Annual Report 2004

the healthcare group

celesio
the healthcare group

History

Founder	Franz Ludwig Gehe
Founded	1835 in Dresden
Core business	Pharmaceutical distribution and solutions
Head office	Stuttgart

Key financial figures 2004 (IFRS)

Revenue	€ 19.2 bn
Revenue growth	2.8 %* (3.2 % in €)
EBIT	€ 590.3 m
EBIT growth	20.3 %* (21.2 % in €)
Profit before tax	€ 495.1 m
Growth in profit before tax	25.3 %* (26.4 % in €)
Net profit	€ 339.2 m
Growth in net profit	26.1 %* (27.2 % in €)
Earnings per share	€ 3.95

Employees	32,246
Wholesale branches	122
Pharmacies	1,883

* In local currency

Group structure

Most important operational companies

Celesio Group

Celesio Wholesale

Revenue: € 15,838 m
Employees: 13,911
Branches: 122

France
OCP S.A.
Saint-Ouen

Revenue: € 6,939 m
Employees: 4,997
Branches: 52

Germany
GEHE Pharma Handel GmbH
Stuttgart

Revenue: € 3,422 m
Employees: 2,705
Branches: 19

United Kingdom
AAH PHARMACEUTICALS
LIMITED, Coventry

Revenue: € 3,057 m
Employees: 3,846
Branches: 19

Austria
Herba Chemosan Apotheker-AG
Vienna

Revenue: € 843 m
Employees: 820
Branches: 7

Belgium
PHARMA BELGIUM S.A.
Brussels

Revenue: € 409 m
Employees: 381
Branches: 8

Norway
NMD Grossisthandel AS
Oslo

Revenue: € 373 m
Employees: 402
Branches: 4

Portugal
OCP PORTUGAL, PRODUTOS
FARMACÊUTICOS, S.A., Maia

Revenue: € 307 m
Employees: 189
Branches: 6

Ireland
CAHILL MAY ROBERTS
GROUP LIMITED, Dublin

Revenue: € 235 m
Employees: 226
Branches: 3

Czech Republic
GEHE Pharma Praha,
spol. s.r.o., Prague

Revenue: € 133 m
Employees: 211
Branches: 3

Italy
AFM – S.P.A.
Bologna

Revenue: € 120 m
Employees: 134
Branches: 1

Celesio Pharmacies

Revenue: € 2,855 m
Employees: 17,604
Pharmacies: 1,883

United Kingdom
LLOYDS PHARMACY LIMITED
Coventry

Revenue: € 1,992 m
Employees: 13,167
Pharmacies: 1,381

Norway
Vitusapotek AS
Oslo

Revenue: € 330 m
Employees: 1,403
Pharmacies: 115

Italy
ADMENTA ITALIA S.P.A.
Bologna

Revenue: € 202 m
Employees: 771
Pharmacies: 162

Ireland
UNICARE PHARMACY LIMITED
Dublin

Revenue: € 114 m
Employees: 864
Pharmacies: 58

Netherlands
Lloyds Apotheken B.V.
Weesp

Revenue: € 104 m
Employees: 627
Pharmacies: 38

Belgium
Lloydspharma S.A.
Wavre

Revenue: € 73 m
Employees: 342
Pharmacies: 71

Czech Republic
Lékárny Lloyds s.r.o.
Prague

Revenue: € 39 m
Employees: 430
Pharmacies: 58

Celesio Solutions

Gross profit*: € 66.1 m
Volume of goods handled**: € 1.9 bn
Employees: 552

AVS Health Distribution

DEPOTS GENERAUX PHARMA S.A., Gonesse/France

SANOVA Pharma GesmbH, Vienna/Austria

FARILLON LIMITED, Romford/United Kingdom

Castlereagh Pharmaceuticals, Belfast/United Kingdom

CAHILL MAY ROBERTS GROUP LIMITED, Dublin/Ireland

NMD Grossisthandel AS, Oslo/Norway

SEUR PHARMA, S.A., Getafe/Spain

Realpol, a.s., Brno/Czech Republic

AVS Health GmbH, Stuttgart/Germany

* Commissions, net profit margins and service fees
** Total value of goods handled, based on the sale price, as part of the logistics and distribution activities

Content

How is the demography developing?

By Prof Dr Meinhard Miegel
Institut für Wirtschaft und Gesellschaft [Bonn Institute of Economics and Sociology registered association]

Over the last two hundred years, but particularly in the past century, people's living conditions have changed more fundamentally than in the previous 50,000 years of their history. This does not apply solely to the external conditions of their existence, such as the quantity of food available to them, their homes and transport options but also to humans themselves, as biological beings. A few statistics are given below to demonstrate this.

For around 99.5 percent of the history of man, only two generations ever lived at the same time: parents and their children. By the time children were fully mature, their parents had died. Grandparenthood was rare. Now, up to five generations may be living at the same time. Parents can, on the one hand, enjoy life with their children and grandchildren and, on the other hand, still have their own parents and grandparents around them. It is true that such five-generation families are still an exception but they are becoming more and more common.

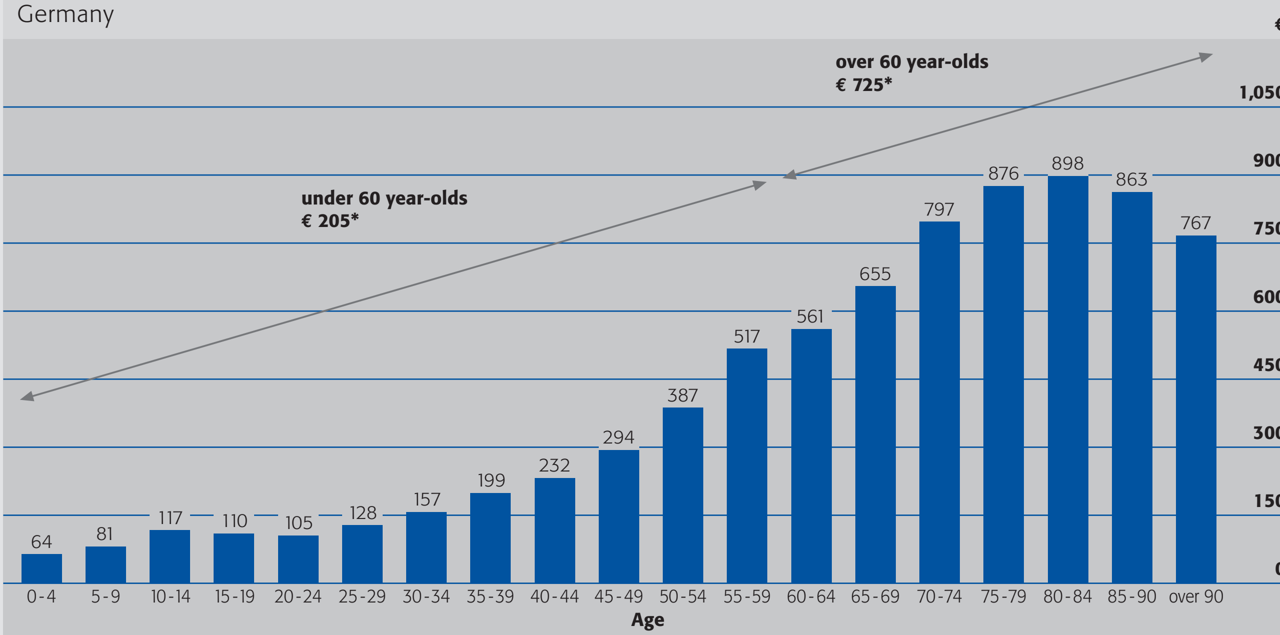
This is not surprising. Someone born a century ago in a country like Germany had an average life span of just 46 years. It is true that there was still a high level of infant mortality which contributed to this low average statistic. At the same time, however, the number of sixty and seventy year-olds was still very low even until the 1960's and 1970's. This meant only 17 percent of the German population were older than sixty and a mere two percent were older than eighty in 1960.

Life expectancy has doubled in a century

Since then, the number of elderly and old people has steadily increased. Now, around a quarter of Germany's population is over the age of sixty and one in twenty is over eighty. That is just the beginning. In about one generation's time, the proportion of people over the age of sixty is expected to be around 40 percent and almost one in eight will be older than eighty. The number of people over the age of ninety will more than treble from the current level of at least 500,000 to 1.7 million. A child born today is expected to have a life expectancy which is almost twice as high as that of a child born one hundred years ago.

0+

Medicine consumption by age group (per person) 2003
Germany



* Weighted average

Source: Wissenschaftliches Institut der AOK, GKV-Arzneimittelindex, July 2004

If the former reached, on average, the age of 46 years, a child born today can expect to reach the age of 80.

This trend is by no means limited to highly developed countries. Others, right across the board, are catching up. Even in the most underdeveloped countries, people are now living as long as people in Western Europe did in 1940 and the differences which still exist will have further dwindled by 2040. Europeans, Asians and inhabitants of the two Americas and Oceania will live to be around eighty years old, and only Africans will die slightly earlier.

Increasing life expectancy alone and not a higher fertility level is responsible for the fact that the population has practically exploded in just a few generations. Whereas in 1900 there were just 1.6 billion people living on earth, today there are around 6.3 billion, almost four times as many. By 2050, there will be just under 9 billion. Then, however, population growth will slow down and come to a complete standstill by 2070. Birth rates are dropping almost everywhere and often below replacement levels. At the same time, the number of old people all over the world is increasing rapidly. For example, by 2050, the world population will have a similar age structure to the population in Germany today.

Effective medicine determines life expectancy

If we look for the reasons for this continually increasing life expectancy, it doesn’t take long to find the answers. For the first seventy years of life, the external living conditions which have already been mentioned – improved nutrition and housing, clean drinking water and generally more hygienic conditions – are crucial. Medical care is also more effective, whether this is for infectious diseases or accidents. During old age, this medical care becomes more and more important, particularly for those aged eighty and older. Just a few decades ago, only the fittest would reach such an age. Yet in the future, thanks to more and more effective medicine, almost everyone will reach the age of eighty, many will reach ninety and a significant number will reach the age of one hundred.

9+

20+

This will not change for the foreseeable future. As long as people strive to live as long as possible, they will, in many cases, only achieve this goal with the aid of medicine. Each one of us can test that out by asking ourselves: 'Would I still be alive without the help of modern medicine?' With advancing age, the answer to this question has to be 'no' more and more often. In other words, the proportion of those who are only alive thanks to medical progress increases sharply in an elderly population. Medicine has thus become a mainstay of existence in today's societies.

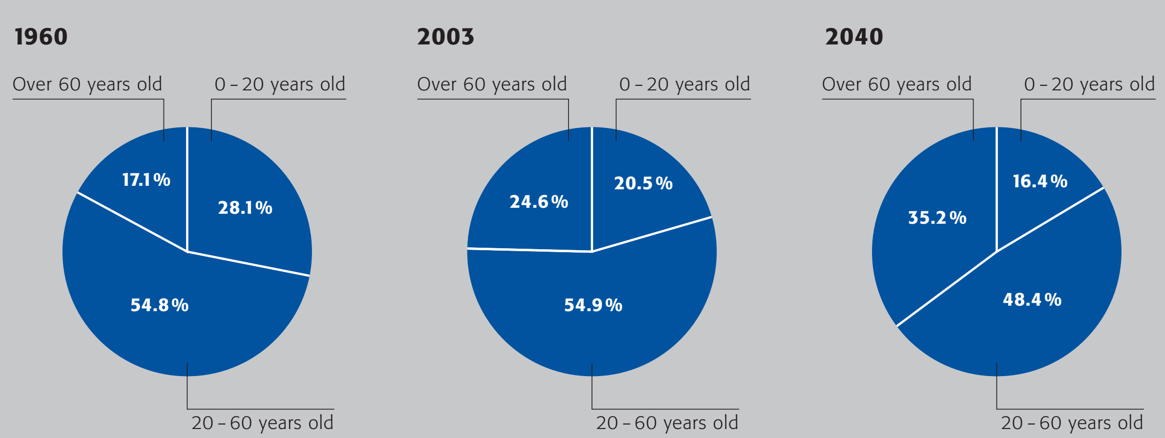
Demography is a growth driver for the pharmaceutical market.

