carrying amount as of 31/03/2017	Of which due within 1 year
1.9	34.4	−37.1	−9.0	0.3	0.4	58.8	36.3
−0.1	27.7	−2.5	−0.2	0.0	0.0	30.0	6.9
−0.5	4.3	−15.2	0.0	0.0	0.0	8.4	8.4
0.6	34.1	−11.9	−11.6	0.1	−0.3	59.7	50.8
1.9	100.5	−66.7	−20.8	0.4	0.1	156.9	102.4

(22) Liabilities

EUR M	31/03/2016 Due in < 1 year	1 – 5 years	> 5 years	Carrying amount
Financial liabilities				
Liabilities to banks	2.5	12.5	9.7	24.7
Promissory notes and bonds	349.3	498.4	0.0	847.7
Lease liabilities	2.0	2.7	0.0	4.7
Other financial liabilities	**1.2**	**556.6**	**86.5**	**644.3**
	355.0	**1,070.2**	**96.2**	**1,521.4**
Trade payables and other liabilities				
Trade payables	2,306.1	0.0	0.0	2,306.1
Income tax liabilities	133.1	0.0	0.0	133.1
Liabilities to associates and other investments	3.7	0.0	0.0	3.7
Other liabilities	508.9	6.1	0.0	515.0
	2,951.8	**6.1**	**0.0**	**2,957.9**
Liabilities	**3,306.8**	**1,076.3**	**96.2**	**4,479.3**

(23) Financial liabilities

a) Liabilities to banks

Liabilities to banks consist primarily of long-term bilateral credit lines. Special purpose lease entities have arranged fixed-interest loans of EUR 22.2 million to finance real estate (previous year EUR 24.4 million). The market value of these fixed interest loans is EUR 28.6 million (previous year EUR 28.2 million). Liabilities to banks are broken down by the term of the financing.

31/03/2017			
Due in			Carrying amount
< 1 year	1 – 5 years	> 5 years	
2.4	11.4	8.4	**22.2**
499.6	0.0	0.0	**499.6**
2.2	1.1	0.0	**3.3**
4.2	**784.1**	**1.1**	**789.4**
508.4	**796.6**	**9.5**	**1,314.5**
2,594.8	0.0	0.0	**2,594.8**
80.1	0.0	0.0	**80.1**
4.7	0.0	0.0	**4.7**
506.3	11.1	0.0	**517.4**
3,185.9	**11.1**	**0.0**	**3,197.0**
3,694.3	**807.7**	**9.5**	**4,511.5**

b) Promissory notes and bonds.

In the course of diversifying and optimizing its financing structure, Celesio took up promissory notes in previous years. In addition, Celesio placed a corporate bond in 2010 and 2012.

The outstanding promissory notes were paid back prematurely in 2015.

As of the reference date of 31 March 2017, the bonds displayed the following features:

EUR M	Corporate bonds 31/03/2016	Corporate bonds 31/03/2017
Nominal values	849.4	**499.7**
Of which at fixed interest	849.4	**499.7**
Of which at floating interest	0.0	**0.0**
Market values	875.6	**501.1**
Of which at fixed interest	875.6	**501.1**
Of which at floating interest	0.0	**0.0**
Carrying amount	847.7	**499.6**
Currencies	€	**€**
Original maturities	4–7 years	**4–7 years**
Effective interest rates	4.19–4.74 %	**4.19–4.74 %**

c) Lease liabilities

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

EUR M	31/03/2016	31/03/2017
Minimum lease payments	4.9	**3.4**
Due within 1 year	2.1	**2.3**
Due within 2 to 5 years	2.8	**1.1**
Due in more than 5 years	0.0	**0.0**
Interest portion	−0.2	**−0.1**
Net present value	**4.7**	**3.3**

d) Other financial liabilities

The other financial liabilities include loan liabilities to McKesson Information Solution Finance S.à.r.l. in the amount of EUR 698.8 million (previous year EUR 486.4 million).

(24) Trade payables and other liabilities

Trade payables contain payments on account of orders of EUR 146.9 million (previous year EUR 122.3 million).

Other liabilities comprise:

EUR M	2016	2017
Personnel liabilities	84.6	**82.0**
Other tax liabilities	25.4	**24.0**
Outstanding invoices	144.9	**127.5**
Derivative financial instruments	0.4	**0.3**
Interest liabilities	30.0	**27.0**
Other liabilities	229.8	**256.6**
Total	**514.0**	**517.4**

Derivative financial instruments are particularly used to hedge exchange rates. Derivative financial instruments are discussed in more detail in note (25). Other liabilities essentially comprise short-term liabilities to McKesson Corporation, San Francisco, USA of EUR 0.5 million (previous year EUR 12.6 million) as well as to subsidiaries of McKesson Corporation, San Francisco, USA of EUR 171.1 million (previous year EUR 132.9 million). In addition, Other liabilities include liabilities for other provisions as well as liabilities for discounts and bonuses.

(25) Financial risk management and derivative financial instruments

a) Principles of risk management

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

The use of derivatives is subject to uniform group guidelines set by the Management Board, compliance with which is continually monitored. These include the functional segregation of trading, handling and posting, and the authorisation of just a few qualified employees to enter into derivative financial instruments. We only enter into derivatives for hedging purposes and then only with banks with good credit ratings.

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

b) Interest rate risks

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

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

An interest swap involves swapping the fixed or floating interest rate in the underlying transaction for a floating or fixed interest rate respectively for the entire term of the underlying instrument. The decision on whether to use derivative financial instruments is based on the projected interest rate risk and debt. The

interest hedging strategy is reviewed at monthly intervals and new targets are defined. This involves securing interest rates for at least 50% of the projected debt level.

There are no interest swaps at present, because Celesio essentially finances itself with fixed-interest financial instruments.

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

- A hypothetical increase of one percentage point in the EUR-market interest rate as of 31 March 2017 would have resulted in a pre-tax profit that was EUR 2.4 million lower (previous year EUR 2.7 million). A hypothetical decrease of one percentage point in the EUR-market interest rate would have resulted in a pre-tax profit that was EUR 2.4 million higher (previous year EUR 2.7 million). An increase or decrease of one percentage point in the EUR-market interest rate as at 31 March 2017 or 31 March 2016 would not have influenced the equity.
- A hypothetical increase of one percentage point in the GBP-market interest rate as of 31 March 2017 would have resulted in a pre-tax profit that was EUR 0.2 million lower (previous year EUR 1.7 million lower). A hypothetical decrease of one percentage point in the GBP-market interest rate would have resulted in a pre-tax profit that was EUR 0.2 million higher (previous year EUR 1.7 million higher). An increase or decrease of one percentage point in the GBP-market interest rate as at 31 March 2017 or 31 March 2016 would not have influenced the equity.

c) Currency risks

Currency risks refer to the possible write-down of items in the statement of financial position and any forward transactions due to fluctuations in exchange rates. The majority of the foreign exchange risks are a result of the development of the euro against pound sterling. The currency risks at Celesio pertain essentially to financing measures and operating activities. As the group companies largely settle their operating business in their respective functional currency, the foreign exchange exposure on transaction costs can be classified as low.

Forward exchange contracts and currency swaps were used in the 2017 fiscal year to hedge against foreign exchange exposures. This involves a direct hedge of the underlying transaction by means of a foreign exchange derivative. In addition, currency derivatives are used to hedge forecast transactions in foreign currency. This involves selecting the currency derivative (or a combination of several derivatives) which best reflects the likelihood of occurrence and the timing of the forecast transaction. Celesio eliminates the economic currency risk associated with intercompany loans denominated in a different currency by means of currency swaps.

The basis for the sensitivity analysis of currency risks, apart from derivative financial instruments, includes the non-derivative financial instruments at the end of the reporting period which group entities hold in currencies other than the functional currency.

The Celesio Group has concentrated its mid-term and long-term borrowings at Celesio Finance B.V. based in the Netherlands and at Celesio AG. Moreover, there are long-term loans held by individual subsidiaries of McKesson Group companies in the functional currency.

A 10% appreciation or depreciation of the pound sterling against the euro would have increased or decreased the pre-tax profit by EUR 2.5 million (previous year increased or decreased by EUR 39.3 million).

A significant portion of this currency risk sensitivity analysis results from the possible market price fluctuations of currency swaps.

A 10% appreciation or depreciation of the pound sterling against the euro as at 31 March 2017 or 31 March 2016 would not have influenced the translation reserves recognised in other comprehensive income.

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

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

d) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Due to its current customer structure, the bad debt risk in the Celesio group can be classified as relatively low as the largest customers are the state-run healthcare systems and

therefore enjoyed a very high credit standing in the past. Due to the large number of business relationships there is no significant concentration of risk either. The theoretical maximum credit risk basically corresponds to the carrying amounts of the receivables and financial assets presented in note (17) and in the table allocating the assets to the IAS 39 categories starting on → page 157. In addition, individual significant receivables are secured if needed by using certified land charges or similar instruments. As at 31 March 2017, the balance of hedged receivables stood at EUR 14.4 million (previous year EUR 9.8 million). The Celesio Group's maximum credit risk is limited to the nominal amounts possible from financial guarantees as well as the fair values of financial assets – including derivative financial instruments with a positive fair value – disclosed in the statement of financial position. At the end of the reporting period, the group had issued guarantees with a total nominal amount of EUR 188,9 million (previous year EUR 60.4 million). Celesio mitigates the counterparty risk of cash and cash equivalents held at banks by selecting banks with a defined minimum rating. It mitigates the default risk from derivative financial instruments by only entering into such contracts with selected partners. The maximum theoretical risk of default on current derivative financial instruments equals the positive fair values of the instruments. At the end of the reporting period, these amounted to EUR 0.1 million (previous year EUR 19.7 million).

e) Liquidity risk

Liquidity risk is understood as the risk of the Celesio Group not being in the position to meet its ongoing payment obligations at any time. The liquidity risk is managed by means of centralised financial planning which provides the required finance for operations and capital expenditures. Liquidity management takes the form of rolling liquidity planning taking existing lines of credit into account. The Celesio Group has a significant number of unused long-term confirmed lines of credit and bank guarantees and can make use of these at any time. The Celesio Group maintains a suitable level of free credit lines in reserve commensurate with the group's indebtedness.