40+

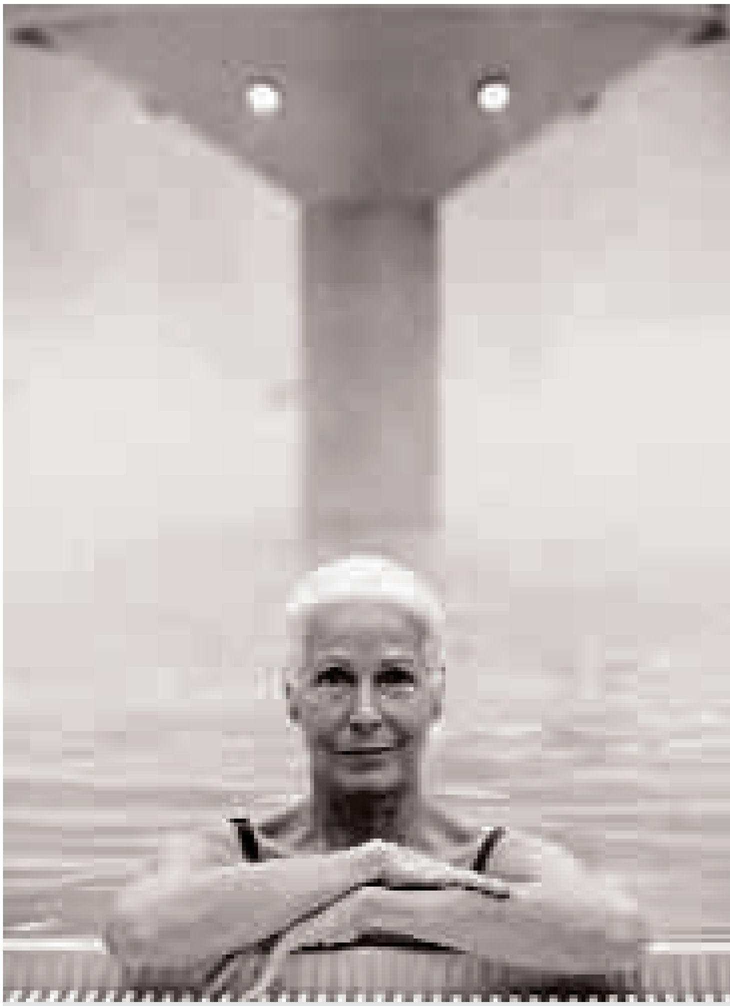
60+

The share of people over sixty years old will almost double.
This leads to an exponential demand for medicines.

Age structure of population
Germany

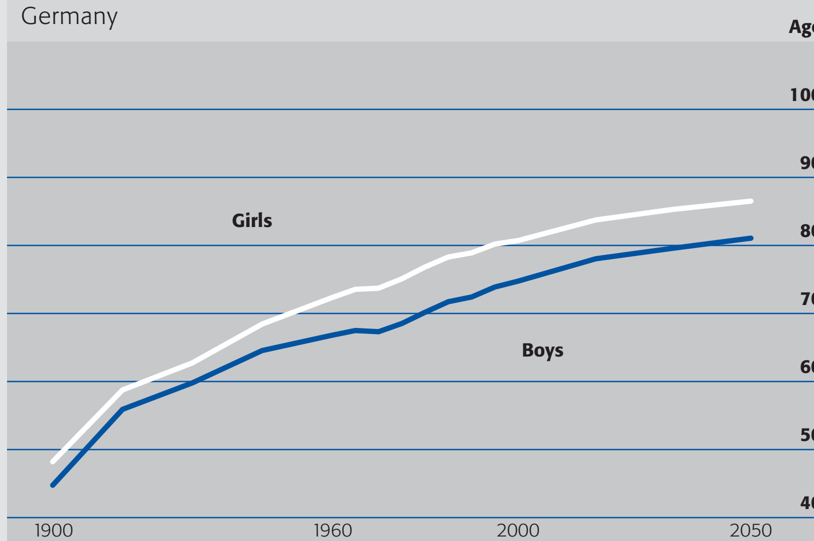


Source: Statistisches Bundesamt, Bevölkerung Deutschlands bis 2050. 10. koordinierte Bevölkerungsvorausberechnung, June 2003



70+

Development of age expectancy of newborn
Germany



Source: Statistisches Bundesamt, Bevölkerung Deutschlands bis 2050.
10. koordinierte Bevölkerungsvorausberechnung, June 2003

The healthcare market is a continuous growth market due to continuously increasing life expectancy.

90+

Highlights of 2004

- Combining logistics and distribution services for pharmaceutical manufacturers under the name of *AVS Health Distribution* as part of the new division Celesio Solutions. European expansion of these activities through acquisition of SEUR PHARMA/Spain, Realpol/Czech Republic, Sanalog/Germany and – subject to approval by the UK competition authority – Healthcare Logistics/United Kingdom.
- First wholesale acquisitions in South East Europe: acquisition of a shareholding in Kemofarmacija/Slovenia, Pharmafarm/Romania, Unipharm/Croatia and Medika/Croatia.
- Acquisition of the Portuguese pharmaceutical wholesale business, Soquifa-Medicamentos.
- NMD Grossisthandel wins tender to supply the majority of Norwegian hospitals until the end of 2007.
- Commitment model of GEHE Pharma Handel successfully launched on the German market with about 2,500 participating pharmacies and more than 25 industry partners.

Letter to Shareholders

Dr Fritz Oesterle
Chairman of the
Management Board
and Chief Executive Officer

Dear Shareholders

Celesio is moving forward: in the 2004 fiscal year we continued rising to the challenges presented by the markets in a consistent and creative fashion. Business development was extremely successful, demonstrating that Celesio is operating in an attractive market and has the right strategy. Pre-tax profit increased in 18th year in succession, and rose significantly by 25.3 %. We have started to set up a European business model for manufacturer-oriented logistics and distribution services. With our entry into the Slovenian, Romanian, Croatian and Spanish markets we have established a broader geographical basis. We have also strengthened our social responsibility, and therefore put more emphasis on our socio-political expertise. All this demonstrates what Celesio is about and what Celesio stands for: a company that is moving forward.

"Celesio: a company that is moving forward."

The pharmaceutical market – a growth market

"People are making the most of medical advances and investing more in their health."

By being active in the pharmaceutical market, Celesio is involved in one of the major growth markets of the future. Demographic development is one of the most important factors driving its growth. Someone born in Germany one hundred years ago, for example, had an average life expectancy of just 46 years. Since then, life expectancy has steadily increased. A child born in Germany today is expected to live to be almost twice as old as a child born a century ago. The proportion of older people will increase in the future. Furthermore, the demand for medical care increases significantly during old age. The over sixty's age group, for example, spends, on average, more than three times as much on medication as those under the age of sixty. Medical progress, the second factor driving the growth of the pharmaceutical market, makes a crucial contribution to the steadily increasing number of older people – as Prof Meinhard Miegel, Head of the Institut für Wirtschaft und Gesellschaft Bonn e.V. [Bonn Institute of Economics and Sociology registered association], states in his article on pages 2 to 11 of this annual report. Medical innovations enable us to live increasingly longer and healthier lives. In addition, people are making the most of medical advances and investing more in their health.

Celesio covers the entire spectrum of the pharmaceutical market and therefore does not depend on the success of a single medication. Instead, we can rely on a market which will grow as a whole in the long-term.

Growth through service provision

"We are developing our logistics and distribution services for pharmaceutical manufacturers as part of the new Celesio Solutions division to create a range of pan-European service offerings."

Through its European pharmaceutical wholesale and pharmacy business, Celesio has far-reaching knowledge of the entire pharmaceutical supply chain – from the pharmaceutical manufacturer to the doctor and pharmacist right to the patient. We make use of this experience and have been acting as a reliable partner to pharmaceutical manufacturers in various countries for over a decade by carrying out activities that do not form part of their core business. These include, for example, the distribution of medicines on behalf of the manufacturer, storage and stock management, order acceptance and processing, payment management for manufacturers and providing support during the approval processes and when launching medications on the market. This is an attractive sector for Celesio because it is a growth area which is largely unregulated by state authorities, it allows Celesio to tap into new geographical markets, and it enables us to diversify our activities and therefore our risks without abandoning our core market, the pharmaceutical market.

Because we want to meet the growing need of the pharmaceutical industry for solutions for the whole of Europe provided from one source, in 2004 we started to develop pan-European logistics and distribution services for pharmaceutical manufacturers, as part of the new Celesio Solutions division, and combine them under one common umbrella name.

Following the acquisition of SEUR PHARMA, a company which specialises in distributing healthcare products, Celesio is for the first time active in the Spanish market. We have also significantly strengthened our new Solutions division with the acquisition of Healthcare Logistics in the United Kingdom, Sanalog in Germany and Realpol in the Czech Republic. The acquisition of Healthcare Logistics is subject to approval by the UK competition authority. We are looking forward to working with the employees of these new Celesio companies and to jointly develop a range of pan-European services. The acquired companies could, however, hardly contribute to Celesio's economic success in the 2004 fiscal year. The larger acquisitions, Healthcare Logistics and Sanalog, will make an economic impact in the 2005 fiscal year.

We have developed and expanded our pan-European range of services for pharmaceutical manufacturers not only by making acquisitions but also by bringing together our national businesses which we have already been operating for several years. With these measures and with acquisitions we are settting the course for future growth, and are on the way to becoming Europe's leading services partner in the pharmaceutical market.

The importance the Celesio Solutions division will have in our group in the future is underlined by the fact that we are reporting on this division separately for the first time. In previous years we have reported on these existing activities, which now belong to this new division, as part of our pharmaceutical wholesale activities. However, the changed presentation of the content of our annual report 2004 is not just due to the fact that we are reporting separately on Celesio Solutions. We are reporting on 2004 in accordance with the international IFRS regulations for the first time, i.e. the regulations of the International Accounting Standards Board, instead of the accounting regulations of the Handelsgesetzbuch [German Commercial Code].

”Profit improved in comparison with the previous year in 18th year in succession.”

Group profit grows by 25.3 %

With the results for the 2004 fiscal year and growth in pre-tax profit of 25.3 %, after adjustment for exchange rate effects, we have once again not only exceeded the prior year’s profit – in the operational business in 18th year in succession – but improved it significantly. Particularly noteworthy is the fact that we achieved this excellent growth in profit without any significant extraordinary impacts, and despite the fact that our group revenue only grew – due to the weak development of some pharmaceutical markets in 2004 – by 2.8 %.

As in previous years, our pharmacy business made a disproportionately large contribution to this very positive growth in profit. The clear improvement in profit against the background of comparatively weak growth in revenue demonstrates that Celesio is in a good strategic position.

Presence in European pharmaceutical wholesaling expanded

Part of our overall strategy continues to be the expansion of not only our pharmacy business, but also of our leading position in European pharmaceutical wholesale where and whenever this is possible. This was clearly demonstrated by our various acquisitions at the end of 2004. We have strengthened our position in Portugal with the acquisition of Soquifa-Medicamentos, and are now on an equal footing with that company which has been leading in the Portuguese pharmaceutical wholesale market until now. With the acquisition of shareholdings in Kemofarmacija, Pharmafarm, Unipharm and Medika we have also been operating in the Slovenian, Croatian and Romanian wholesale market since the end of 2004. Kemofarmacija and Medika are the leading companies in their markets.

Capital markets recognise development

With an increase in the price of Celesio shares of over 50 % in the year 2004, the capital markets have also rewarded Celesio’s positive economic development. In view of the relatively modest share price development of prior years, despite the positive growth in profit, this is good news for shareholders and motivating for all Celesio employees.

Clear statements on healthcare policy

Healthcare is a highly relevant topic in the socio-political arena. Throughout Europe, politicians are considering the question of how healthcare systems can be reformed and their performance assured in the long term. We are involved in this political debate through our work and our close cooperation with GIRP, the European association of pharmaceutical wholesale companies, as well as with authorities in Brussels and the European Parliament, amongst others. This means we are able to observe and assess the differences in healthcare policy across Europe. At the same time, we bring our expertise to the political debate, and use it to make our contribution to a reliable healthcare policy that serves the citizens of Europe. We also make our own position clear at a national level.

"We bring our expertise to the political debate, and use it to make our contribution to a reliable healthcare policy that serves the citizens of Europe."

In the interests of the people, we call on the elected politicians and decision-makers, involved in defining healthcare policy, to make clear and unambiguous statements and suitably constructive decisions. Just like the citizens, we need a reliable framework in the future within which we can apply and use our company's creative power and further develop our business with vision and flexibility.

Partner to the economy and active member of society

Celesio recognises its socio-political and social responsibilities. This fits in with our tradition and our understanding of how our entrepreneurial activities and behaviour affect customers, employees, shareholders and society as a whole. Celesio does not only see itself as a partner in the economy, but also as part of and an active member in society. This is why, in 2004, alongside the numerous existing activities of our group companies, we have intensified our dialogue with decision-makers in society and strengthened our social commitment. An excellent example of this is our cooperation, agreed in November 2004, with *Ärzte für die Dritte Welt* [Doctors for Developing Countries], an organisation whose aim is through long-term medical help to save lives and help people.

"Offering those who are ill the chance to lead healthy lives originates from our understanding of our social commitment and corporate responsibility."

Offering those who are ill the chance to lead healthy lives originates from our understanding of our social commitment and corporate responsibility. We demonstrate this in a very tangible way in Europe: from the thousands of drugs available, we deliver the right medication to the patient in the shortest space of time, safely and cost-effectively. Every day our 122 wholesale branches make more than 100,000 deliveries of medicines. Daily, our almost 1,900 pharmacies serve more than 500,000 patients and do more than just dispense medicine. They are all-round healthcare service providers: they offer advice on medication and health-related issues, and many of our pharmacies carry out a range of different health tests, such as diabetes and cholesterol screening.

In carrying out these activities our employees in Europe, who number more than 32,000, accept social responsibility as part of their daily work. The fact that we see social responsibility in an expanding Europe as a corporate duty, means that we will further develop the trust in Celesio as a company that these activities have created. We will use our experience, abilities, hearts and minds to fulfil this obligation. There is no better investment in the future.

Company management with responsibility

"Celesio introduced regulations for responsible corporate management many years ago."

Celesio introduced regulations for responsible corporate management many years ago. The compiled recommendations in the German Code of Corporate Governance on the management and monitoring of German companies listed on the stock exchange, drawn up in 2002, confirmed to us that we were on the right track. For the first time, we have drawn up the group financial statements for the 2004 fiscal year in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board as stipulated in the code, and not in accordance with the Handelsgesetzbuch [German Commercial Code]. Celesio complied with the recommendations of the German Code of Corporate Governance in the version dated 21 May 2003 with two exceptions: Celesio did not publish the payments made to the members of the management board and supervisory board individually. Both boards are collegiate bodies, therefore only the total sum of payments made to the management board or the supervisory board is relevant and not the payments made to the individual members.

Meeting challenges with vision, flexibility and commitment

"We will continue Celesio's successful track record on the basis of our growth strategy, responsible company management and awareness of our social responsibility."

I would like to thank all our employees for everything we have achieved. It is only thanks to their performance, commitment and motivation that we were able to achieve our excellent results in the past and, above all, in 2004. I would like to thank our customers and partners for their constructive cooperation which has been the basis of our successful business. I would also like to thank you, dear shareholders, for the trust you have invested in us. I am particularly delighted that in the course of 2004, we were able to increase the value of your shares by more than 50 %.

With its business development in 2004, Celesio is continuing to move forward. We will rise to meet the challenges of the years ahead with vision, flexibility and commitment. On the basis of our growth strategy, responsible company management and awareness of our social responsibilities, I can assure you, dear shareholders, that we will do everything within our power to continue Celesio's successful track record.

Stuttgart, February 2005
The management board

Dr Fritz Oesterle
Chairman of the Management Board
and Chief Executive Officer

Management board

Dr Fritz Oesterle
Chairman of the
Management Board,
Chief Executive Officer and
Personnel Relations Officer

Jacques Ambonville
Celesio Wholesale

Stefan Meister
Celesio Pharmacies

Dr Felix A Zimmermann
Chief Financial Officer, since 1 June 2004

People's health is the focus of our entrepreneurial business activities

Supervisory board

Prof Theo Siegert
Duisburg
Chairman, since 29 April 2004

Günther Hülse
Duisburg, until 30 November 2004
Chairman until 28 April 2004

Ihno Goldenstein
Delmenhorst
Vice-Chairman

Klaus Borowicz
Delmenhorst

Prof med Julius Michael Curtius
Weimar

Dr Hubertus Erlen
Berlin

Dirk-Uwe Kerrmann
Weiterstadt

Jörg Lauenroth-Mago
Magdeburg

Ulrich Neumeister
Stuttgart

Hans-Martin Poschmann
Berlin

Dr Ihno Schneevoigt
Munich

Dr Klaus Trützschler
Duisburg, since 23 December 2004

Prof Erich Zahn
Stuttgart

Prof Theo Siegert
Chairman of the Supervisory Board

Report from the supervisory board

In 2004 Celesio consistently strengthened its position in European wholesale and in the pharmacy sector, and further developed its range of logistics and distribution services for pharmaceutical manufacturers, as part of the new business division Celesio Solutions. The supervisory board has overseen all important decisions and developments in the 2004 fiscal year which has, once again, been very successful.

The management board and supervisory board have worked closely together again in the 2004 fiscal year in the spirit of good corporate governance. The supervisory board has discussed the strategic orientation of the group with the management board. The members were provided with regular, up-to-date and extensive information by the management board with regard to business development, planning, the risk situation and risk management. The supervisory board has closely overseen all important projects and their implementation. The supervisory board was able to fulfil its supervisory and advisory duties to its full extent and make the necessary decisions.

The Chairman of the Supervisory Board kept in regular contact with the management board, in particular the Chairman of the Management Board, and discussed with him the strategy, business development and risk management at Celesio AG and within the group. He was informed promptly about important events that are of key significance for assessing the situation and development as well as for the management of the group. Important information that the Chairman became party to outside the supervisory board meetings was disclosed in detail to the entire committee at the next meeting.

Four ordinary meetings of the supervisory board and one extraordinary meeting took place in the 2004 fiscal year. The supervisory board gathered comprehensive information and discussed the strategy and planned activities in the field of manufacturer-oriented services. The members looked painstakingly at the consequences of legislative measures in important Celesio countries. Another important topic was the conversion of the consolidated financial statements to International Financial Reporting Standards (IFRS). Decisions were largely made on acquisitions and investments in information technology projects. Furthermore, compliance with the stipulations of the German Code of Corporate Governance was monitored. Important issues in this respect were the review of the efficiency of the supervisory board and the annual update of the declaration of conformity in accordance with § 161 AktG [Aktiengesetz: German Stock Corporation Law].

The supervisory board formed three committees. The arbitration committee formed in accordance with § 27 Paragraph 3 of the Mitbestimmungsgesetz [Co-determination Law] did not meet during the year under review. The audit committee and the staff committee each held two meetings. The chairmen of the committees provided the supervisory board with regular reports on the work carried out by the committees.

The financial statements of Celesio AG and the consolidated financial statements for the year ended 31 December 2004 and the joint management report for Celesio AG and the group have been reviewed by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart and have been awarded an unqualified audit certificate. These documents and the auditor’s audit reports were made available to all members of the supervisory board and were dealt with extensively at the balance sheet meeting of the supervisory board following on from the auditor’s report. The supervisory board had no objections to raise to the final result of the audit. On the recommendation of the audit committee, the supervisory board approved the result of the audit as well as the financial statements of Celesio AG and the consolidated financial statements produced by the management board. The financial statements have therefore been signed off. The proposal as to the appropriation of the profit available for distribution has been reviewed by the supervisory board and it is in agreement with this.

With regard to the majority shareholding held by Franz Haniel & Cie. GmbH, Duisburg in the year under review, the management board presented the supervisory board with the report concerning relationships with affiliated companies for the 2004 fiscal year in accordance with § 312 AktG and the related audit report drawn up by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart as the auditor in accordance with § 313 of the AktG. Based on the audit which was completed without objections, the auditor awarded the following audit certificate:

”Following our audit and assessment in accordance with our obligations we confirm that

1. the factual information given in the report is correct,
2. with regard to the legal transactions detailed in the report, payments by the company were not unduly high.”

The supervisory board has checked and approved the report on the relationships with affiliated companies and the related audit report on this. The supervisory board has no objections to the concluding statement of the management board contained in this document.

On 28 April 2004, Mr Günther Hülse resigned as Chairman of the Supervisory Board for health reasons. On 29 April 2004 the supervisory board elected Prof Theo Siegert as the new Chairman of the Supervisory Board. Mr Hülse was only able to attend one meeting and therefore fewer than half of the meetings in the fiscal year. Mr Hülse died on 30 November 2004. The news of his unexpected death, despite his serious illness, came as a great shock to the company and the members of the supervisory board. Mr Hülse had been a member of the Celesio AG supervisory board since 1998. As Chairman of the Supervisory Board he had helped shape the development of the Celesio Group with his human, understanding and always open manner, and contributed to the new orientation of the group. Mr Hülse always showed great commitment to the interests of the Celesio employees. Celesio is greatly indebted to him for this.

On 23 December 2004, Dr Klaus Trützschler was appointed by the local court of Stuttgart as the new shareholder representative in the Celesio AG supervisory board in place of Mr Hülse.

Dr Felix A Zimmermann was appointed by the supervisory board as Chief Financial Officer of Celesio AG with effect from 1 June 2004.

Conflicts of interest among supervisory board or management board members did not occur.

The supervisory board wishes to thank the management board and all Celesio Group employees for the work they have carried out and the commitment they have shown.

Stuttgart, March 2005
On behalf of the supervisory board

Siegert

Prof Theo Siegert
Chairman of the Supervisory Board

Corporate governance

Celesio has long been creating structures for responsible, company management aimed at long-term growth, not just since the general political and public discussion. The management and supervisory boards of Celesio have been working closely together for a long time in the interest of the company and with the aim of increasing the long-term value of the company. For years, Celesio has attached great importance on a regular, open and up-to-date information policy. Shareholders, financial and capital markets, customers, employees and the public trust the company's management and supervision, and recognise its quality.

The requirements for the management of German companies listed on the stock exchange were defined in 2002 in the German Code of Corporate Governance. The code includes important legal regulations as well as recommendations and suggestions for the management and supervision of companies. It contains nationally and internationally recognised standards for sound and responsible company management. It aims to make German company management structures more transparent to investors from Germany and abroad and, in so doing, increase their trust in companies. The management and supervisory boards of Celesio support the code and the aims it pursues. Both boards have dealt with the code intensively in 2004.

Shareholders and annual general meeting

The reports and documents requested for the annual general meeting, including the annual report, were sent to shareholders upon request and were available at the annual general meeting on 29 April 2004. They were also made available on the website www.celesio.com as of 19 March 2004 where they could be viewed and downloaded by anyone interested. During the annual general meeting, both the introduction given by the Chairman of the Supervisory Board, Prof Siegert, and the speech made by the Chairman of the Management Board and Chief Executive Officer, Dr Oesterle, were broadcast over the internet. Two employees assisted the shareholders as proxies. Celesio also provides its shareholders with up-to-date information outside the annual general meeting through interim reports which are produced on a quarterly basis.

Cooperation between the management board and the supervisory board

The management board and the supervisory board of Celesio work closely together. They decide on the strategic direction of the Celesio Group and regularly review the progress of the strategy's implementation. The management board provides the supervisory board with up-to-date and comprehensive information on all issues relevant to the company, in particular, planning and business development.

Management board

The management board's remuneration includes fixed and variable components. The variable component depends on the agreed targets being met. Subsequent amendments of the agreed targets are not possible.
The basic principles of the remuneration system are shown on the website www.celesio.com and on pages 169 to 170 of the annual report.

Corporate governance

Supervisory board

The meetings of the supervisory board are prepared by the Chairman of the Supervisory Board. The Chairman is also the Chairman of the staff committee. In order to increase the efficiency of its work, the supervisory board has formed an audit committee in addition to the staff committee. The supervisory board checks the efficiency of its activities at regular intervals. At the last audit no significant need for improvement was established.

Transparency

Celesio provides up-to-date and detailed information to its shareholders and other interested persons on its website www.celesio.com. The company promptly publishes on its website any ad-hoc releases which it is required to make public in accordance with the WpHG [Wertpapierhandelsgesetz: Securities Trade Act] as well as all new facts financial analysts or similar groups of people have made them aware of. Furthermore, Celesio gives timely notice of the dates of significant events and publications, such as the annual report or the interim reports, on its website.

Financial statements and audit

For the first time in the 2004 fiscal year, Celesio has drawn up its group financial statements on the basis of International Financial Reporting Standards, as required by the German Code of Corporate Governance.

Celesio complied with the recommendations of the German Code of Corporate Governance in the version dated 21 May 2003 with two exceptions. Celesio did not publish the payments made to the members of the management board and supervisory board individually. As both boards are collegiate bodies, only the total sum of payments made to the management board and the supervisory board is relevant and not the payments made to the individual members.

Further information on the subject of corporate governance at Celesio is available at www.celesio.com. This includes the following declaration of conformity dated 1 January 2005 which the management board and the supervisory board issued pursuant to § 161 of the Aktiengesetz [German Stock Corporation Law].

Celesio AG is conforming to the recommendations of the German Code of Corporate Governance produced by the government commission in the version dated 21 May 2003 with the following exceptions:

Remuneration of the members of the management board are shown in the notes to the consolidated financial statements, divided into a fixed remuneration, performance related components and components that are intended as a long-term incentive. The details are not given for each individual member (section 4.2.4, sentence 2).

In the notes to the consolidated financial statements, remuneration of the members of the supervisory board is not disclosed for each individual member but as a total amount (section 5.4.5, paragraph 3, sentence 1).