The table presented on → page 152 presents the contractually agreed undiscounted debt service payments due on the financial liabilities and derivative financial assets and liabilities over time, and therefore their impact on the liquidity of the group.

f) Other price risks

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

g) Hedges

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

Cash flow hedges

The Celesio Group obtains its finance primarily from fixed-interest financial instruments. No interest-related cash flow risk exists. It is therefore not necessary to employ any cash flow hedges.

Summary of derivative financial instruments

Derivative financial instruments break down as follows:

EUR M	31/03/2016			**31/03/2017**		
		Market value				
	Nominal volume	Total	of which cash flow hedges	**Nominal volume**	**Market value**	**of which cash flow hedges**
Interest instruments	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Currency instruments	579.7	19.7	0.0	**23.2**	**0.1**	**0.0**
Receivables from derivative financial assets	**579.7**	**19.7**	**0.0**	**23.2**	**0.1**	**0.0**
Interest instruments	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Currency instruments	172.3	0.4	0.0	**34.7**	**−0.3**	**0.0**
Liabilities from derivative financial instruments	**172.3**	**0.4**	**0.0**	**34.7**	**−0.3**	**0.0**

The tables below present the contractually agreed undiscounted debt service payments due on the non-derivative financial liabilities and derivative financial assets and liabilities over time. As of 31 March 2017 the values were as follows:

EUR M
Non-derivative financial liabilities and financial guarantees
Liabilities to banks
Promissory notes and bonds
Trade payables (excluding payments received on account of orders)
Liabilities to associates and other investments
Lease liabilities
Other financial liabilities
Liabilities from business combinations
Financial guarantees
Derivative financial assets
Derivatives not designated for hedge accounting
Derivative financial liabilities
Derivatives not designated for hedge accounting

Cash flow 2018	Cash flows 2019	Cash flows 2020–2022	Cash flows 2023–2027	Cash flows 2028 ff	**Total cash flows**	**Total carrying amounts**
−11.8	−6.8	−4.8	−6.0	0.0	**−29.4**	**22.2**
−522.2	0.0	0.0	0.0	0.0	**−522.2**	**499.6**
−2,447.9	0.0	0.0	0.0	0.0	**−2,447.9**	**2,447.9**
−4.7	0.0	0.0	0.0	0.0	**−4.7**	**4.7**
−2.3	−0.6	−0.4	0.0	0.0	**−3.3**	**3.3**
−187.6	−429.1	−323.0	−99.8	−1.0	**−1,040.5**	**789.4**
−2.3	−7.6	−3.3	0.0	0.0	**−13.2**	**13.2**
−167.4	−2.2	−3.8	−3.0	0.0	**−176.4**	**0.7**
−3,346.2	**−446.3**	**−335.3**	**−108.8**	**−1.0**	**−4,237.6**	**3,781.0**
0.1	0.0	0.0	0.0	0.0	**0.1**	**0.1**
0.1	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**
−0.3	0.0	0.0	0.0	0.0	**−0.3**	**0.3**
−0.3	**0.0**	**0.0**	**0.0**	**0.0**	**−0.3**	**0.3**

As of 31 March 2016 the values were as follows:

EUR M

Non-derivative financial liabilities and financial guarantees	
Liabilities to banks	
Promissory notes and bonds	
Trade payables (excluding payments received on account of orders)	
Liabilities to associates and other investments	
Lease liabilities	
Other financial liabilities	
Liabilities from business combinations	
Financial guarantees	
Derivative financial assets	
Derivatives not designated for hedge accounting	
Derivative financial liabilities	
Derivatives not designated for hedge accounting	

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

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

	Cash flows 2017	Cash flow 2018	Cash flow 2019 −2021	Cash flow 2022 −2026	Cash flow 2027 and beyond	**Total cash flows**	**Total carrying amounts**
	−4.3	−11.8	−10.4	−7.1	0.0	**−33.6**	**24.7**
	−386.2	−522.2	0.0	0.0	0.0	**−908.4**	**847.7**
	−2,183.9	0.0	0.0	0.0	0.0	**−2,183.9**	**2,183.9**
	−3.7	0.0	0.0	0.0	0.0	**−3.7**	**3.7**
	−2.1	−2.3	−0.6	0.0	0.0	**−5.0**	**4.7**
	−91.7	−172.2	−352.5	−103.4	−1.0	**−720.8**	**644.3**
	−2.1	−6.0	0.0	0.0	0.0	**−8.1**	**−1.0**
	−45.5	−3.6	−6.3	−5.0	0.0	**−60.4**	**0.3**
	−2,719.5	**−718.1**	**−369.8**	**−115.5**	**−1.0**	**−3,923.9**	**3,708.3**
	19.3	0.0	0.0	0.0	0.0	**19.3**	**19.7**
	19.3	**0.0**	**0.0**	**0.0**	**0.0**	**19.3**	**19.7**
	−0.2	0.0	0.0	0.0	0.0	**−0.2**	**0.4**
	−0.2	**0.0**	**0.0**	**0.0**	**0.0**	**−0.2**	**0.4**

Reconciliation of financial instruments to IAS 39 categories as of 31 March 2017

EUR M
Assets
Available-for-sale financial assets - equity instruments
Available-for-sale financial assets - debt instruments
Financial assets measured at fair value through profit or loss
Loans to investments
Other loans
Other financial assets
Other non-current assets
Trade receivables
Receivables from associates and other investments
Derivative financial instruments - designated as hedging instruments
Derivative financial instruments - not designated as hedging instruments
Other assets
Other receivables and other assets
Cash and cash equivalents

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

2017								
	Financial assets measured at fair value through profit or loss	Financial assets held for trading	Loans and receivables	Available for sale financial assets	No IAS 39 category	Outside the scope of IFRS 7	Carrying amount	Fair value
	0.0	0.0	0.0	0.8	0.0	0.0	**0.8**	**0.8**
	0.0	0.0	0.0	3.1	0.0	0.0	**3.1**	**3.1**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
	0.0	0.0	22.7	0.0	0.0	0.0	**22.7**	**22.5**
	0.0	0.1	30.7	0.0	0.0	0.0	**30.8**	**30.4**
	0.0	**0.1**	**53.4**	**3.9**	**0.0**	**0.0**	**57.4**	**56.8**
	0.0	**0.0**	**0.0**	**0.0**	**22.6**	**3.7**	**26.3**	**26.3**
	0.0	**0.0**	**2,290.3**	**0.0**	**0.0**	**0.0**	**2,290.3**	**2,290.3**
	0.0	0.0	2.4	0.0	0.0	0.0	**2.4**	**2.4**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
	0.0	0.1	0.0	0.0	0.0	0.0	**0.1**	**0.1**
	0.0	0.0	499.9	0.0	0.0	100.7	**600.6**	**600.6**
	0.0	**0.1**	**502.3**	**0.0**	**0.0**	**100.7**	**603.1**	**603.1**
	0.0	**0.0**	**476.3**	**0.0**	**0.0**	**0.0**	**476.3**	**476.3**

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

Reconciliation of financial instruments to IAS 39 categories as of 31 March 2016

EUR M

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

2016							
Financial assets measured at fair value through profit or loss	Financial assets held for trading	Loans and receivables	Available for sale financial assets	No IAS 39 category	Outside the scope of IFRS 7	Carrying amount	Fair value
0.0	0.0	0.0	1.0	0.0	0.0	**1.0**	**1.0**
0.0	0.0	0.0	3.6	0.0	0.0	**3.6**	**3.6**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
0.0	0.0	15.8	0.0	0.0	0.0	**15.8**	**15.6**
0.0	0.0	270.4	0.0	1.2	0.0	**271.6**	**271.5**
0.0	**0.0**	**286.2**	**4.6**	**1.2**	**0.0**	**292.0**	**291.7**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**13.1**	**13.1**	**13.1**
0.0	**0.0**	**2,224.7**	**0.0**	**0.0**	**0.0**	**2,224.7**	**2,224.7**
0.0	0.0	2.9	0.0	0.0	0.0	**2.9**	**2.9**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
0.0	19.7	0.0	0.0	0.0	0.0	**19.7**	**19.7**
0.0	0.0	663.3	0.0	1.0	86.0	**750.3**	**750.3**
0.0	**19.7**	**666.2**	**0.0**	**1.0**	**86.0**	**772.9**	**772.9**
0.0	**0.0**	**423.5**	**0.0**	**0.0**	**0.0**	**423.5**	**423.5**

Reconciliation of financial instruments to IAS 39 categories as of 31 March 2017

EUR M
Equity and liabilities
Liabilities to banks
Promissory notes and bonds
Lease liabilities
Other financial liabilities
Non-current liabilities
Other non-current liabilities
Liabilities to banks
Promissory notes and bonds
Lease liabilities
Other financial liabilities
Current liabilities
Trade payables
Liabilities to associates and other investments
Personnel liabilities
Other tax liabilities
Outstanding invoices
Derivative financial instruments - designated as hedging instruments
Derivative financial instruments - not designated as hedging instruments
Interest liabilities
Other liabilities
Other non-current financial liabilities

	Financial liabilities held for trading	Other financial liabilities	No IAS 39 category	Outside the scope of IFRS 7	Carrying amount	2017 Fair value
	0.0	19.8	0.0	0.0	**19.8**	**22.6**
	0.0	0.0	0.0	0.0	**0.0**	**0.0**
	0.0	0.0	1.1	0.0	**1.1**	**1.1**
	0.0	785.2	0.0	0.0	**785.2**	**783.6**
	0.0	**805.0**	**1.1**	**0.0**	**806.1**	**807.3**
	0.0	**0.0**	**10.9**	**0.2**	**11.1**	**11.1**
	0.0	2.4	0.0	0.0	**2.4**	**2.4**
	0.0	499.6	0.0	0.0	**499.6**	**501.1**
	0.0	0.0	2.2	0.0	**2.2**	**2.2**
	0.1	4.1	0.0	0.0	**4.2**	**4.2**
	0.1	**506.1**	**2.2**	**0.0**	**508.4**	**509.9**
	0.0	**2,447.9**	**0.0**	**146.9**	**2,594.8**	**2,594.8**
	0.0	4.7	0.0	0.0	**4.7**	**4.7**
	0.0	0.0	0.0	82.0	**82.0**	**82.0**
	0.0	0.0	0.0	24.0	**24.0**	**24.0**
	0.0	127.5	0.0	0.0	**127.5**	**127.5**
	0.0	0.0	0.0	0.0	**0.0**	**0.0**
	0.3	0.0	0.0	0.0	**0.3**	**0.3**
	0.0	27.0	0.0	0.0	**27.0**	**27.0**
	0.0	178.7	1.6	65.2	**245.5**	**245.7**
	0.3	**337.9**	**1.6**	**171.2**	**511.0**	**511.2**