Since last year's declaration was issued in accordance with § 161 of the German Stock Corporation Law, Celesio AG has complied with the recommendations of the German Code of Corporate Governance produced by the government commission in the version dated 21 May 2003 with the following exceptions:

Celesio AG will produce its consolidated financial statements from 2004 and the interim reports as of the first quarter of 2005 in accordance with International Financial Reporting Standards (IFRS) (section 7.1.1, sentence 3).

Remuneration of the members of the management board is shown in the notes to the consolidated financial statements, divided into a fixed remuneration, performance related components and components that are intended as a long-term incentive. The details have not been given for each individual member (section 4.2.4, sentence 2).

In the notes to the consolidated financial statements, remuneration of the members of the supervisory board has not been disclosed for each individual member but as a total amount (section 5.4.5, paragraph 3, sentence 1).

The management board

The supervisory board

Key financial figures: 10-year overview

in € m	HGB regulations 1995	*1996	1997	1998
Revenue	9,794.5	10,954.4	12,800.6	12,966.6
% increase	26.0	11.8	16.9	1.3
EBIT	220.4	247.5	332.7	341.3
Profit before tax	171.5	198.7	231.6	252.1
Net profit	108.1	122.6	145.8	155.8
Earnings per share	1.43	1.65	1.97	2.12
Dividend per share in €***	0.51	0.51 + 0.15	0.66	0.66
Cash flow	213.7	226.0	233.6	248.7
Non-current assets****	1,360.1	1,011.2	1,965.0	1,844.9
Shareholders' equity	1,060.9	1,100.1	1,204.1	1,155.3
Long-term capital	1,631.4	1,242.4	2,311.7	2,065.9
Total assets	3,170.2	2,914.1	4,212.8	4,114.6
% of total assets Non-current assets****	42.9	34.7	46.6	44.8
Shareholders' equity	33.5	37.8	28.6	28.1
Long-term capital	51.5	42.6	54.9	50.2
Investments	486.9	143.7	890.7	207.5
Number of employees	21,203	18,545	25,722	28,724

* Adjusted for extraordinary result
** Adjusted for mail order division and extraordinary result
*** Based on respective number of shares outstanding
**** HGB regulations: fixed assets

HGB regulations						IFRS regulations	
1999	**1999	2000	*2001	2002	2003	2003	**2004**
13,923.0	13,607.8	15,344.7	16,971.0	18,383.4	18,539.6	18,558.5	**19,152.6**
7.4	10.9	10.2	10.6	8.3	0.8	–	**3.2**
344.0	311.1	361.4	399.5	435.6	455.8	486.9	**590.3**
260.9	230.0	255.5	292.1	343.6	373.8	391.8	**495.1**
183.8	146.1	171.5	201.3	239.6	254.0	266.7	**339.2**
2.50	1.99	2.33	2.72	2.90	2.93	3.10	**3.95**
0.70 + 0.07	0.625 + 0.07	0.77	0.77 + 0.08	0.85	0.90	0.90	**1.20**
249.0	226.2	255.0	291.6	350.2	358.0	367.1	**433.3**
1,867.9	1,867.9	2,020.6	2,320.4	2,334.0	2,206.6	2,656.5	**2,713.1**
1,185.1	1,185.1	1,153.2	1,220.6	1,639.7	1,609.0	1,695.0	**1,951.9**
1,967.5	1,967.5	2,169.9	2,506.7	2,590.9	2,175.7	2,436.7	**2,990.4**
4,352.5	4,352.5	4,506.4	5,241.8	5,509.6	5,500.8	6,398.0	**6,531.1**
42.9	42.9	44.8	44.3	42.4	40.1	41.5	**41.5**
27.2	27.2	25.6	23.3	29.8	29.3	26.5	**29.9**
45.2	45.2	48.2	47.8	47.0	39.6	38.1	**45.9**
271.2	269.6	334.5	548.4	392.6	276.6	282.4	**178.4**
27,209	27,209	27,753	30,816	32,007	32,594	32,594	**32,246**

Celesio Shares

The Celesio share: an attractive investment

- The share price grew by over 50 % in the year 2004
- 35.9 million shares traded
- Over 25 analysts from renowned banks
- 13 roadshows in 9 countries
- Participation in 7 international investment conferences
- Around 150 individual and group discussions
- Around 190,000 visitors to the website

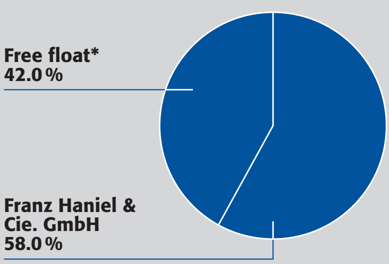
the healthcare group

Celesio Shares

The shareholders have benefited directly from the successful development of Celesio's business in 2004 with a significant rise in the share price. The share price rise in 2004 confirmed the expectation of an above-average growth in the value of the Celesio shares.

Free floating stock up slightly

Shareholder structure



* Including Celesio employees

In the 2004 fiscal year the shareholder structure changed only slightly. Celesio AG's free floating stock was 42.0 % of share capital at the end of the fiscal year. Franz Haniel & Cie. GmbH was still Celesio AG's principle shareholder with a holding of 58.0 %. Members of staff, including former employees and retired staff, held a 1.1 % share of Celesio AG. These shares are part of the free floating stock and were acquired in the context of employee share programmes. In the 2004 fiscal year, 2,142 employees (including retired employees) bought 19,128 shares. Celesio has been promoting this form of asset building among its employees with contributions amounting to € 8.7 m since 1985.

Celesio shares are listed in important indices

Based on the market capitalisation of the free floating stock, on 30 December 2004, Celesio ranked among the largest securities on the MDAX. With a weighting of 3.67 %, the company was in seventh place. At the same time, Celesio's weighting in the MSCI Germany Index (Morgan Stanley Capital International) was 0.44 %. In line with its socio-political and social commitment, Celesio is also included in important sustainability indices, for example, in the Dow Jones Sustainability World Index (DJSI-World) and in the FTSE4Good Europe.

Key financial figures for the Celesio share	HGB regulations				IFRS regulations	
in € per share	2000	2001	*2002	2003	2003	**2004**
Earnings	2.33	2.72	2.90	2.93	3.10	**3.95**
Dividend	0.77	0.77+0.08	0.85	0.90	0.90	**1.20**
Dividend with tax credit (not rounded up)	1.10	**0.85	**0.85	**0.90	**0.90	****1.20**
EBIT	4.96	5.48	5.36	5.36	5.72	**6.94**
Cash flow	3.50	4.00	4.31	4.21	4.32	**5.09**
Shareholders' equity	15.82	16.74	20.16	18.92	19.93	**22.95**
Share price (30.12.)***	40.75	43.50	37.10	38.45	38.45	**59.84**
Number of shares outstanding (30.12./in m)	72.9	72.9	85.1	85.1	85.1	**85.1**
Market capitalisation (30.12./in € m)	2,970.7	3,171.2	3,155.4	3,270.2	3,270.2	**5,089.4**

* Weighted average of number of shares
** Without tax credit due to change to the half-income system
*** Last trading day

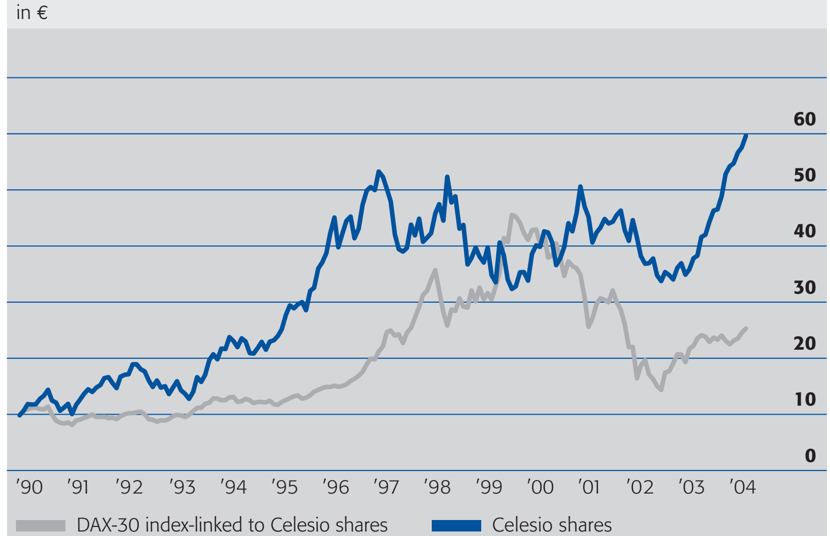
Celesio Shares

Market capitalisation exceeds € 5 bn for the first time

The great interest in Celesio and the development of its business is reflected in the increased free floating stock and an increased volume of trading in its shares. In 2004, 35.9 million shares were traded, 57.4 % more than the prior year. Furthermore, on 17 November 2004, the Celesio shares achieved market capitalisation of over € 5 bn for the first time in the company's history.

The closing share price at the end of 2003 was € 38.45. Over the course of the year 2004 the share price fluctuated between € 39.30 and € 61.90. On 30 December 2004, the share price was € 59.84 and market capitalisation was € 5.1 bn. The share price therefore rose by 55.6 % within one year. By comparison, the DAX grew by 7.3 % and the MDAX by 20.3 %. The long-term performance of the share price also reflects the attractiveness of the Celesio shares. Over the last 15 years, Celesio shares have been performing significantly better than the DAX.

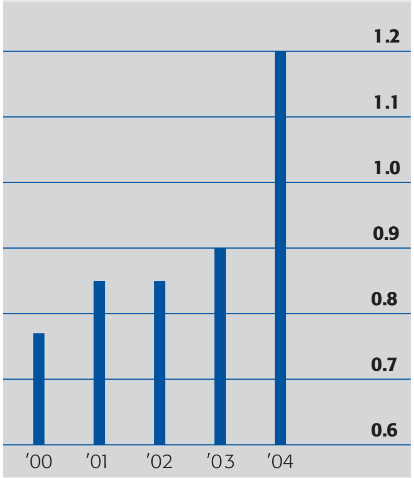
Performance of Celesio shares
in €



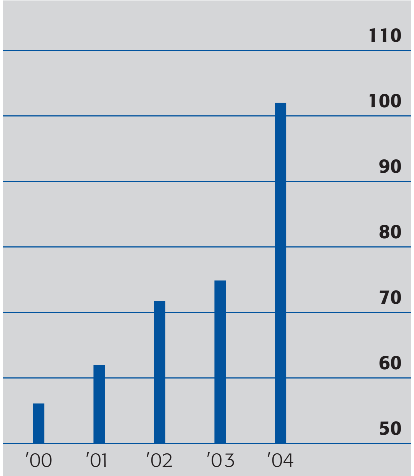
Significantly increased dividend for shareholders

The management and the supervisory boards will propose to the annual general meeting that the cash dividend for the 2004 fiscal year be raised from € 0.90 per share to € 1.20. This is the equivalent of an increase of 33.3 %. Celesio is therefore continuing its long-term dividend policy and is allowing its shareholders to benefit directly from the good performance of the business in 2004 with a dividend rate of 30.1 % of the net profit. This corresponds to a total dividend of € 102.1 m.

Cash dividend per share
in €



Dividend value
in € m



Celesio Shares

Investor relations prize for excellent financial communication

Intensive communication with private shareholders, institutional investors and analysts is the focus of investor relations activities at Celesio. In 2004 the company was awarded third place in the prestigious *Investor Relations Awards* awarded by the magazine *Capital* for its excellent financial communication.

Celesio provided information on business development and current developments in the group using a variety of media and events. For example, on the company website www.celesio.com up-to-date information such as the share price, company presentations or dates in the financial calendar is available. Around 190,000 visitors accessed the Celesio website in 2004.

Institutional investors and analysts were informed about the company's strategy and business development at approximately 150 meetings held as either one-to-one meetings or group discussions, at seven international investment conferences and 13 roadshows in over nine European countries and in North America. The Celesio analysts and investor conference took place in March 2004 in London. Over 40 institutional investors and analysts had the opportunity to put questions directly to the management board. Celesio also developed its creditor relations activities, its communication with lending banks. Its most important event in this connection was the second *Celesio International Bankers Day*, which took place in June 2004 in Mainz, Germany, and was attended by representatives of 38 banks.

On the occasion of the first *Site Visit Day* in October 2004 Celesio invited institutional investors, bank representatives and analysts to a tour of the company's operations. At a wholesale branch and in several pharmacies, participants were given a broad insight into the operational business and the positioning of Celesio in the British market.

In the 2004 fiscal year more than 25 analysts followed the performance of the company. They provided the capital markets with information about the performance of the business and assessed the Celesio shares in regularly published reports. The large number of analysts reporting on Celesio, illustrates the continuous interest in the company from capital markets.

Celesio Group

Growth market healthcare

- Celesio Wholesale
- Celesio Pharmacies
- Celesio Solutions
- 12 countries
- 9 languages
- 32,246 employees

the healthcare group

Dr Fritz Oesterle
Chairman of the
Management Board
and Chief Executive Officer

Management report for the Celesio Group and Celesio AG 2004

Corporate strategy

Celesio's strategy is dependent on an environment which is characterised by the development of growing healthcare markets, new market situations and the expansion of the European Union. Celesio meets the challenges constructively, creatively and with vision. The strategic pillars of this are the concentration of entrepreneurial activities in the pharmaceutical market, continual geographical expansion as well as expansion in new business sectors relating to medicines, and the smooth integration of companies Celesio has acquired. A more intense dialogue with politicians and decision-makers in the field of healthcare and socio-politics, intensive internal and external communications and the continual training of employees are all becoming increasingly important for the successful implementation of the strategy.

Expansion of the core business

People's health is the focus of Celesio's entrepreneurial business activities. Daily, the company's Wholesale division makes around 100,000 deliveries of medication to pharmacies thus ensuring that all drugs which are needed are available at the right time. The pharmacies belonging to Celesio's Pharmacies division serve over 500,000 customers every day and assist them with advice on all health matters.

Celesio's core business is focused on the European pharmaceutical market. In the past few years, Celesio has continually increased its presence in both existing and new markets through acquisitions and organic growth, and has expanded its range of services for traditional customer groups, pharmacies and patients, as well as for new customer groups, in particular, pharmaceutical manufacturers.

Corporate strategy

Together with its pharmaceutical wholesale and pharmacy business, services relating to medicines and for the various participants in the market, i.e. for different customer groups, is set to be an important area of growth for Celesio. Logistics and distribution services, which are increasingly in demand by the pharmaceutical industry, for example, is a field which is becoming more important for Celesio. Basic and tailor-made services for pharmaceutical manufacturers, and cooperation with them, as part of the new Celesio Solutions division, is of independent strategic importance in addition to the importance of the Wholesale and Pharmacies divisions.

Celesio developed its services for pharmaceutical manufacturers in 2004, as part of the new Celesio Solutions division, by combining the range of individual logistics and distribution services in the different countries and by expanding geographically through acquisitions where the company was not yet represented as a service provider. On this basis a European network offering pharmaceutical manufacturers a range of services from one contact was created. The services that Celesio offers pharmaceutical manufacturers range from basic pharmaceutical logistics and storage as well as warehouse, order and payment management to tailor-made sales and distribution solutions. By using Celesio as an external service partner, pharmaceutical manufacturers are able to reduce their own administrative costs, make use of the benefits of economies of scale and concentrate on their own core competencies.

With its three business divisions, Wholesale, Pharmacies and Solutions, Celesio will offer an extensive range of services on all levels of the supply chain throughout Europe. Already today, Celesio counts consumers, pharmacists and pharmaceutical manufacturers among its customers. In the medium and long-term Celesio, with its Solutions division, is intending to address other participants in the pharmaceutical market as new customer groups.

Strengthening Celesio's market position in existing and new markets

Celesio's leading position in the European healthcare market is the result of continual growth in existing and new markets, and of the company's presence on all levels of the supply chain. This growth process is of strategic importance for Celesio. This is how Celesio is able to operate on different levels of the supply chain and in numerous markets which are liberalised or state-regulated to various degrees. This means Celesio is able to cushion effects at group level that arise from changes in the law or statutory measures in individual markets. Furthermore, Celesio profits from synergy effects and economies of scale within and between the business divisions. Ultimately, having the broadest possible geographical presence enables Europe-wide business models to be developed. This European business model is often based on processes, structures and service profiles that have already proven to be effective in some countries.

In addition to efficiency and profitability considerations, other factors play a role in the expansion of Celesio. Celesio uses the opportunity for geographic expansion provided that the target countries are economically and politically stable, the new markets offer potential for the company to gain a strong market position and the target companies are transparent and are managed competently.

When strengthening its market position in 2004, Celesio focused on the development of a European business model for logistics and distribution services for pharmaceutical manufacturers. Celesio expanded its activities in this area with acquisitions in Germany (Sanalog), Spain (SEUR PHARMA), the Czech Republic (Realpol) and – subject to approval by the UK competition authority – the United Kingdom (Healthcare Logistics). Its activities in the field of logistics and distribution services also allows the group to operate in countries in which it would otherwise at present be unable to expand its wholesale and pharmacy business due to the current legal or economic conditions. A good example of this is the acquisition of SEUR PHARMA. This acquisition means that Celesio is represented in the Spanish pharmaceutical market for the first time.

Corporate strategy

Celesio also strengthened its presence in the wholesale sector. In Portugal, the company purchased the regional pharmaceutical wholesaler Soquifa-Medicamentos and, in so doing, has achieved approximately the same position as the company which had hitherto been the market leader. When the company acquired holdings in the pharmaceutical wholesalers Kemofarmacija, Pharmafarm, Unipharm and Medika it entered the Slovenian, Romanian and Croatian markets. Kemofarmacija and Medika are market leaders in their respective markets.

Continual improvement of efficiency continued to be of strategic importance in 2004 in the existing Celesio wholesale business.

The Celesio Pharmacies division strengthened its position in the European pharmacy market with attractive locations. It is of particular strategic importance that we achieve the size critical for a chain of pharmacies as quickly as possible in all countries in which Celesio is represented by its own pharmacies. Of great importance for the operational business is the correct positioning and location of the existing pharmacies as well as those yet to be acquired. A very important aspect of this is not only the proximity of pharmacies to doctors' surgeries, i.e. to the people prescribing medication, but also the custom-made range of products and services offered by a pharmacy in its respective environment. The cross-national exchange of experience and expertise is also of essential operational and strategic importance to the success of the Celesio Pharmacies division. This is the only way to identify examples of best practice within the division in the individual countries, and then transfer them to other countries where appropriate.

Smooth integration benefits Celesio and the companies it acquires

Rapid and smooth integration of new companies into the group is crucial to the success of every acquisition. When Celesio acquires a company it preserves the culture, individuality and the identity of that company. Changes are only made where these are really necessary and if the affected companies and employees have been made aware of the situation.

The integration process is a two-way process. Both Celesio and the company it has bought have to profit from it. Only through smooth integration is it possible to maintain a company's customer relations and consequently the value of the acquired company. Ultimately every acquisition and integration process must result in an individual company that is better positioned, the strengthening of the business divisions and thus the sustained increase of the value of Celesio.

Corporate strategy

More dialogue, intensive communication and employee training

Celesio relies on various instruments to implement its basic strategic principles, these being the expansion of its core business, the widening of activities in existing and new markets and the integration of the companies it acquires as a means of adding value. One of these instruments which is becoming increasingly important is the intensive dialogue the company fosters with the political sphere and the relevant institutions and decision-makers in the field of health and within society. Through dialogue, Celesio is active in helping to shape the healthcare policy environment and campaigns for a long-term secure health service in the interest of the company, its employees, its shareholders and society. Celesio does this on a national and a European level where the company is involved primarily as part of GIRP, the European Association of Pharmaceutical Wholesalers. It is important to Celesio that it is able to contribute its specialist knowledge of the European health markets to the discussion and help to ensure that clear political decisions are made. Not only the public requires an objective discussion. Industry and commerce also need clear statements which create a framework within which companies can plan and use their creative powers.

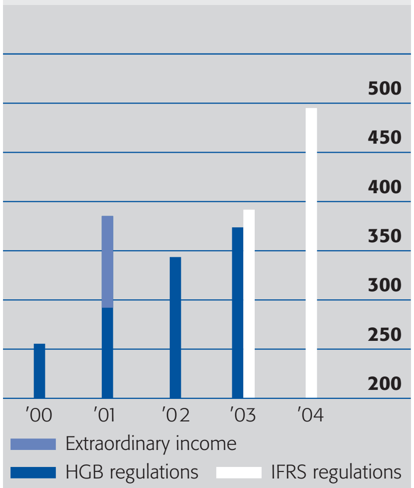
In addition to the socio-political dialogue, open, topical and credible communication with the outside world and within the company is essential. Celesio can only achieve its strategic objectives if it is seen to be a reliable partner. A key requirement for creating a credible image of the company and its employees, is cross-national communication within the company. Employees who receive the right information on a regular basis are motivated, more productive and feel part of the company as a whole. Not only does internal communication need to make the strategy of the Celesio Group clear, it also has to make employees aware of the strategy of individual business divisions. This was the case in September 2004, for example, when a conference attended by representatives from all national companies was held for the Celesio Pharmacies division.

Only comprehensive internal communication allows an effective exchange of information and the use of experiences made at local or national levels throughout the group. Exchange of information and experience, for example, at regular meetings of managers in the *Executive Boards* of each of the individual divisions and at meetings of those responsible for departments within the operational companies, as well as continual training of employees are therefore a third important instrument in achieving the strategic objectives of Celesio. Knowledgeable and experienced employees are not only in a much better position to adjust to changed market situations, such employees are also better able to recognise the opportunities that arise from changed market situations for their immediate area of responsibility, their company, their division and ultimately the Celesio Group as a whole. Only with the commitment, support and expertise of the people who work for Celesio will the group be able to implement its strategy successfully and continue its growth.

Business review

In the 2004 fiscal year, Celesio increased revenue and profit, and continued on its course for growth. Revenue increased by 2.8 % in local currency (3.2 % in €) compared with the prior year and, at 25.3 % (26.4 % in €), profit before tax increased even more strongly. An improved gross profit ratio, consistent cost management, operational improvements in all divisions and the high organic growth of Celesio Pharmacies contributed to this positive growth.

Profit before tax
Celesio Group
in € m



Celesio on course for growth

Group revenue increased by 2.8 % in local currency (3.2 % in €) and reached € 19.2 bn. Excluding extraordinary items, group revenue would have increased by 3.6 % (4.0 % in €) after adjustments for exchange rate effects. The extraordinary items primarily consisted of a shift in revenue to the end of 2003 as a reaction to the healthcare reform in Germany and reporting changes in connection with distribution agreements in the Norwegian wholesale business, which, however, had no effect on profit.

Celesio increased revenue in its Wholesale division in local currency by 1.8 % (2.0 % in €) and in its Pharmacies division by 6.8 % (7.7 % in €). Taking extraordinary items into account, the Wholesale division grew in line with the comparable market and the Pharmacies division clearly outperformed the market. The Solutions division also showed positive growth. However, growth in revenue as such in this division is less significant as a benchmark. This is because agreements with customers are generally based on service fees or commission and only occasionally margin. Revenue for this division therefore hardly includes trade revenue. The gross profit, resulting from service fees or, commission revenues and partly margin from trade revenue, therefore serves as a key benchmark for the division Celesio Solutions. In addition to gross profit, the value of goods handled on behalf of pharmaceutical manufacturers also serves as a benchmark with regard to growth of the logistics and distribution services for pharmaceutical manufacturers, as part of Celesio Solutions. This figure increased by 22.6 % in local currency (23.4 % in €). The gross profit of Celesio Solutions increased by 10.1 % in local currency (10.1 % in €).

The group's pre-tax profit increased by 25.3 % in local currency (26.4 % in €) and reached € 495.1 m. Growth in pre-tax profit in the division Celesio Pharmacies was significantly higher than this, with an increase of 39.2 % in local currency (40.9 % in €). Profit before tax in the division Celesio Wholesale increased by 14.0 % in local currency (14.5 % in €). In the division Celesio Solutions, profit before tax was below prior's year figure by 3.7 % (3.2 % in €).

Revenue generated outside of Germany made up 82.1 % of the group revenue for the 2004 fiscal year, compared to 81.2 % in 2003.

Market presence strengthened through acquisitions and the opening of new pharmacies

In addition to Celesio's organic growth, acquisitions and the opening of new pharmacies in 2004 have also helped to strengthen Celesio's presence in Europe.

Alongside the wholesale acquisitions in Portugal, Slovenia, Romania and Croatia, which will be included in the group financial statements in the 1st quarter 2005, and the acquisitions in the field of pharmaceutical logistics and distribution, Celesio acquired a total of 29 pharmacies in the United Kingdom, Ireland, Norway, the Netherlands and Belgium. Furthermore, 16 pharmacies were opened in the United Kingdom, Italy, Norway, Ireland and the Netherlands. As part of ongoing location optimisation, Celesio disposed of 44 pharmacies, of which 26 were sold or closed as part of the restructuring of the Czech pharmacy business. At 31 December 2004, Celesio's portfolio of pharmacies consisted of 1,883 pharmacies in attractive locations in seven European countries.

Business review

Consolidated financial statements successfully adapted to comply with International Financial Reporting Standards

For the first time, Celesio is publishing its 2004 annual report based on International Financial Reporting Standards (IFRS), instead of on the German HGB [*Handelsgesetzbuch*: German Commercial Code]. In so doing the company is complying with the stipulations of the European Union, which envisages a complete transition to IFRS by the 2005 fiscal year at the latest. At the same time, in implementing this transition, Celesio is complying with the stipulations of the German Stock Exchange and the German Code of Corporate Governance.