Reconciliation of financial instruments to IAS 39 categories as of 31 March 2016

EUR M
Equity and liabilities
Liabilities to banks
Promissory notes and bonds
Lease liabilities
Other financial liabilities
Non-current liabilities
Other non-current liabilities
Liabilities to banks
Promissory notes and bonds
Lease liabilities
Other financial liabilities
Current liabilities
Trade payables
Liabilities to associates and other investments
Personnel liabilities
Other tax liabilities
Outstanding invoices
Derivative financial instruments - designated as hedging instruments
Derivative financial instruments - not designated as hedging instruments
Interest liabilities
Other liabilities
Other non-current financial liabilities

	Financial liabilities held for trading	Other financial liabilities	No IAS 39 category	Outside the scope of IFRS 7	2016 Carrying amount	Fair value
	0.0	22.2	0.0	0.0	**22.2**	**25.9**
	0.0	498.4	0.0	0.0	**498.4**	**519.6**
	0.0	0.0	2.7	0.0	**2.7**	**2.7**
	0.0	643.1	0.0	0.0	**643.1**	**641.6**
	0.0	**1,163.7**	**2.7**	**0.0**	**1,166.4**	**1,189.8**
	0.0	**0.0**	**6.0**	**0.1**	**6.1**	**6.1**
	0.0	2.5	0.0	0.0	**2.5**	**2.5**
	0.0	349.3	0.0	0.0	**349.3**	**356.0**
	0.0	0.0	2.0	0.0	**2.0**	**2.0**
	0.0	1.2	0.0	0.0	**1.2**	**1.2**
	0.0	**353.0**	**2.0**	**0.0**	**355.0**	**361.7**
	0.0	**2,183.8**	**0.0**	**122.3**	**2,306.1**	**2,306.1**
	0.0	3.7	0.0	0.0	**3.7**	**3.7**
	0.0	0.0	0.0	84.6	**84.6**	**84.6**
	0.0	0.0	0.0	25.4	**25.4**	**25.4**
	0.0	144.8	0.0	0.0	**144.8**	**144.8**
	0.0	0.0	0.0	0.0	**0.0**	**0.0**
	0.4	0.0	0.0	0.0	**0.4**	**0.4**
	0.0	30.0	0.0	0.0	**30.0**	**30.0**
	0.0	165.0	0.0	58.7	**223.7**	**223.7**
	0.4	**343.5**	**0.0**	**168.7**	**512.6**	**512.6**

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

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

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

EUR M	2016	**2017**
Financial assets measured at fair value through profit or losss	0.0	**0.0**
Financial assets held for trading	86.0	**−19.5**
Available for sale financial assets	1.0	**0.6**
Loans and receivables	−4.2	**−17.0**
Other financial liabilities	−144.3	**−26.9**
Financial liabilities held for trading	0.0	**0.0**
Total	**−61.5**	**−62.8**

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

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

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

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

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

Measurement losses of EUR 0.2 million (previous year measurement gains of EUR 0.3 million) were recorded in other comprehensive income upon the sale of available-for-sale financial assets in the reporting period. This year, no losses (previous year EUR 0.0 million) were reclassified from other comprehensive income to the other investment result.

Fair value hierarchy of financial instruments

Celesio uses the following hierarchy to determine and recognise assets and liabilities measured at fair value:

Level 1: Quoted prices on an active market for identical assets and liabilities

Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques, the inputs of which are based on observable market data

Level 3: Valuation techniques in which all the relevant inputs are not based on observable market data

As of 31 March 2017 the following assets and liabilities were measured at fair value, broken down into the fair value hierarchy as shown:

Assets accounted for at fair value

EUR M

Fair value measurement on a recurring basis	
Available-for-sale financial assets	
Derivative financial instruments - not designated as hedging instruments	
Fair value measurement on a non-recurring basis	
Assets held for sale	

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

Liabilities measured at fair value

EUR M

Fair value measurement on a recurring basis	
Other non-current liabilities	
Derivative financial instruments - not designated as hedging instruments	
Other liabilities	

31/03/2016				31/03/2017			
Level 1	Level 2	Level 3	Total	**Level 1**	**Level 2**	**Level 3**	**Total**
4.3	0.0	0.0	4.3	**3.6**	**0.0**	**0.0**	**3.6**
0.0	19.7	0.0	19.7	**0.0**	**0.1**	**0.0**	**0.1**
0.0	0.0	344.4	344.4	**0.0**	**0.0**	**0.0**	**0.0**

31/03/2016				31/03/2017			
Level 1	Level 2	Level 3	Total	**Level 1**	**Level 2**	**Level 3**	**Total**
0.0	0.0	0.0	0.0	**0.0**	**0.0**	**4.9**	**4.9**
0.0	0.4	0.0	0.4	**0.0**	**0.3**	**0.0**	**0.3**
0.0	0.0	0.0	0.0	**0.0**	**0.0**	**1.6**	**1.6**

The following table shows the fair value of assets and liabilities of the group that are not measured at fair value, broken down into the fair value hierarchy:

Assets not measured at fair value

EUR M
Loans to investments
Other loans

Liabilities not measured at fair value

EUR M
Non-current liabilities
Liabilities to banks
Promissory notes and bonds
Other financial liabilities
Other non-current liabilities
Current liabilities
Liabilities to banks
Promissory notes and bonds
Other financial liabilities

There were no reclassifications of assets and liabilities measured at fair value on a recurring basis between level 1 and level 2 in the reporting period and no reclassifications to or from level 3.

31/03/2016				**31/03/2017**			
Level 1	Level 2	Level 3	Total	**Level 1**	**Level 2**	**Level 3**	**Total**
0.0	15.6	0.0	15.6	**0.0**	**22.5**	**0.0**	**22.5**
0.0	271.5	0.0	271.5	**0.0**	**30.4**	**0.0**	**30.4**

	31/03/2016				**31/03/2017**			
	Level 1	Level 2	Level 3	Total	**Level 1**	**Level 2**	**Level 3**	**Total**
	0.0	25.9	0.0	25.9	**0.0**	**22.6**	**0.0**	**22.6**
	519.6	0.0	0.0	519.6	**0.0**	**0.0**	**0.0**	**0.0**
	0.0	641.6	0.0	641.6	**0.0**	**783.6**	**0.0**	**783.6**
	0.0	6.1	0.0	6.1	**0.0**	**6.0**	**0.0**	**6.0**
	0.0	2.5	0.0	2.5	**0.0**	**2.4**	**0.0**	**2.4**
	356.0	0.0	0.0	356.0	**501.1**	**0.0**	**0.0**	**501.1**
	0.0	1.2	0.0	1.2	**0.0**	**4.1**	**0.0**	**4.1**

The fair value of financial instruments that are actively traded on an active market is determined by reference to listed bid prices at the end of the reporting period. In levels 2 and 3, assets and liabilities measured at fair value on a recurring basis are determined using the DCF method. This involves discounting the cash flows expected from the financial instruments using market interest rates for

instruments of a similar term. Celesio accounts for the credit rating of the respective debtor by means of credit value adjustments (CVA) or debt value adjustments (DVA) on the basis of a mark-up/mark-down procedure. Where possible, the CVAs and DVAs are determined from observable prices for credit derivatives on the market.

Level 3 liabilities consist of liabilities from business combinations made after 1 January 2010 that were measured on the basis of earnings indicators as well as the assumptions and estimates of management. Please see → page 98 for a reconciliation of the opening and closing balances of liabilities measured at fair value in level 3 of the hierarchy.

The recurring fair value measurement of financial instruments in level 3 of the hierarchy held as of 31 March 2017 did not result in any aggregate gains and losses (previous year: none).

Financial instruments subject to an offsetting arrangement

The following table provides a summary of the financial assets and financial liabilities that were offset in the statement of financial position. Moreover, it illustrates the extent to which offsetting arrangements are in place with contractual partners that did not lead to offsetting in the statement of financial position because not all of the criteria of an offsetting arrangement pursuant to IAS 32 were met. The global netting arrangements affecting the Celesio Group consist solely of derivative financial instruments in which master agreements have been entered into with banks to offset the current balance of receivables and liabilities in the event and at the time of default.

Financial assets subject to an offsetting arrangement

31/03/2017 EUR M	Gross amount of financial assets recognised in the statement of financial position	Gross amount of financial liabilities offset in the statement of financial position	Net amount of financial assets recognised in the statement of financial position	Related financial liabilities that were not offset in the statement of financial position	**Net amount**
Trade receivables	2,306.9	16.6	2,290.3	/	**2,290.3**
Impaired receivables reported under other assets	144.5	0.0	144.5	/	**144.5**
Cash at banks	10.5	0.0	10.5	/	**10.5**
Cash and cash equivalents	386.8	76.3	476.3	/	**476.3**
Derivative financial instruments	0.0	0.0	0.1	/	**0.1**

31/03/2016 EUR M	Gross amount of financial assets recognised in the statement of financial position	Gross amount of financial liabilities offset in the statement of financial position	Net amount of financial assets recognised in the statement of financial position	Related financial liabilities that were not offset in the statement of financial position	**Net amount**
Trade receivables	2,237.1	12.4	2,224.7	/	**2,224.7**
Impaired receivables reported under other assets	133.6	8.8	124.8	/	**124.8**
Cash at banks	7.3	/	7.3	/	**7.3**
Cash and cash equivalents	504.2	266.3	423.5	/	**423.5**
Derivative financial instruments	19.7	/	19.7	0.4	**19.4**

Financial liabilities subject to an offsetting arrangement

31/03/2017	Gross amount of financial liabilities offset in the statement of financial position	Gross amount of financial assets recognised in the statement of financial position	Net amount of financial liabilities offset in the statement of financial position	Related financial assets that were not recognised in the statement of financial position	Net amount
EUR M					
Trade payables	2,464.5	16.6	2,447.9	/	**2,447.9**
Liabilities to banks	98.5	76.3	22.2	/	**22.2**
Derivative financial instruments	0.0	0.0	0.3	/	**0.3**

31/03/2016	Gross amount of financial liabilities offset in the statement of financial position	Gross amount of financial assets recognised in the statement of financial position	Net amount of financial liabilities offset in the statement of financial position	Related financial assets that were not recognised in the statement of financial position	Net amount
EUR M					
Trade payables	2,205.1	21.2	2,183.9	/	**2,183.9**
Liabilities to banks	291.0	266.3	24.7	/	**24.7**
Derivative financial instruments	0.4	/	0.4	0.4	**0.0**

(26) Contingent liabilities and other financial obligations

At the end of the reporting period, the group had issued guarantees and warranties of EUR 188,9 million (previous year EUR 60.4 million). The increase of EUR 128,5 million is mainly due to the increase in warranties in the sold Brazilian business.