As required under IFRS, Celesio adopted IFRS reporting standards on 1 January 2003 and adapted its consolidated financial statements for the 2003 fiscal year to comply with these. This means that corresponding values from the prior year can be compared with the consolidated financial statements for 2004. The notes to the consolidated financial statements contain reconciliations from the HGB to IFRS for profit for 2003 and the shareholders' equity at the beginning and end of 2003 as well as relevant explanations (see pages 124 to 127 of this annual report).

The transition to IFRS leads, in comparison to HGB, to slightly higher pre-tax profit. The omission of scheduled amortisation of goodwill under IFRS has contributed significantly to this. Furthermore pension obligations, provisions and valuation adjustments of current assets are treated differently under IFRS than under HGB, thereby impacting on the disclosure.

Total assets have increased primarily due to the capitalisation of leased assets and sale of receivables. Due to the need to evaluate pension obligations under IFRS, pension provisions increased at the time of the transition.

There was a one-off fall in shareholders' equity at the time of the transition, largely due to the standard treatment of pension obligations and derivative financial instruments under IFRS. In combination with the increase in total assets, this leads to a lower equity ratio under IFRS at the time of the transition. Over time, shareholders' equity and the equity ratio will develop more positively under IFRS than it did under HGB. At 31 December 2004, despite higher total assets in comparison to HGB, the equity ratio was, at 29.9 %, already above the level it would have been under HGB. This is due to goodwill no longer being amortised on a scheduled basis under IFRS. The transition to IFRS also leads to disclosure changes as regards the balance sheet and the income statement, but with no effect on pre-tax profit. As the previous year's figures are published in accordance with IFRS, they are comparable with the figures of 2004.

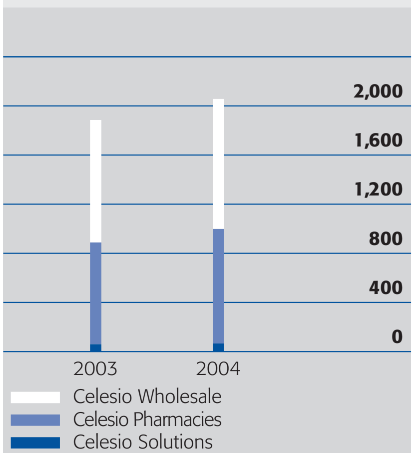
Income statement reflects increased profitability

The income statement for the 2004 fiscal year reflects a further improvement in profitability. The gross profit margin and return on sales, based on EBIT and pre-tax profit, reached a high level once again. All divisions contributed to this positive development.

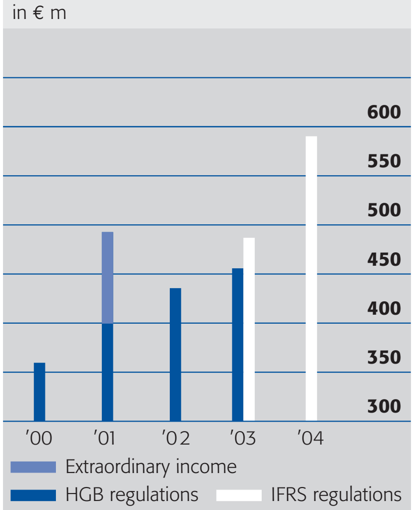
As regards revenue, the division Celesio Pharmacies outperformed the market and the division Celesio Wholesale grew in line with the market. The increasing importance of Celesio Pharmacies, with its higher gross profit margin but greater cost intensity, impacts also the other items on the income statement. The revenue of the division Celesio Solutions consists of revenue from sales of merchandise, commission revenues and service fees. Depending on the composition of its revenue, this figure fluctuates over time which, as a rule, does not have any impact on the development of gross profit for the division.

Business review

Gross profit
Celesio Group
in € m



EBIT
Celesio Group
in € m



The gross profit of the group increased by 8.5 % (9.1 % in €), after adjustments for exchange rate effects, to € 2,056.7 m. All three divisions contributed to this. The group's gross profit ratio increased by 58 basis points to 10.74 %. Celesio Wholesale increased its gross profit ratio by 25 basis points to 6.67 %. Celesio Pharmacies, in particular, contributed to the group's higher gross profit ratio with an increase of 142 basis points to 32.69 %. The proportion of gross profit from the Celesio Pharmacies division in the group's gross profit increased to 45.4 % (44.0 % in the prior year). The gross profit ratio of Celesio Solutions is not so relevant as a benchmark due to the composition of revenue (sales of merchandise, commission revenues and service fees), which fluctuates over the period under review. Gross profit for this division increased by 10.1 % in local currency (10.1 % in €).

Other income increased by € 22.1 m to € 145.6 m. Advertising costs subsidies and earnings from data sales showed positive development.

Personnel expenses increased more strongly than revenue to € 969.6 m. This is due to the increased importance of the staff-intensive pharmacy business. As opposed to HGB, costs for contract workers are now also included in personnel expenses. Under HGB, these were included in other expenses.

Earnings from the holding in Andreae-Noris Zahn AG, Frankfurt, were largely responsible for the increase in net income from investments.

EBIT increased by 20.3 % in local currency (21.2 % in €) to € 590.3 m. Alongside the significant improvment in gross profit, sustainable cost management also contributed to this disproportionate increase. Return on sales, based on EBIT, rose in the group by 46 basis points to a high level, once again, of 3.08 %. All divisions contributed to this development.

Amortisation of intangible assets and depreciation of property, plant and equipment were at the level of the previous year. Under IFRS, scheduled amortisation of goodwill is no longer permitted. In the course of the annual impairment test required by IFRS, Celesio's goodwill proved to be fully recoverable. Correspondingly, there was no need to record any impairment losses.

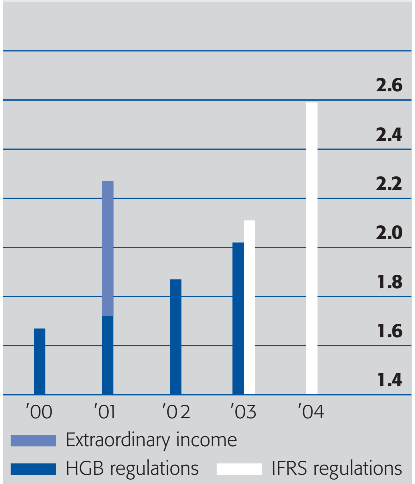
Interest result remains unchanged. The interest coverage (EBIT in relation to interest result) increased from 5.12 to 6.20.

Higher gross profit and consistent cost management led to a disproportionate increase in pre-tax profit by 25.3 %, (26.4 % in €), after adjustments for exchange rate effects. At 2.59 %, in comparison to 2.11 % in the prior year, return on sales, based on profit before tax, reached a high level once again. The division Celesio Wholesale improved its return on sales by 22 basis points to 2.08 % and the division Celesio Pharmacies improved its return on sales by 169 basis points to 7.17 %. Pre-tax profit in Celesio Solutions decreased by 3.7 % in local currency (3.2 % in €). Profitability of this division on the basis of pre-tax profit in relation to gross profit was, at 28.59 %, below the prior years level by 391 basis points.

Income taxes increased by € 30.7 m to € 155.9 m as a result of the higher profit. The tax ratio fell to 31.5 % in comparison to 31.9 % in the prior year. The higher proportion of profit from countries with lower tax rates played an important role in this reduction.

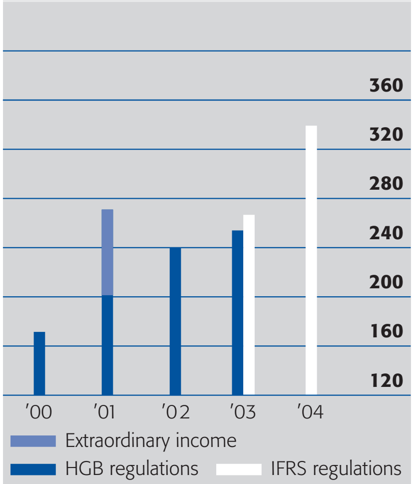
Correspondingly, net profit increased by 26.1 % in local currency (27.2 % in €) to € 339.2 m. Earnings per share reached € 3.95 in comparison with € 3.10 in the previous year.

Return on sales*
Celesio Group
in %



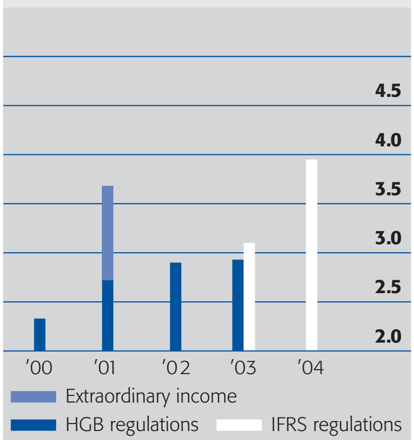
* Based on profit before tax

Net profit
Celesio Group
in € m



Business review

Earnings per share Celesio Group
in €



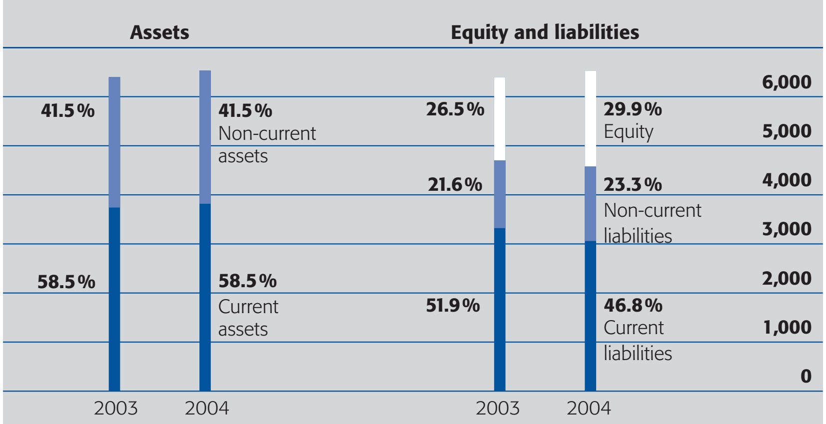
Further improvement in the financial position – equity ratio at 29.9 %

At 31 December 2004, Celesio improved its financial position. The equity ratio was 29.9 %. The financing structure was further diversified. With a gearing of 0.96 %, Celesio is in an excellent position for financing further growth.

Total assets increased by € 133.1 m. The increase in total assets is largely due to higher goodwill and higher current assets. Exchange rate fluctuations on the balance sheet date had little impact.

At 31 December 2004, non-current assets were € 56.7 m over the previous year's value. Depreciation and amortisation totalled € 93.5 m. € 7.9 m of this was accounted for by intangible assets and € 85.6 m by property, plant and equipment. At € 178.4 m, investments exceeded amortisation and depreciation. All investments made in the operating business were financed from the cash flow. Acquisitions were also financed from the cash flow.

Structure of balance sheet Celesio Group
in € m and %



Deviating from HGB, deferred tax assets are shown in the non-current assets due to their long-term nature.

At 31 December 2004, the value of current assets was € 76.4 m higher than the prior year's value. Inventories were, as is usual for the season, built up at the year end in order to ensure deliveries could take place, in particular in wholesale. Revenue in December 2004 was lower than the exceptionally high revenue in December 2003. Correspondingly, inventories were above the prior year's level, and trade receivables were lower than on 31 December 2003. An increase in other assets is largely due to increased receivables from the industry in the form of bonuses and discounts.

Net working capital increased by € 7.6 m at 31 December 2004. Adjusted for exchange rate effects, they increased by € 1.6 m.

Business review

Net working capital Celesio Group	31.12.2003 in € m	**31.12.2004 in € m**	**Change in € m**
Inventories	1,408.8	1,447.3	38.5
Trade receivables	2,155.3	2,133.3	(22.0)
Trade payables	1,783.4	1,844.1	60.7
	1,780.7	**1,736.5**	**(44.2)**
Other operating assets	256.2	291.8	35.6
Other operating liabilities	855.7	839.5	(16.2)
Net working capital	**1,181.2**	**1,188.8**	**7.6**
Adjusted for non cash items			
Exchange rate effects			(6.0)
Change in the scope of consolidation			(2.9)
Other non cash items			(3.2)
Net cash flow from change in net working capital			**(4.5)**

Shareholders' equity increased for the year ended 31 December 2004 by € 256.8 m to € 1,951.9 m. Net profit of € 339.2 m was counteracted by dividend payments of € 76.5 m. Minority interests decreased by € 4.0 m. The equity ratio stood at 29.9 % in comparison to 26.5 % in the prior year.

Liabilities decreased by € 123.7 m to € 4,579.3 m. The ratio of non-current liabilities to total liabilities increased in the year ended 31 December 2004.

Liabilities Celesio Group	2003 in € m	**2004 in € m**
Financial liabilities	1,997.3	**1,832.9**
Pension provisions	154.6	**132.7**
Trade payables	1,783.4	**1,844.1**
Other liabilities and provisions	767.7	**769.6**
Total	**4,703.0**	**4,579.3**

At € 1,832.9 m, non-current and current financial liabilities at 31 December 2004 were € 164.4 m lower than in the prior year. Within the financial liabilities, the financing structure was diversified for the benefit of non-current liabilities in the 2004 fiscal year by issuing additional promissory notes totalling € 182.6 m.

Pension provisions decreased as of 31 December 2004 by € 21.9 m. This is largely due to pension obligations being increasingly financed over external pension funds. At the end of the fiscal year, pension provisions made up 2.0 % of the total assets, and the expenditure on old-age pensions including interest expenses made up 2.7 % of personnel expenses.

Trade payables, at € 60.7 m, were slightly up on the previous year. Other liabilities and provisions hardly increased as of 31 December 2004 compared with the prior year.

Business review

Investments in the expansion of the business

In 2004 Celesio invested a total of € 178.4 m. The fact that fewer acquisitions were made in the Pharmacies division was the main factor leading to a reduction in investments compared with the previous year. The total investment volume was divided into € 93.1 m of investments in the operating business and € 85.3 m in acquisitions and the opening of new premises in the Wholesale, Pharmacies and Solutions divisions.

The investments were offset by payments from the disposal of assets and from the sale of companies totalling € 25.5 m. Taking additions from finance leases and liquidity acquired as part of acquisitions into account, a net cash flow of € 161.6 m results.

Celesio invested € 64.7 m in the Wholesale division, € 80.9 m in the Pharmacies division, € 12.7 m in the Solutions division and € 20.1 m in Celesio AG. Besides investing in acquisitions and the opening of new premises, the main focus of investments was, as in previous years, investment in property, plants and equipment.

Investments Celesio Group	2003 in € m	**2004 in € m**
Celesio Wholesale	83.4	**64.7**
Celesio Pharmacies	150.6	**80.9**
Celesio Solutions	2.8	**12.7**
Others	45.6	**20.1**
Total	**282.4**	**178.4**

In the Wholesale division, the focus of investments in the operating business was on the construction and modernisation of branches. In France, the wholesale branches in Atton and Witry-lès-Reims were opened. In the United Kingdom, Germany, France, Austria and Ireland, projects are underway to modernise branches and increase their efficiency. Investments were made in information technology to further improve operations at the branches and introduce a new stock management system in Norway.

As in previous years, the majority of operating investments in the Pharmacies division were made in the refurbishment and modernisation of pharmacies. Another priority was the continued development of IT systems in our pharmacies. With the acquisition of 29 pharmacies and the opening of 16 new pharmacies, Celesio strengthened its chain of pharmacies in the United Kingdom, Italy, Norway, Ireland, Netherlands and Belgium.

In the Solutions division, the pre-wholesaling branch in Gonesse, France, was opened. In the United Kingdom, France, Ireland and Austria operating investments were made to increase capacity and improve efficiency. In the Solutions division the companies SEUR PHARMA/Spain and Realpol/Czech Republic were acquired.

Investments made by Celesio AG largely related to the shareholdings in Medika/Croatia and Kemofarmacija/Slovenia and the refurbishment of the group head office.

Business review

Investments financed from cash flow

In 2004, Celesio achieved a cash flow of € 433.3 m. This is equivalent to an increase of 17.2 % in local currency (18.0 % in €). Celesio's profitable growth, as seen in increasing gross profit and sustainable cost management, brought about this positive development.

Cash flow Celesio Group	2003 in € m	**2004 in € m**
Cash flow	367.1	433.3
Dividends paid	(72.9)	(77.4)
Cash flow after dividends paid	**294.2**	**355.9**
Income from the disposal of non-current assets	31.8	23.4
Investments in the operating business	(111.2)	(93.1)
Free cash flow before acquisitions and change in net working capital	**214.8**	**286.2**
Change in net working capital	(125.1)	(4.5)
Acquisitions and new openings	(171.2)	(85.3)
Others	27.2	(6.5)
Free cash flow	**(54.3)**	**189.9**

Investments in the operating business in the 2004 fiscal year were financed entirely from the cash flow of € 355.9 m which remained after the payment of dividends for the 2003 fiscal year. After financing the change in the net working capital and acquisitions, free cash flow amounted to € 189.9 m in comparison to minus € 54.3 m in the prior year.

Celesio AG's financial statements

Celesio AG's financial statements reflect its activities as a management holding.

Total assets at the end of the fiscal year had increased by € 221.0 m to € 2,226.2 m. Important factors in this increase were capital increases of affiliated companies, the acquisition of further shareholdings in affiliated companies and the acquisition of equity investments.

Celesio AG's net profit amounted to € 79.8 m in comparison to € 117.7 m in 2003. The profit available for distribution of € 102.1 m results from the net profit for the year, retained earnings brought forward of € 3.6 m and a withdrawal from revenue reserves. The profit available for distribution is to be proposed as a dividend and paid out.

Dividend proposal: plus 33.3 %

At this year's annual general meeting, the management board and supervisory board propose to distribute an ordinary dividend of € 1.20 per share for the 85.05 m no par-value full dividend-bearing shares in 2004.

The proposed dividend is 33.3 % higher than the prior year's payout. Once again, about 30 % of the group's net profit is to be paid out to Celesio AG's shareholders.

Forecast

The pharmaceutical market is a market of the future. Demographic development and medical progress are the growth drivers. Celesio covers the entire spectrum of the pharmaceutical market and does not therefore depend on the success of a single medication. The pharmaceutical market therefore offers Celesio attractive and long-term growth prospects. Celesio addresses the challenges and opportunities of the market with vision, flexibility and commitment, and expects further growth in the pharmaceutical markets in Europe in 2005.

Demographic development and medical progress are growth drivers

Demographic development has a significant influence on the growth of the pharmaceutical market. People are living increasingly longer lives. Demographers expect that in the future, there will be a disproportionately large increase in the number of older people. Medical progress, the second growth driver in the pharmaceutical market, is largely responsible for this. On average, older people consume significantly more medications than younger people. It is statistically proven that people in the over sixty age group use over three times as many pharmaceutical products as people in the under sixty age group. Medical innovations ensure that the group of those who require a disproportionately large amount of medicines grows at an above-average rate. Prof Meinhard Miegel, Head of the *Institut für Wirtschaft und Gesellschaft Bonn e.V.* [Bonn Institute of Economics and Sociology, registered association], has referred to the relationship between medical innovation and demographic development, in his article which is printed on pages 2 to 11 of this annual report.

Attractive pharmaceutical market

With its three divisions in the pharmaceutical market, Celesio has a broad basis for doing business. The company today offers an extensive range of services for patients, pharmacists and pharmaceutical manufacturers in 15 countries, including the new markets Slovenia, Croatia and Romania. As none of Celesio's three divisions is dependent on any one particular drug, the company participates through each of them in the long-term growth of the pharmaceutical market. This means that all business divisions possess long-term growth potential, albeit to differing degrees. The division Celesio Wholesale will – without acquisitions – grow in line with the comparable market. For the division Celesio Pharmacies organic growth is expected to grow ahead of the market also in 2005. For its pharmaceutical logistics and distribution services – the first business unit of the new division Celesio Solutions – the company is anticipating growth in the medium-term to be disproportionately strong, due to the fact that it operates in a European market that is little consolidated and that has not yet reached full maturity. Celesio anticipates the European pharmaceutical market to grow by about 5 % in 2005.

In assessing the growth prospects, however, market changes and statutory measures that are also set to be made in a whole series of countries in 2005, need to be taken into account. This is particularly the case for United Kingdom, where a general price reduction for prescription medicines agreed between pharmaceutical manufacturers and the government is in force since 1 January 2005. The effects of these changes and statutory measures cannot yet be fully predicted. One thing that is certain, however, is that they will affect growth of profit for 2005, and therefore a growth rate of pre-tax profit on a par with that in 2004 cannot be expected. Celesio will meet the challenges of the year 2005 with the same creativity and flexibility as it has done in the past. Based on this, the management board is very optimistic about 2005 and is expecting – despite the high benchmark of 2004 – profit to be very good again in 2005 and clearly exceed profit of the year 2004.

Risk management

All entrepreneurial business activities are bound up with risks. To ensure that these are recognised, assessed and documented at an early stage, and are therefore dealt with in a consistent manner, Celesio uses effective management and control systems throughout the group. These are based on common guidelines. The risk management system is a part of the whole planning, management and reporting process in all relevant operational companies and central areas. It is outlined in a standard group guideline which was updated once again in the year under review.

All significant risks have been documented in a risk map which is reviewed and updated on a regular basis. According to the management board, Celesio will cope with all risks that arise from its business activities in the future.

Broad risk diversification

Celesio operates in markets that are liberalised or state regulated to differing degrees. Changes in the law can – as is typical for the industry – have negative effects on the profit situation of market participants and unsettle the markets. Celesio is able to counterbalance such effects at group level since its business activities are today spread across 15 countries, including the new markets Slovenia, Croatia and Romania, and three divisions, each on a different level of the supply chain. With its division Celesio Solutions, the company operates in a field that, in contrast to the pharmaceutical wholesale and pharmacy market, is not directly affected by state regulations. This contributes to risk diversification.

Careful investigations before acquisitions and investments

Strengthening Celesio's market position and expanding its business activities requires acquisition and investment decisions to be made. Celesio considers the risks that are associated with these decisions through feasibility investigations, careful forecasts, simulations of various scenarios, extensive due diligence investigations into the acquisition objects and multi-level approval processes.

Hedging financial market risks

Celesio is a growth-oriented company which operates across the whole of Europe. As part of its financing activities, the company is exposed to interest and currency risks. Celesio counteracts these risks by using derivative financial instruments on the basis of guidelines that are applicable to the whole group. These are only used by qualified members of staff and are described in the notes to the consolidated financial statements. Celesio also monitors capital and foreign-exchange markets on a permanent basis so that hedging strategies can be adjusted, if necessary.

Secure information and communication systems

In the area of information technology, Celesio has set up various group-wide technical and organisational protection mechanisms and security standards. In this way, the company protects itself against unauthorised access to data and data loss. External and internal audits ensure that the security guidelines are observed. Detailed emergency plans ensure that operational business can to be continued even if the information and communication systems break down.

Corporate social responsibility

Celesio acknowledges its socio-political and social responsibilities as a company. This awareness is part of its tradition and understanding of commercial activities and behaviour when dealing with customers, employees, shareholders and the general public. Not only does Celesio see itself as a partner of industry and commerce, but also as a part of and an active member of society. For this reason in 2004 the group intensified its dialogue with important groups in society and increased its commitment to social responsibility, alongside the numerous activities of its group companies.

Celesio's social responsibility initiatives are focused on three levels: regionally, at the group head office in Stuttgart, Baden-Württemberg, nationally, in the countries in which Celesio is represented, and internationally, group-wide and worldwide.

Helping people in the developing countries

An excellent example of our social commitment on a global level is the partnership agreement concluded in November 2004 with the *Ärzte für die Dritte Welt* [Doctors for Developing Countries] committee. The financial, logistical and organisational assistance Celesio has provided to this twenty-year-old initiative corresponds to its understanding of social commitment and responsibility. Celesio gives sick people the chance to continue to live healthy lives. During the time the *Ärzte für die Dritte Welt* committee has been in existence, it has sent doctors on over 3,500 missions to developing countries on a voluntary and unpaid basis. So far, around 1,900 doctors have travelled to these countries to treat patients, vaccinate children and run wards. This matches well with Celesio's entrepreneurial business activities.

Celesio supports the work of *Ärzte für die Dritte Welt* [Doctors for Developing Countries] at the Mathare-Valley slum in Nairobi, Kenya. Around 180,000 people live there in a very small area, the majority of whom are without drinking water, electricity and wastewater disposal facilities. The *Doctors for Developing Countries* committee has set up an outpatient clinic known by the Kenyans as Baraka (= benefaction and blessing) amid huts made from corrugated iron and mud. Here around 200 patients are treated daily.

Celesio also organised immediate help for the victims of the terrible flood disaster in South East Asia at the end of 2004. Employees donated a considerable sum to an account set up by the company specifically for this purpose. The money will benefit *Doctors for Developing Countries* who will be able to provide help in southern India, Sri Lanka and Banda Aceh, Indonesia. Celesio has also advised government bodies with regard to the distribution of medications in the troubled areas and provided logistics services. As a means of providing sustainable help in the affected areas, Celesio has initiated long-term collection campaigns in pharmacies.