The guarantees and warranties were mainly issued in the Celesio Wholesale business area, particularly in the UK where they amount to EUR 14.3 million (previous year EUR 23.8 million) and Austria where they amount to EUR 42.7 million (previous year EUR 36.6 million).

Provisions of EUR 0.7 million (previous year EUR 0.3 million) have been recognised for some of the warranties and guarantees at Celesio Wholesale. These have been included under other provisions.

With regard to the sale of the Brasilian entities at the end of May 2016, a purchase price adjustment based on the audited financial statements as of the closing date has been agreed for Panpharma and Oncoprod. On this basis, the buyer has claimed a subsequent reduction of the purchase price by BRL 225 million (EUR 67.7 million). The audit of the underlying statements has not been performed yet, however Celesio has rejected the current claim as not even the formal prerequisites for such a claim are fulfilled.

In addition, indemnification obligations to the purchaser exist in regard to the sale of the Brazil operations, which are limited to a maximum amount of BRL 75 million (EUR 22.6 million), subject to certain exceptions. The purchaser has put forward claims, whose total value exceeds this maximum amount. These claims have been mostly refuted. In the majority of the cases, it is deemed to be possible, but not particularly probable, that Celesio will have to pay indemnification.

Among others, there is no limitation to indemnification obligations for tax risks that are related to the period prior the acquisition of Panpharma in 2009. At the time of the acquisition in 2009, a EUR 113.9 million accrual was recognized for those risks which stood at EUR 22.6 million as at 31 March 2017 (previous year EUR 18.3 million). The increase compared to the prior year is due to exchange rate effects. Should those risks relating to the time prior to the majority takeover in 2009 materialise, then Celesio is itself able to claim indemnification against the former owners. Following the acquisition of the outstanding shares in Panpharma in the second quarter of 2012, these entitlements have been presented under current and non-current assets respectively as a receivable from the former owners.

An appropriate reserve was formed in the total amount of EUR 40.7 million to cover this indemnification obligations to the purchaser of the Brazilian operations and any possible purchase price adjustment.

In the Slovenian privatisation proceedings, the second instance essentially confirmed the court judgement of the first instance in favour of Kemofarmacija, but remitted the remainder of the matter; the counterparty has lodged an appeal against this decision. In total, we assess the risk to be quite low.

Celesio assess those risks regularly, also by consulting external lawyers. The assessment may change due to new information. Hence it might become necessary to recognize an additional provision according to IAS 37, to adjust an existing provision or to derecognize the contingent liability. As a result of the utilization, expenses may arise for Celesio that exceed the original provision amount.

The following table summarizes the other financial obligations of the Celesio Group:

EUR M	31/03/2016	31/03/2017
Rental agreements and operating leases	**763.0**	**761.2**
Due within 1 year	103.6	**105.2**
Due within 2 to 5 years	329.5	**320.8**
Due in more than 5 years	329.9	**335.1**
Purchase commitments for capital expenditures	**100.2**	**45.4**
Property, plant and equipment	8.3	**4.5**
Intangible assets	0.1	**0.1**
Other assets	77.8	**40.8**
Business combinations	14.0	**0.1**
Total	**863.3**	**806.6**

The rental and operational lease obligations mainly relate to the Wholesale business area and pharmacies in the United Kingdom, in the amount of EUR 460.5 million (previous year EUR 408.9 million) and the retail pharmacies in Ireland, where they amount to EUR 89.4 million (previous year EUR 97.7 million). As of the reporting date, the future minimum lease payments expected from uncancellable operating leases come to EUR 3.1m (previous year EUR 4.9 million). Of this amount, EUR 0.9 million (previous year EUR 1.8 million) is due within one year. A further 2.1 million (previous year EUR 2.9 million) are due in between two and five years and EUR 0.1 million (previous year EUR 0.2 million) is due in more than five years. In addition, future revenue from sub-leases is expected of EUR 29.3 million (previous year EUR 31.3 million). In the 2017 fiscal year, an amount of EUR 0.0 million (previous year EUR 2.0 million) was received as income from contingent rent payments.

The agreement, concluded with effect from 1 April 2009 for the outsourcing of the group's entire IT infrastructure, was extended by two years. This gave rise to financial obligations to pay service fees and future lease instalments up to 31 March 2018 expected to amount to EUR 25.0 million (previous year EUR 56.0 million). In addition, there are other financial obligations of EUR 0.0 million (previous year EUR 6.4 million) from data and voice communication service agreements. They have a remaining term of nine months. The amount of the obligations can change depending on the services availed of under the agreement.

Notes to the group statement of cash flows

Pursuant to IAS 7, the group statement of cash flows presents the changes in the liquid funds of the Celesio Group due to cash flows over the course of the reporting period. The group statement of cash flows begins by deriving the cash flows from operating activities, followed by the change in cash and cash equivalents from investing activities and financing activities. The cash flows attributable to discontinued operations are presented as net figures within each of these three sections.

Changes in cash flows from operating activities are calculated indirectly. This involves eliminating all non-cash income and expenses from the group's net profit after tax and considering the cash effects of changes in net working capital. Net operating assets comprise inventories, trade receivables as well as trade payables and certain other net operating assets and liabilities. Other assets and liabilities mainly include provisions and other non-interest bearing liabilities.

Cash flows from investing activities comprise receipts from the sale of non-current assets, payments for capital expenditures, and the cash effects of acquiring and disposing of companies. Proceeds from the sale of subsidiaries – continuing operations – of EUR 40.7 million (previous year EUR 0.0 million) correspond to the proceeds less the cash and cash equivalents transferred of EUR 0.0 million (previous year EUR 9.3 million).

The corresponding disclosures are contained in the notes on disposals of operations. Cash paid for business combinations – continuing operations – corresponds to the purchase prices paid of EUR 153.3 million (previous year EUR 19.2 million) less the cash and cash equivalents acquired in the amount of EUR 14.9 million (previous year EUR 1.2 million). This includes payments to settle contingent purchase obligations for business combinations made in previous years. In total, these payments came to EUR 0.0 million (previous year EUR 2.1 million). The corresponding disclosures are contained in the notes on business combinations. No non-cash investments in non-current assets were made in the reporting period or the previous year. The cash flow from investing activities – discontinued operations – amounted to EUR –94.7 million in the reporting year (previous year EUR –8.1 million). The cash flow from financing activities – continuing operations comprises dividends paid to the owners of Celesio AG and the non-controlling interests of subsidiaries as well as cash flows associated with new financial liabilities and repayments of such liabilities plus any capital contributions from the owners and the interest received and paid. The line item »Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control« reflects cash paid to increase the ownership interest or cash received as a

result of reducing the ownership interest of subsidiaries that do not result in a loss of control. In the reporting period cash effect in connection with the increase of ownership interests amounted to EUR 0.0 million. In the reporting period, income was generated from taking on financial liabilities in the amount of EUR 338.8 million (previous year EUR 597.6 million). This income was offset by payments for the repayment of financial liabilities in the amount of EUR –361.2 million (previous year EUR 338.6 million). The cash flow from financing activities – discontinued operations – amounted to EUR –31.2 million (previous year EUR 27.0 million).

Notes to the group segment reporting

The segments are defined in line with the internal reporting structure of Celesio and are divided into the Consumer Solutions and Pharmacy Solutions divisions. These divisions form the basis for the internal controlling by the Management Board and thus correspond to the reportable segments.

The Management Board of Celesio AG is the chief operating decision maker referred to in IFRS 8.7. The divisions of Celesio AG can be described as follows:

- The Consumer Solutions division is aimed at patients and consumers. This covers the entire logistics chain, from purchasing merchandise through to selling to end consumers. In particular, the division includes activities relating to retail and mail-order pharmacies and activities in brand partner shops, as well as services in the field of medical care at home provided by the British company, Bupa. As a supplier of travel health consulting and vaccinations, as well as a wholesale supplier of travel vaccinations, Mata Limited supplements the Consumer Solutions segment in the United Kingdom. The acquisition of the pharmacy business of Sainsbury's Supermarkets Ltd. is adding 281 pharmacies to the Consumer Solutions business LloydsPharmacy in the United Kingdom. Thanks to the acquisition of MDD Pharma at the beginning of the fiscal year, Celesio has also become one of the leading suppliers for retirement and care homes in Belgium.

  In addition, the division contains our investment in Brocacef Holding N.V. in the Netherlands, which is reported as an associate.
- The Pharmacy Solutions division offers solutions for pharmacists; it concentrates on wholesale business with third party customers, which has been expanded through the acquisition of UD Sangers, particularly in Northern Ireland. The operating segments in this division have likewise been combined at country level. The Pharmacy Solutions division includes the property developer for pharmacies, "Inten". With a large selection of pharmaceutical services, marketing, training concepts and advantageous purchasing terms, the Holon Group in Portugal also belongs to the Pharmacy Solutions segment.
- The Others division is primarily used to report the activities of the group's parent, Celesio AG, and other companies not directly attributable to operating activities. Celesio AG holds investments in the major operating national companies and national holdings. In addition, the operating entities of the Celesio Group are primarily financed via Celesio AG and Celesio Finance B.V., Netherlands. Celesio AG bundles group functions including in the fields of accounting, controlling, treasury and IT.

  Consolidation of intra-group activities is shown separately.

The Management Board measures the success of the segments through EBIT calculated in accordance with IFRS. EBIT is defined as earnings before interest, taxes and investment result. In addition, information on the gross profit and EBITDA is disclosed voluntarily.

Segment assets pursuant to IFRS 8 correspond with the tied capital, which is calculated as the sum of the carrying amount of all non-interest-bearing assets (except for income tax assets) less non-interest-bearing liabilities (except for income tax liabilities).

Capital expenditures include non-cash additions to non-current assets.

The same accounting standards as for the Celesio Group reporting have been used in segment reporting. Intercompany transactions are measured at market prices.

There are no customers individually accounting for more than 10% of revenue.

With regard to the information on countries, segment revenue is allocated to the country in which the revenue is generated. Segment assets are allocated to the country in which they are located.

Transactions with related parties

The majority shareholder is the McKesson Corporation, San Francisco, which owns a holding of about 76% of the share capital of Celesio AG. The Celesio consolidated financial statements are incorporated into the financial statements of the McKesson Group. A domination and profit and loss transfer agreement exists between Celesio Holdings Deutschland GmbH & KGaA (formerly McKesson Deutschland GmbH & Co KGaA) and Celesio AG.

Related parties as defined by IAS 24 (Related Party Disclosures) are legal entities and natural persons who can exercise significant influence over Celesio AG and its subsidiaries or control them or, alternatively, are subject to the control or significant influence of Celesio AG or its subsidiaries. The majority shareholder McKesson Corporation, San Francisco, USA, and its subsidiaries, joint ventures and associates is one of the related parties to Celesio AG. In addition, related parties include the joint ventures, associates and members of the boards of Celesio AG.

With regard to the financing transactions with the McKesson Corporation in the reporting period, please see the presentation of the financial position (p. 27).

In the UK, McKesson makes use of the possibility to shift tax losses between different companies within the Group. With regard to those activities, McKesson Corporation has shifted tax losses irreversible and free of charge to a British subsidiary of Celesio AG in financial year 2017 whereby the latter could reduce its tax liabilities from fiscal years 2014 to 2016 respectively by the equivalent of EUR 80.8 million in total. As the transfer was conducted without any financial reward, Celesio AG recorded this amount as contribution to capital reserve respectively.

All transactions with related parties have been conducted at arm's length.

There are ongoing business relationships with joint ventures and associates, in particular with regard to supplies of merchandise.

The goods and services received from or supplied to related parties are summarised below:

EUR M	McKesson Corporation, San Francisco, USA 31/03/2016	31/03/2017		
Loans and receivables	7.3	**0.0**		
Liabilities	12.6	**0.5**		

EUR M	McKesson Corporation, San Francisco, USA 01/04/2015-31/03/2016	01/04/2016-31/03/2017		
Income	1.9	**0.6**		
Expenses	8.7	**5.7**		

The disclosure of remuneration of key management personnel in accordance with IAS 24 requires the disclosure of the remuneration of the Management Board and Supervisory Board.

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	31/03/2016	**31/03/2017**	31/03/2016	**31/03/2017**
	424.4	**347.9**	23.0	**119.4**
	770.4	**955.3**	0.9	**49.2**

	Subsidiaries of McKesson Corporation, San Francisco, USA		Joint ventures and associates of Celesio AG	
	01/04/2015-31/03/2016	**01/04/2016-31/03/2017**	01/04/2015-31/03/2016	**01/04/2016-31/03/2017**
	62.3	**20.7**	72.4	**50.4**
	8.6	**45.2**	0.0	**0.1**

The active members of the Management Board and Supervisory Board received the following remuneration in the reporting period and in the comparative period:

EUR K	2016	**2017**
Short-term benefits	3,897	**3,207**
Service cost	405	**352**
Long-term benefits	1,446	**966**
Share-based compensation	0	**0**
Total	**5,748**	**4,525**

The total remuneration of the Management Board in terms of Sec. 314 (1) No. 6 a) Sentence 1 to 4 HGB came to EUR 3,564 thousand in the 2017 fiscal year (previous year EUR 4,675 thousand). This breaks down into EUR 1,926 thousand for the basic component including additional benefits (previous year EUR 1,745 thousand), EUR 671 thousand for the portion of benefits payable immediately (single year variable component; previous year EUR 1,484 thousand) and EUR 966 thousand for long-term bonus payments (previous year EUR 1,446 thousand).

No advances, loans or similar benefits were granted to members of the Management Board or Supervisory Board in the reporting period or in the previous year.

Former members of the Management Board and their surviving dependants received remuneration in the reporting period of EUR 259 thousand (previous year EUR 326 thousand). Celesio AG has set aside pension provisions of EUR 19,352 thousand (previous year EUR 22,596 thousand). The composition of the Management Board for the past fiscal year remains unchanged compared to the previous year. Remuneration for serving on Celesio AG's Supervisory Board came to EUR 609 thousand (previous year EUR 668 thousand) in the past fiscal year, including attendance fees, and exclusively comprises short-term benefits. In addition, the Celesio Group employee representatives sitting on the Supervisory Board received the customary market salaries for their services.

No remuneration was paid to members of the Supervisory Board for services rendered individually, nor were transactions requiring disclosure conducted between members of the Supervisory Board or Management Board and other persons of the management, where such persons hold key positions. Likewise no transactions were conducted between members of the Supervisory Board or Management Board and any other entities where such persons sit on the respective Management or Supervisory Boards. This also applies to close family members of these persons.

Audit fees

The annual financial statements of Celesio AG, the German subsidiaries and the consolidated financial statements have been audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft. In the past fiscal year, expenses for services rendered by Deloitte GmbH totalled EUR 0.5 million.

In the previous year, expenses for services rendered by Deloitte GmbH for audits totalled EUR 0.4 million.

No fees were incurred for additional services by Deloitte GmbH.

Exemption pursuant to Sec. 264 (3) and Sec. 264b HGB

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

- ABG Apotheken-Beratungsgesellschaft mbH, Stuttgart
- Admenta Deutschland GmbH, Stuttgart
- Ancavion GmbH, Weiterstadt
- DocMorris Kooperationen GmbH, Stuttgart
- GEHE Pharma Handel GmbH, Stuttgart
- GEHE Immobilien Verwaltungs-GmbH, Stuttgart
- WZ-WundZentren GmbH, Stuttgart
- Inten GmbH, Stuttgart
- recucare GmbH, Stuttgart
- recusana GmbH, Stuttgart

GEHE Immobilien GmbH & Co. KG (Stuttgart) and MATIS Immobilien OHG, Stuttgart are exempted from the duty to publish their financial statements pursuant to Secs. 264b, 264a HGB.

The breakdown of share ownership is included in the notes as an appendix as from page 192.

Proposal of the Management Board for the appropriation of profits

The profit available for distribution of Celesio AG amounts to EUR 0 (previous year EUR 0) and corresponds to the net profit due to profit distributions.

Due to the domination and profit and loss transfer agreement dated 22 May 2014, the annual deficit of EUR 23,657,674 (previous year annual net income of EUR 127,598,609) is taken over by Celesio Deutschland Holdings GmbH & Co. KGaA.

On the basis of the domination and profit and loss transfer agreement of 22 May 2014, Celesio Deutschland Holdings GmbH & Co. KGaA guarantees and pays external shareholders of Celesio AG a compensation for the 2017 fiscal year of EUR 0.83 per no-par value share. The compensation is expected to be payable from 10 August 2017.

Subsequent events

On 26 April 2017, we paid back our due bond with a nominal value of EUR 499.7 million. The refinancing was provided by McKesson UK Finance II Limited, a subsidiary of the McKesson Corporation.

On 2 May 2017, Celesio concluded the takeover of Belmedis, the Belgian distribution company of the French cooperative Welcoop. The distribution company, Belmedis, the pre-wholesaler, Cophana, and the majority stake in the significant purchasing association, Sofiadis, are all strengthening the market position of Celesio in Belgium. The initial accounting for the business combination was incomplete at the time the financial statements were authorized for issue. The annual turnover of this acquired company amounts to approximately EUR 575 million. The purchase price depends on the closing balance by end of June and will be into a medium, double-digit million region. Customer lists and goodwill will be recorded normally as intangible assets in comparable transactions. Further detailed information that would enable the evaluation of the financial effect of the business combination could not be generated in the short period of time.

Stuttgart, 24 May 2017

The Management Board

Company boards

Members of the Management Board

Name	Occupation and company	Disclosure of transactions with affiliated companies and people in the Celesio Group
Marc E. Owen (up to 31 March 2017)	Chairman of the Management Board of Celesio AG Human Resources Director	none
Brian S. Tyler (since 1 April 2017)	Chairman of the Management Board of Celesio AG Human Resources Director	none
Tilo Köster	Member of the Management Board of Celesio AG Legal Affairs and Compliance	none
Alain Vachon	Member of the Management Board of Celesio AG with the responsibility of Finance	none

Members of the Supervisory Board

Name	Occupation and company	Disclosure of transactions with affiliated companies and people at Celesio AG, Stuttgart as well as the Celesio Group
John H. Hammergren (Chairman)	Chairman, President and Chief Executive Officer, McKesson Corporation, San Francisco, U.S.A.	none
Ihno Goldenstein (Deputy Chairman)	Employee goods-in department, GEHE Pharma Handel GmbH Delmenhorst branch, Chairman of the European Works Council of Celesio AG, Chairman of the General Works Council of GEHE Pharma Handel GmbH	none
James A. Beer	Executive Vice President and Chief Financial Officer, McKesson Corporation, San Francisco, U.S.A.	none
Klaus Borowicz	Head of Northern Region of GEHE Pharma Handel GmbH, Hamburg branch	none
Paul C. Julian	Executive Vice President and Group President, McKesson Corporation, San Francisco, U.S.A.	none
Jörg Lauenroth-Mago	Trade Union Secretary responsible for the trade division in Saxony, Saxony-Anhalt and Thuringia, ver.di – Vereinte Dienstleistungsgewerkschaft	none

Pauline Lindwall	Senior Advisor and Independent Board Director, Zürich, CH	none
Susan Naumann	Head of the legal and accounting division in Hamburg, ver.di – Vereinte Dienstleistungsgewerk-schaft	none
Ulrich Neumeister	Logistics employee of GEHE Pharma Handel GmbH, Stuttgart administration centre	none
W.M. Henning Rehder (Deputy Chairman)	Former Member of the Manage-ment Board (CFO) of Siemens Enterprise Communications GmbH & Co. KG (SEN Group), Munich	none
Lori A. Schechter (since 22 June 2016)	Executive Vice President, General Counsel and Chief Compliance Officer McKesson Corporation, San Francisco, U.S.A.	none
Patrick Schwarz-Schütte (until 21 June 2016)	Managing Director of Black Horse Investments GmbH, Düsseldorf	none
Gabriele Katharina Stall	Branch Management Assistant at GEHE Pharma Handel GmbH, Bonn branch	none

Celesio AG

Stuttgart, 24 May 2017

BRIAN TYLER
Chairman of the Mangament Board
Labour Relations

ALAIN VACHON
Management Board Member
Finance

TILO KÖSTER
Member of the Management Board
Legal and Compliance

List of shareholdings of the Celesio Group, Stuttgart as at 31 March 2017 pursuant to Section 313 Paragraph 2 HGB

Nr.	Name of company	Registered office, Country	Equity (in K national currency)	Profit / Loss (in K national currency)	Interest (in %) [1]	Footnote
I. Parent Company						
1	Celesio AG	Stuttgart, DE				
II. Subsidiaries (fully consolidated companies)						
2	"Aewige" ärztliche Wirtschaftsgesellschaft m.b.H.	Wien, AT			100,00	
3	2012 DREAM LIMITED	Coventry, GB			100,00	
4	28CVR LIMITED	Coventry, GB			100,00	
5	30MC LIMITED	Coventry, GB			100,00	
6	A C FERGUSON (CHEMIST) LIMITED	Coventry, GB			100,00	
7	A F CANNON (DISPENSING CHEMISTS) LIMITED	Coventry, GB			100,00	
8	A MILLER (CHEMIST) LIMITED	Glasgow, GB			100,00	
9	A. SUTHRELL (HAULAGE) LIMITED	Coventry, GB			100,00	
10	AAH BUILDERS SUPPLIES LIMITED	Coventry, GB			100,00	
11	BRIDGETON HEALTH CENTRE PHARMACY LIMITED	Glasgow, GB			100,00	
12	AAH FURB PENSION TRUSTEE LIMITED	Coventry, GB			100,00	
13	AAH Glass & Windows Limited	Douglas, GB			100,00	
14	AAH Ireland	Dublin, IE			100,00	
15	AAH LIMITED	Coventry, GB			100,00	
16	AAH Lloyds Insurance (IoM) Limited	Coventry, GB			100,00	
17	AAH LLOYDS PENSION TRUSTEES LIMITED	Coventry, GB			100,00	

18	AAH NOMINEES LIMITED	Glasgow, GB	100,00
19	AAH ONE LIMITED	Coventry, GB	100,00
20	AAH PHARMACEUTICALS LIMITED	Coventry, GB	100,00
21	AAH RETAIL PHARMACY LIMITED	Coventry, GB	100,00
22	AAH TWENTY FIVE LIMITED	Glasgow, GB	100,00
23	AAH TWENTY FOUR LIMITED	Coventry, GB	100,00
24	AAH TWENTY LIMITED	Coventry, GB	100,00
25	AAH TWENTY SEVEN LIMITED	Coventry, GB	100,00
26	AAH TWENTY SIX LIMITED	Glasgow, GB	100,00
27	AAH TWENTY THREE LIMITED	Coventry, GB	100,00
28	AAH TWENTY TWO LIMITED	Glasgow, GB	100,00
29	ABG Apotheken-Beratungsgesellschaft mbH	Stuttgart, DE	100,00
30	ACME DRUG CO. LIMITED	Coventry, GB	100,00
31	ADDED MARKETING LIMITED	Coventry, GB	100,00
32	Admenta Beteiligungs GmbH	Wien, AT	100,00
33	Admenta Denmark ApS	Rodovre, DK	100,00
34	Admenta Deutschland GmbH	Stuttgart, DE	100,00
35	ADMENTA FRANCE	Saint Quen, FR	99,85
36	ADMENTA HOLDINGS LIMITED	Coventry, GB	100,00
37	ADMENTA ITALIA S.P.A.	Bentivoglio, IT	100,00
38	ADMENTA PENSION TRUSTEES LIMITED	Coventry, GB	100,00
39	ADMENTA UK LIMITED	Coventry, GB	100,00
40	Admenta Verwaltungs GmbH	Wien, AT	100,00
41	AFM - S.P.A.	Bentivoglio, IT	100,00
42	AHLP PHARMACY LIMITED	Coventry, GB	100,00
43	ALCHEM (SOUTHERN) LIMITED	Coventry, GB	100,00
44	ALPE-ADRIA PHARMA farmacevts-ko podjetje d.o.o.	Ljubljana, SI	100,00
45	Ancavion GmbH	Weiterstadt, DE	100,00
46	ANSON TRADING LIMITED	Coventry, GB	100,00
47	Apo-Holding Gesellschaft m.b.H.	Wien, AT	99,95

48	ARCHSILVER LIMITED	Glasgow, GB	100,00
49	ATLAS Travel Clinic Limited	Coventry, GB	100,00
50	AYRSHIRE PHARMACEUTICALS LIMITED	Coventry, GB	100,00
51	AZIENDA FARMACEUTICA MUNICIPALE di Cremona S.p.A.	Cremona, IT	77,84
52	Azienda Farmacie Milanesi - A.F.M. S.p.A.	Mailand, IT	80,00
53	Babbingore Limited	Dublin, IE	100,00
54	BAILLIESTON HEALTH CENTRE PHARMACY LIMITED	Bailieston, GB	64,00
55	Ballycane Pharmacy Limited	Dublin, IE	50,00
56	BANNISTER & THATCHER LIMITED	Coventry, GB	100,00
57	BARCLAY ENTERPRISE LIMITED	Coventry, GB	100,00
58	BARCLAY PHARMACEUTICALS (ATHERSTONE) LIMITED	Coventry, GB	100,00
59	BARCLAY PHARMACEUTICALS LIMITED	Coventry, GB	100,00
60	BARLEY CHEMISTS HOLDINGS LIMITED	Coventry, GB	100,00
61	BARRY SHOOTER (ROMFORD) LIMITED	Coventry, GB	100,00
62	BARTON PHARMACY (TORQUAY) LIMITED	Coventry, GB	100,00
63	BEAUTY CARE DRUGSTORES LIMITED	Coventry, GB	100,00
64	BENSON PHARMACY LIMITED	Coventry, GB	100,00
65	BERKSHIRE MEDICAL SUPPLIES LIMITED	Glasgow, GB	100,00
66	BETTERLIFEHEALTHCARE LIMITED	Coventry, GB	100,00
67	BIG PHARMA LIMITED	Coventry, GB	100,00
68	Blackstaff Pharmaceuticals Limited	Coventry, GB	100,00
69	BLAKEY & GRIFFIN LIMITED	Coventry, GB	100,00
70	Breamor Pharmacy Limited	Dublin, IE	100,00
71	BRIAN CORPS (CHEMIST) LIMITED	Coventry, GB	100,00

72	BRIDPORT MEDICAL CENTRE SERVICES LIMITED	Coventry, GB	100,00
73	BRUGEFI INVEST S.A.S.	Saint Quen, FR	100,00
74	C. H. POMEROY LIMITED	Coventry, GB	100,00
75	CAHILL MAY ROBERTS GROUP LIMITED	Dublin, IE	100,00
76	Camic Pharmacies Limited	Dublin, IE	100,00
77	CARONET TRADING LIMITED	Coventry, GB	100,00
78	CASTLEREAGH PHARMACEUTICALS LIMITED	Coventry, GB	100,00
79	Castletroy SCP	Dublin, IE	100,00
80	Celesio Business Services Ltd.	Dublin, IE	100,00
81	Celesio Finance B.V.	Wien, AT	66,67
82	CELESIO UK HEALTHCARE (A) LIMITED	Coventry, GB	100,00
83	CELESIO UK HEALTHCARE (B) LIMITED	Coventry, GB	100,00
84	CENTRALE D`ADMINISTRATION DE BIENS IMMOBILIERS	Saint Quen, FR	100,00
85	Chem Labs Limited	Dublin, IE	100,00
86	CLARK CARE GROUP LIMITED	Glasgow, GB	100,00
87	CLARK MUNRO LIMITED	Coventry, GB	100,00
88	CMN Healthcare Limited	Dublin, IE	100,00
89	CMN Pharmacy Limited	Dublin, IE	100,00
90	CMR HOLDINGS (UK) LIMITED	Coventry, GB	100,00
91	CMR Holdings Ltd	Dublin, IE	100,00
92	Coleham	Dublin, IE	100,00
93	COMPTOIR MONEGASQUE DE BIOCHIMIE	Monaco	100,00
94	COMPTOIR PHARMACEUTIQUE MEDITERRANEEN	Monaco	99,40
95	CORNWELLS (WHOLESALE) LIMITED	Coventry, GB	100,00
96	CRAIG & LOVERING LIMITED	Coventry, GB	100,00
97	CROSS AND HERBERT (DEVON) LIMITED	Coventry, GB	100,00

98	CROSS AND HERBERT (HOLDINGS) LIMITED	Coventry, GB	100,00
99	CROSS AND HERBERT LIMITED	Coventry, GB	100,00
100	Crowley`s Blackrock Limited	Dublin, IE	100,00
101	D.F. BRINT (PORTISHEAD) LIMITED	Coventry, GB	100,00
102	D.F. O'Neill (Chemists) Ltd	Dublin, IE	100,00
103	Dargle Pharmacies Holdings Limited	Dublin, IE	100,00
104	DAVID J THOMAS LIMITED	Coventry, GB	100,00
105	DAVID LOW (CHEMISTS) LIMITED	Coventry, GB	100,00
106	DAVID TAUBER LIMITED	Coventry, GB	100,00
107	DEPOTRADE	Saint Quen, FR	100,00
108	Diafam	Antwerpen, BE	100,00
109	DocMorris Kooperationen GmbH	Stuttgart, DE	100,00
110	DOL Pharmacy Limited	Dublin, IE	100,00
111	Donnybrook Pharmacy Limited	Dublin, IE	100,00
112	DRTHOM BILLING LIMITED	Glasgow, GB	100,00
113	ECLIPSE HEALTHCARE LIMITED	Coventry, GB	100,00
114	ESCON (ST NEOTS) LIMITED	Coventry, GB	100,00
115	EUROSANTE (Société en liquidation)	Luxemburg	100,00
116	Evesland Limited	Dublin, IE	100,00
117	EVOLUTION HOMECARE SERVICES LIMITED	Coventry, GB	100,00
118	EXPERT HEALTH LIMITED	Coventry, GB	100,00
119	FAR.CO.SAN S.p.A.	San Giovanni Valdarno, IT	80,00
120	FARILLON LIMITED	Coventry, GB	100,00
121	Farmacie di Parma S.p.A.	Parma, IT	80,00
122	Farmacie Pratesi Pratofarma S.p.A.	Prato, IT	80,00
123	FARMALVARION S.R.L. SOCIO UNICO	Bentivoglio, IT	100,00
124	Felview Limited	Dublin, IE	100,00

125	FENDGROVE LIMITED	Coventry, GB	100,00	
126	FERAX LIMITED	Coventry, GB	100,00	
127	FIELDCOURT LIMITED	Coventry, GB	100,00	
128	FIRTH & PILLING LIMITED	Coventry, GB	100,00	
129	FOSTER & PLUMPTON GROUP LIMITED	Coventry, GB	100,00	
130	FOSTER & PLUMPTON LIMITED	Coventry, GB	100,00	
131	FOSTER PHARMACEUTICALS LIMITED	Coventry, GB	100,00	
132	FULLPAD LIMITED	Coventry, GB	100,00	
133	G J MALEY LIMITED	Doulgas, GB	100,00	
134	G K CHEMISTS (GLOS) LIMITED	Coventry, GB	100,00	
135	G K CHEMISTS LIMITED	Coventry, GB	100,00	
136	GAMECREST LIMITED	Coventry, GB	100,00	
137	GEHE Immobilien GmbH & Co. KG	Stuttgart, DE	100,00	
138	GEHE Immobilien Verwaltungs-GmbH	Stuttgart, DE	100,00	
139	GEHE Pharma Handel GmbH	Stuttgart, DE	100,00	
140	GEORGE STAPLES (OPTICIANS) LIMITED	Coventry, GB	100,00	
141	GEORGE STAPLES (STOKE) LIMITED	Coventry, GB	100,00	
142	Gerard Ryan Pharmacy (Clonmel) Limited	Dublin, IE	100,00	
143	Gerard Ryan Pharmacy (O`Connell Street) Limited	Dublin, IE	100,00	
144	Gerard Ryan Pharmacy (Patrick Street) Limited	Dublin, IE	100,00	
145	GOBAL Beteiligung GmbH & Co. Vermietungs KG	Stuttgart, DE	0,00	2
146	GORDON'S PHARMACY LIMITED	Coventry, GB	100,00	
147	Gorrys Pharmacy Limited	Dublin, IE	100,00	
148	Gouldson Pharmacy	Dublin, IE	100,00	
149	Goviltown Limited	Dublin, IE	100,00	
150	GOWCHARM LIMITED	Coventry, GB	100,00	
151	GPL 2007 LIMITED	Glasgow, GB	100,00	

152	GRAEME PHARMACY (STIRLING) LIMITED	Coventry, GB	100,00
153	GREENS PHARMACEUTICAL (HOLDINGS) LIMITED	Coventry, GB	100,00
154	Greystones Pharmacy Limited	Dublin, IE	100,00
155	H H THATCHER LIMITED	Coventry, GB	100,00
156	H.E. NIBLETT LIMITED	Coventry, GB	100,00
157	Haleston Enterprises Limited	Dublin, IE	100,00
158	HAMMOND HOPKINS LIMITED	Coventry, GB	100,00
159	HC Beteiligungsgesellschaft mbH	Wien, AT	100,00
160	HEALTH NEEDS LIMITED	Coventry, GB	100,00
161	HEALTHCLASS LIMITED	Coventry, GB	100,00
162	Helmard Holdings Limited	Dublin, IE	100,00
163	Herba Chemosan Apotheker-AG	Wien, AT	99,06
164	Herba Immobilienvermietungs GesmbH	Ljubljana, SI	100,00
165	HERBERT FERRYMAN LIMITED	Coventry, GB	100,00
166	HIGGINS & SON (CHEMISTS) LIMITED	Coventry, GB	100,00
167	HILLCROSS PHARMACEUTICALS LIMITED	Coventry, GB	100,00
168	HILLS PHARMACEUTICALS LIMITED	Coventry, GB	100,00
169	HILL-SMITH (WARRINGTON) LIMITED	Coventry, GB	100,00
170	Hittelford Limited	Dublin, IE	100,00
171	HOLLYFAR - Marcas e Comuni-cação, Unipessoal	Maia, PT	100,00
172	Donald Munro	Glasgow, GB	100,00
173	HOLON, S.A.	Maia, PT	100,00
174	HOUGHTON & LAPPIN LIMITED	Coventry, GB	100,00
175	HYWEL DAVIES (CAERPHILLY) LIMITED	Coventry, GB	100,00
176	INDEPENDENT PHARMACY CARE CENTRES (2008) LIMITED	Coventry, GB	100,00
177	INSPIRON DISTRIBUTION LIMITED	Coventry, GB	100,00
178	Inten GmbH	Stuttgart, DE	100,00

179	IPCC LIMITED	Coventry, GB	100,00
180	ISON & BOWYER LIMITED	Coventry, GB	100,00
181	J A R BURBANK LIMITED	Coventry, GB	100,00
182	J S DENT LIMITED	Glasgow, GB	100,00
183	J. Bradbury (Surgical) Limited	Belfast, GB	100,00
184	J.G. Crowley Pharmacy Limited	Dublin, IE	100,00
185	JOHN BELL & CROYDEN LIMITED	Coventry, GB	100,00
186	JOHN HAMILTON (PHARMACEUTICALS) LIMITED	Coventry, GB	100,00
187	JOHN ROBERTSON BUTLER AND SON (GORING) LIMITED	Coventry, GB	100,00
188	JOHN ROBERTSON BUTLER AND SON (NEWBURY) LIMITED	Coventry, GB	100,00
189	JOHN ROBERTSON BUTLER AND SON (WEST READING) LIMITED	Coventry, GB	100,00
190	JOHN ROBERTSON BUTLER AND SON LIMITED	Coventry, GB	100,00
191	John Smith & Son Limited	Dublin, IE	100,00
192	JORDANS PHARMACY LIMITED	Coventry, GB	100,00
193	Kairnbury	Dublin, IE	100,00
194	Kemofarmacija, veletrgovina za oskrbo zdravstva, d.d.	Ljubljana, SI	98,04
195	Kilshallow Limited	Dublin, IE	100,00
196	KINGSWOOD CHEMISTS LIMITED	Coventry, GB	100,00
197	KINGSWOOD GK LIMITED	Coventry, GB	100,00
198	KNOWLE PHARMACY LIMITED	Glasgow, GB	100,00
199	KYLE & CARRICK HOLDINGS LIMITED	Coventry, GB	100,00
200	Laboratoria Flandria NV	Brüssel, BE	100,00
201	LCH CHAPMAN (WHITESTONE) LIMITED	Coventry, GB	100,00
202	LEEMA CONSULTANCY SERVICES LIMITED	Coventry, GB	100,00
203	LEVELCROWN LIMITED	Coventry, GB	100,00
204	LINFORD PHARMACIES LIMITED	Glasgow, GB	100,00

205	Lissone Farmacie S.p.A.	Lissone, IT	80,00
206	LIVINGSTON HEALTH CENTRE (P.D) CO. LIMITED	Coventry, GB	100,00
207	LLOYDS CHEMISTS LIMITED	Coventry, GB	100,00
208	LLOYDS CHEMISTS RETAIL (NORTHERN) LIMITED	Coventry, GB	100,00
209	LLOYDS CHEMISTS RETAIL LIMITED	Coventry, GB	100,00
210	LLOYDS GROUP PROPERTIES LIMITED	Coventry, GB	100,00
211	LLOYDS HEALTHCARE HOLDINGS LIMITED	Coventry, GB	100,00
212	Lloyds Pharmacy Clinical Homecare Limited	Coventry, GB	100,00
213	LLOYDS PHARMACY LIMITED	Coventry, GB	100,00
214	LLOYDS PROPERTIES LIMITED	Coventry, GB	100,00
215	LLOYDS Property Management Company Belgium S.A.	Wavre, BE	100,00
216	LLOYDS RETAIL CHEMISTS LIMITED	Coventry, GB	100,00
217	Lloydspharma Group S.A.	Wavre, BE	100,00
218	Lloydspharma S.A.	Wavre, BE	100,00
219	Lloydspharmacy Ireland Limited	Dublin, IE	100,00
220	LP Clinical Homecare Group Limited	Coventry, GB	100,00
221	LPL ONE LIMITED	Coventry, GB	100,00
222	M & J HOLDINGS LIMITED	Coventry, GB	100,00
223	M H GILL LIMITED	Coventry, GB	100,00
224	M PAYNE & CO LIMITED	Coventry, GB	100,00
225	M.& M.L.GRUNDY LIMITED	Coventry, GB	100,00
226	M.J.F LIMITED	Coventry, GB	100,00
227	MACEYS LIMITED	Coventry, GB	100,00
228	MARYHILL DISPENSARY LIMITED	Glasgow, GB	50,00
229	MASTA Limited	Coventry, GB	100,00
230	MATIS Immobilien OHG	Stuttgart, DE	100,00

231	Maurice F. Dougan Limited	Dublin, IE	100,00	
232	May Roberts Ltd	Dublin, IE	100,00	
233	McKesson Belgium Holdings SPRL	Brüssel, BE	100,00	
234	McKESSON FRANCE HOLDINGS	Saint Quen, FR	100,00	
235	McSweeney Dispensers 10 Limited	Dublin, IE	100,00	
236	McSweeney Dispensers 23 Limited	Dublin, IE	100,00	
237	MDD pharma N.V.	Kortrijk, BE	100,00	
238	Meade's Medical Hall Limited	Dublin, IE	100,00	
239	Medical Advisory Services for Travellers Abroad Limited	Coventry, GB	100,00	
240	MEDIMART LIMITED	Coventry, GB	100,00	
241	Mesara Grundstücks-Verwaltungsgesellschaft mbH	Stuttgart, DE	0,00	2
242	MOUNT PHARMACY LIMITED	Coventry, GB	100,00	
243	MPWB (ROMFORD) LIMITED	Glasgow, GB	100,00	
244	MUNRO PHARMACY LIMITED	Glasgow, GB	100,00	
245	Natureline	Antrim, IE	100,00	
246	NEW KIRK PHARMACY LIMITED	Coventry, GB	100,00	
247	O`Leary Pharmacy (Lucan) Limited	Dublin, IE	100,00	
248	OCP	Saint Quen, FR	99,99	
249	OCP FORMATION	Saint Quen, FR	100,00	
250	OCP PORTUGAL, PRODUTOS FARMACÊUTICOS, S.A.	Maia, PT	100,00	
251	OCP REPARTITION	Saint Quen, FR	100,00	
252	OLOR Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Stuttgart, DE	0,00	2
253	P C Cahill & Company Limited	Dublin, IE	100,00	
254	PALEMODA LIMITED	Coventry, GB	100,00	
255	PAUL WHEELER LIMITED	Coventry, GB	100,00	
256	PCB SA	Brüssel, BE	86,79	
257	PEEL STREET PHARMACY LIMITED	Coventry, GB	100,00	
258	PERILLA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Grünwald, DE	95,00	6,2

259	Pharma Belgium SA	Brüssel, BE	100,00	
260	PHARMA PARTNERS	Ostende, BE	100,00	
261	Pharma Services (NI) Limited	Belfast, GB	50,00	
262	PHARMACTIV DISTRIBUTION	Saint Quen, FR	97,45	
263	Pharmacy O`Riada Holdings Limited	Dublin, IE	100,00	
264	PHARMAGEN LIMITED	Coventry, GB	100,00	
265	PHARMED LIMITED	Coventry, GB	100,00	
266	PHILIP GOODMAN LIMITED	Coventry, GB	100,00	
267	PRESOLVE LIMITED	Coventry, GB	100,00	
268	Prima Brands Limited	Belfast, GB	100,00	
269	PRIMELIGHT LIMITED	Coventry, GB	100,00	
270	R F FOSKETT & SON LIMITED	Coventry, GB	100,00	
271	R GORDON DRUMMOND LIMITED	Glasgow, GB	100,00	
272	R.J. MAIR LIMITED	Coventry, GB	100,00	
273	recucare GmbH	Stuttgart, DE	100,00	
274	recusana GmbH	Stuttgart, DE	100,00	
275	Ryle and De Lacy Pharmacies Limited	Dublin, IE	100,00	
276	S. E. BURGESS LIMITED	Glasgow, GB	100,00	
277	Sangers (Northern Ireland) Limited	Belfast, GB	100,00	
278	SANOVA Pharma GesmbH	Wien, AT	100,00	
279	Sapphire Primary Care Developments	Dublin, IE	100,00	
280	SATURA Grundstücks- und Verwaltungsgesellschaft mbH & Co. KG	Stuttgart, DE	0,00	2
281	SAVORY & MOORE (JERSEY) LIMITED	St. Helier, GB	90,00	
282	SAVORY & MOORE LIMITED	Coventry, GB	100,00	
283	SCHOLES (CHEMISTS) LIMITED	Coventry, GB	100,00	
284	SELBYS (SUSSEX) LIMITED	Coventry, GB	100,00	
285	Sheridan Distribution Services Ltd	Dublin, IE	100,00	
286	SOCIETE D`ETUDES ET DE REALISATIONS INFORMATIQUES	Monaco	99,75	

287	Sofarmex BVBA	BE	100,00	
288	SOLIHULL PHARMACY LIMITED	Coventry, GB	100,00	
289	SOLUSOFT	Saint Quen, FR	100,00	
290	SOPI Ballincollig Limited	Dublin, IE	100,00	
291	SOPI The Lough Limited	Dublin, IE	100,00	
292	SOPI Thurles Limited	Dublin, IE	100,00	
293	SOPI Youghal Limited	Dublin, IE	100,00	
294	ST MATTHEWS PHARMACY LIMITED	Coventry, GB	100,00	
295	STATIM FINANCE LIMITED	Coventry, GB	100,00	
296	STEPHEN SMITH LIMITED	St. Peter Port, GB	57,14	
297	SUMMITLANE LIMITED	Coventry, GB	100,00	
298	SUPERFIELD LIMITED	Coventry, GB	100,00	
299	T AND I WHITE LIMITED	Coventry, GB	100,00	
300	T. Sheridan Sales & Marketing	Amsterdam, NL	100,00	
301	TERRAPHARMA LIMITED	Coventry, GB	100,00	
302	THURNBY ROSE LIMITED	Coventry, GB	100,00	
303	TIRES Beteiligungs GmbH & Co. KG	Stuttgart, DE	0,00	2
304	Tjellesen Max Jenne A/S	Rodovre, DK	100,00	
305	Todin A/S	Rodovre, DK	100,00	
306	TRIDENT PHARMACEUTICALS LIMITED	Coventry, GB	100,00	
307	Unicare Dispensers 11 Limited	Dublin, IE	100,00	
308	Unicare Dispensers 12 Limited	Dublin, IE	100,00	
309	Unicare Dispensers 13 Limited	Dublin, IE	100,00	
310	Unicare Dispensers 16 Limited	Dublin, IE	100,00	
311	Unicare Dispensers 20 Limited	Dublin, IE	100,00	
312	Unicare Dispensers 21 Limited	Dublin, IE	100,00	
313	Unicare Dispensers 27 Limited	Dublin, IE	100,00	
314	Unicare Dispensers 5 Limited	Dublin, IE	100,00	
315	Unicare Dispensers 6 Limited	Dublin, IE	100,00	

316	Unicare Dispensers 8 Limited	Dublin, IE	100,00
317	Unicare Pharmacy Group Limited	Dublin, IE	100,00
318	USCITA LIMITED	Coventry, GB	100,00
319	VESTRIC LIMITED	Coventry, GB	100,00
320	VESTRIC PENSIONS LIMITED	Nuneaton, GB	100,00
321	Vitapharm, proizvodnja in trgovina farmacevtskih izdelkov d.o.o.	Murska sobota, SI	51,00
322	W A G GIBB LIMITED	Coventry, GB	100,00
323	W A STROYDE (CHEMISTS) LIMITED	Coventry, GB	100,00
324	W H CHANTER LIMITED	Coventry, GB	100,00
325	W H GREEN (CHEMISTS) LIMITED	Coventry, GB	100,00
326	W JAMIESON (CHEMISTS) LIMITED	Coventry, GB	100,00
327	W. HEDLEY HEWES LIMITED	Coventry, GB	100,00
328	WESTCLOSE LIMITED	Dublin, IE	100,00
329	WOODSIDE PHARMACY (GLASGOW) LIMITED	Glasgow, GB	75,00
330	WZ-WundZentren GmbH	Stuttgart, DE	100,00

III. Associates accounted for using the equity method

331	Brocacef Groep N.V.	Maarssen, NL			45	
332	HOLMSCROFT HC LIMITED	Greenock, GB			20,00	
333	Nensi d.o.o.	Ljubljana, SI			35	
334	SHC PHARMACY LIMITED	Edinburgh, GB			33,33	
335	SPRINGBURN DISPENSARY LIMITED	Glasgow, GB			25,00	
336	WROSE HEALTH CENTRE P.D. LIMITED	Keighley, GB			42,59	

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

337	ASHLEY HOUSE PLC	High Wycombe, GB	15	(4.178)	9,42	8
338	COMPANY CHEMISTS ASSOCIATION LIMITED	Milton Keynes, GB	-7	48	27,09	5
339	DATACARE Datenpflege des Pharmagroßhandels Ges.m.b.H.	Wien, AT	118	3	36,67	5
340	DATAPHARM	Paris, FR	85	47	38,89	3
341	GALEN PHARMACY LIMITED	South Shields, GB	32	1	18,00	5
342	GOVANHILL PHARMACY LIMITED	Glasgow, GB	2	64	13,40	7
343	KEIGHLEY HEALTH CENTRE LIMITED	Keighley, GB	219	24	16,67	7
344	SERVICE DE LA REPARTITION PHARMACEUTIQUE	Paris, FR	70	53	39,50	
345	Swindon Health Centre (Pd) Limited	Swindon, GB	301	57	14,83	7
346	TORRINGTON PARK HCC LIMITED	London, GB	146	102	4,00	6
347	VICTORIA PHARMACY LIMITED	Hartlepool, GB	98	0	7,32	4
348	W.H.C.P. (DUNDEE) LIMITED	Dundee, GB	136	98	13,70	8

1) This calculation fully takes into account shares held by dependent entities, even if the share of such an entity is less than 100%
2) Special purpose entity
3) Financial statement 30 April 2014
4) Financial statement 31 August 2015
5) Financial statement 31 December 2015
6) Financial statement 30 June 2016
7) Financial statement 31 March 2016
8) Financial statement 31 December 2016

In addition, there are also 51 further European pharmacy holdings.

Independent Auditor's opinion

We have audited the consolidated financial statements prepared by Celesio AG, Stuttgart/Germany - comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, and the notes to the consolidated financial statements - and the group management report for the year ended 31 March 2017 combined with the management report. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU, and German commercial law as complementarily applicable under Section 315a (1) German Commercial Code (HGB) is the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting requirements and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the consolidated group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Celesio AG, Stuttgart/Germany, comply with IFRS, as applicable in the EU, and German commercial law as complementarily applicable under Section 315a (1) German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the consolidated group in accordance with these regulations. The group management report is consistent with the consolidated financial statements, complies with the legal regulations and as a whole provides a suitable view of the consolidated group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 31 May 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

DR. CLAUS BUHLEIER	SVEN ILG
GERMAN PUBLIC AUDITOR	GERMAN PUBLIC AUDITOR

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The German version is legally binding.

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