Corporate social responsibility

Work to increase the appeal of the occupation of pharmacist

In many different ways Celesio is also active on a country level through its national companies. An example of this is the work carried out by Celesio's French wholesale company, OCP, to promote the profession of pharmacist. In view of the imminent shortage of pharmacists – by 2010 alone, around 40 % of pharmacists working in pharmacies in France are likely to retire – OCP is working intensively with pharmacists, university professors and students to make the pharmacist's profession attractive to young people. This partnership led to several concrete measures in 2004. For example, a competition was advertised in pharmacy faculties at universities which challenged students to develop ideas on how to convey the idea of *Pharmacist – a job with prospects*. OCP also published an image brochure with its partners, showing the appeal and professional opportunities that the occupation of pharmacist offers, and a quarterly magazine for pharmacy students. The magazine provides information about the occupation of pharmacist, developments in healthcare and contains tips for studying and career planning.

Contributing to preventative healthcare among the population

Celesio's British pharmacy chain, Lloydspharmacy, raised public awareness by offering free diabetes tests. In doing so, Lloydspharmacy is helping to identify the 'missing million' among the population who, according to estimates in the United Kingdom, suffer from undiagnosed diabetes. Lloydspharmacy is therefore making an important contribution to the efficient treatment of diabetes and the prevention of secondary diseases which may occur in conjunction with undiscovered and therefore untreated diabetes. By the end of 2004, over half a million people had used the free screening service in Celesio's British pharmacies. 25,000 of those tested were advised by Lloydspharmacy staff to have a medical examination. Lloydspharmacy was awarded the Corporate Social Responsibility prize by the renowned British magazine *Marketing Week* for its large scale, national information initiative on the topic of diabetes.

Leisure time offer for employees strengthens corporate culture

Norway, which stretches 1,752 kilometres from north to south and has a population on average of around 12 inhabitants per square kilometre, is a long and relatively sparsely populated country. Accordingly, the four branches belonging to NMD Grossisthandel, the Norwegian wholesaling operation of Celesio, are located relatively far apart from one another. This makes solidarity and team spirit among employees as well as the existence of a common company culture all the more important for the company. NMD promotes this by offering sporting and social activities in a club for its employees known as the NMD club. It offers sports such as football, golf, skiing and athletics. The club also organises cultural courses and events for employees and their families. The highlight of the year is the NMD tournament which brings together participants from all branches.

Corporate social responsibility

Good neighbourly relations at the company's head office

On a regional level, at Celesio's head office in Stuttgart, also the location of the head office of GEHE Pharma Handel, the company's German wholesale company, Celesio is involved, together with GEHE Pharma Handel, in sporting activities. Through their activities, Celesio and GEHE Pharma Handel are hoping to raise awareness among the public of the correlation between sport and health. To this end, they are working in partnership with their neighbour, the swimming club *Schwimmverein Cannstatt 1898 e.V.* Celesio and GEHE Pharma Handel employees can for their part use the swimming facilities of the club and their diverse range of sporting services.

Employees

Highly motivated and qualified employees are extremely important for the success of Celesio as a company. They have made a vital contribution to the positive development of the 2004 fiscal year. The entire workforce showed a high level of commitment and desire to perform well. At the end of 2004 Celesio employed 32,246 employees, as compared with 32,594 in the previous year.

The number of employees in the company's Wholesale division was 4.4 % below that of the prior year. In the division Celesio Pharmacies the number of personnel rose by 0.9 %. 24.9 % more people than in the prior year were employed by the division Celesio Solutions. Around 91 % of all Celesio employees worked outside Germany. This also highlights the international orientation of the company.

International human resources work

Human resources at Celesio has an international orientation. The national companies operate according to the group guidelines, whilst having the freedom to take national differences into consideration. This means Celesio is able to react quickly and flexibly to the needs of local markets.

Employees working in the group companies' human resources departments are linked via international communication structures. This makes it possible to exchange information, experiences and examples of best practice. Group-wide projects are developed and implemented in international teams. For example, since 2004, standard principles for holding employee appraisals have been used in all companies within the group. Employee appraisals must, for example, contain a detailed analysis of the abilities of the employee, plans for further steps in their career and succession planning. This means that an employee's potential becomes clear at an early stage and managerial and key positions can largely be filled from within the company's own ranks.

Employees

Encouraging employee development

In order to achieve the goal of filling managerial and key positions with suitable people from within the Celesio Group, personnel development is crucial for the company. The company therefore targets its development and training programmes at management potentials from all divisions and countries who show potential. This is how they are encouraged and prepared for the roles that lie ahead of them.

Celesio encourages mobility and intercultural expertise among its workforce by cross-border exchange of tasks within the group. The publication of internal job opportunities at the group's head office as well as in national companies on the group-wide intranet helps to achieve this. Interested employees from the whole of Europe can apply for these positions.

An attractive employer in Europe

Celesio is an attractive employer for its staff as well as for employees at the beginning of their careers and students. The company's clear organisational structures, international work environment, training and development opportunities, and attractive remuneration structures makes Celesio appealing to the best graduates, specialists and students. Celesio therefore already makes contact with the people today who are set to begin their careers in the future. The company works closely with universities and higher education institutions, and takes part in fairs for school leavers, university graduates and people seeking employment.

Dependence report

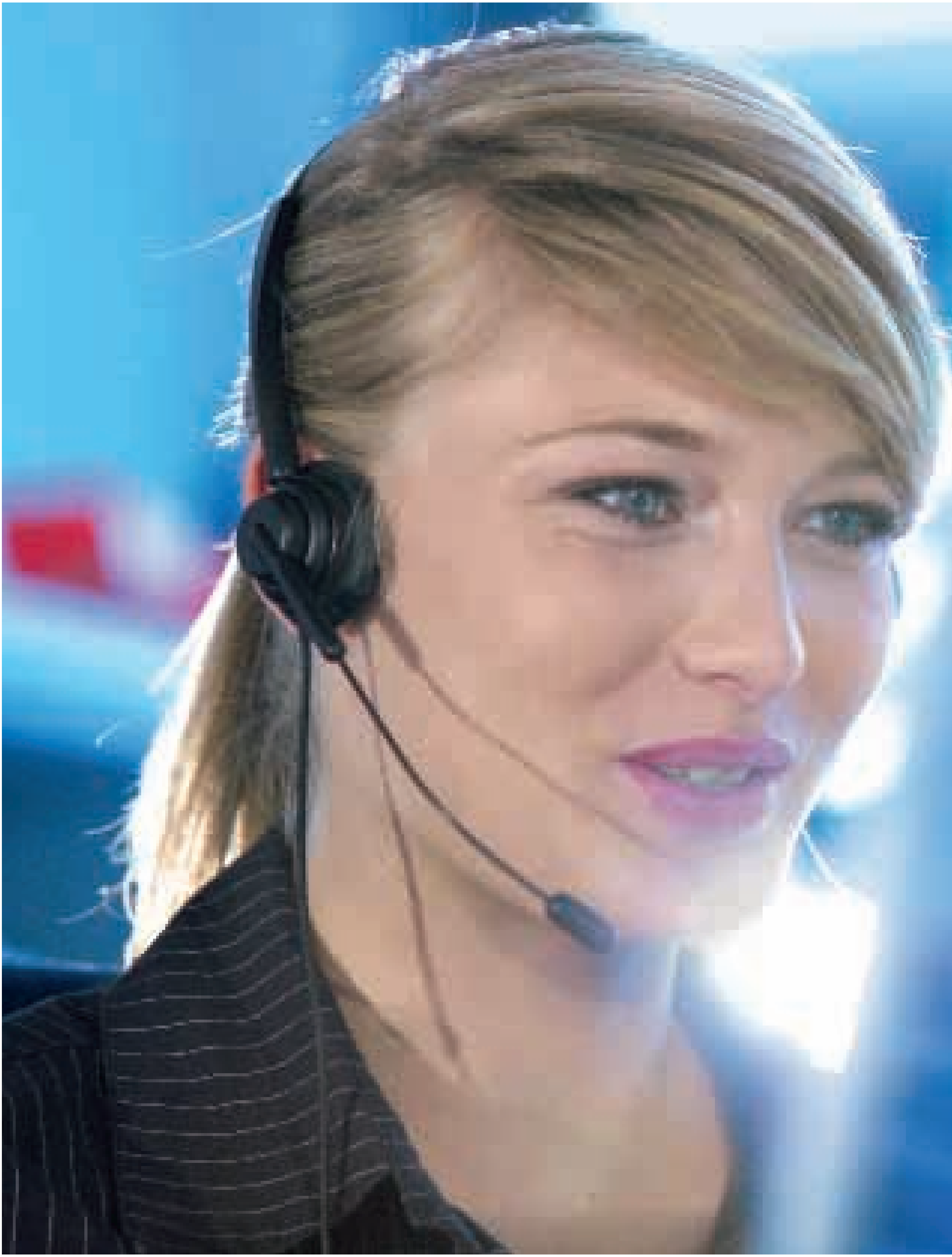
The principle shareholder of Celesio AG is Franz Haniel & Cie. GmbH, Duisburg. Consequently, we have drawn up the report on relations with affiliated companies pursuant to § 312 of the AktG [Aktiengesetz: German Stock Corporation Law] regarding its relationship with affiliated companies. This ends with the following statement: "In summary, we hereby declare that Celesio AG and its subsidiary companies have received an appropriate payment for each legal transaction based on the circumstances that were known to us at the time at which the transactions took place."

Celesio Wholesale

Supplying pharmacies everywhere with everything pharmacies need

- 10 countries
- 8 languages
- 122 branches
- 13,911 employees
- Over 100,000 deliveries per day
- € 15.8 bn revenue
- € 330.1 m profit before tax

the healthcare group











Countries	Revenue 2003 in € m	**Revenue 2004 in € m**	Revenue change in local currency in %	Revenue change in € in %	Branches 2004	Employees 2004
France	6,750.2	**6,939.4**	2.8	2.8	52	4,997
Germany	3,483.8	**3,421.6**	– 1.8	– 1.8	19	2,705
United Kingdom	2,892.2	**3,057.3**	3.7	5.7	19	3,846
Austria	827.8	**843.2**	1.9	1.9	7	820
Belgium	408.2	**408.8**	0.2	0.2	8	381
Norway	419.8	**373.2**	– 6.9	– 11.1	4	402
Portugal	283.1	**306.7**	8.3	8.3	6	189
Ireland	214.0	**234.7**	9.7	9.7	3	226
Czech Republic	128.3	**132.7**	3.6	3.4	3	211
Italy	114.7	**120.1**	4.7	4.7	1	134
Total	**15,522.1**	**15,837.7**	**1.8**	**2.0**	**122**	**13,911**

Celesio Wholesale

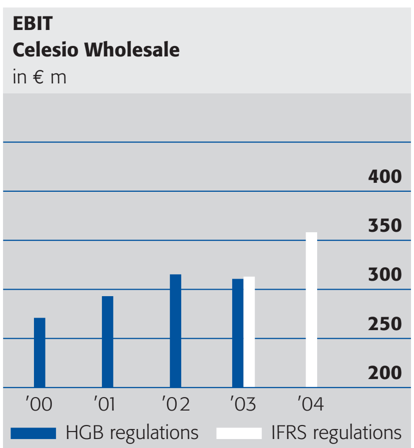
Wholesale revenue increased by 1.8 % in local currency (2.0 % in €). With an increase of 14.0 % in local currency (14.5 % in €), pre-tax profit rose more strongly than revenue. Above all, due to improved gross profit ratios, consistent cost management and operational improvements, profit has developed positively. Services for pharmacists such as purchasing, marketing and training offers proved to be success factors. With the acquisition of a wholesale company in Portugal and market entry into the Slovenian, Croatian and Romanian markets, Celesio has set the course for further growth in its Wholesale division.

Growth in the generic drugs' segment and improved gross profit ratios have a positive effect

Celesio increased its Wholesale revenue in local currency by 1.8 % (2.0 % in €) to € 15,837.7 m compared with the previous year. In Celesio Wholesale's three most important markets France, Germany and the United Kingdom, revenue in local currency changed by + 2.8 %, – 1.8 %, and + 3.7 % respectively. Taking extraordinary items into account, Celesio's wholesale business grew in line with the market. Key extraordinary items were shifts in revenue in conjunction with the health reform in Germany and the changed treatment of distribution contracts in the Norwegian wholesale business without, however, impacting on profit.

The company achieved above average growth in Italy. AFM, Celesio's Italian wholesale business grew well due to, in particular, having won over new customers. As the leading supplier to pharmacy chains in the United Kingdom, Celesio's UK wholesale company, AAH, benefited from their strong growth. The German wholesale company, GEHE Pharma Handel, developed positively, particularly due to the successful introduction of the commitment model. More intense competition characterises also the Irish, Czech, Belgian and Portuguese wholesale markets. Celesio was able to maintain revenue and market share at the intended level in these countries by means of attractive offers.

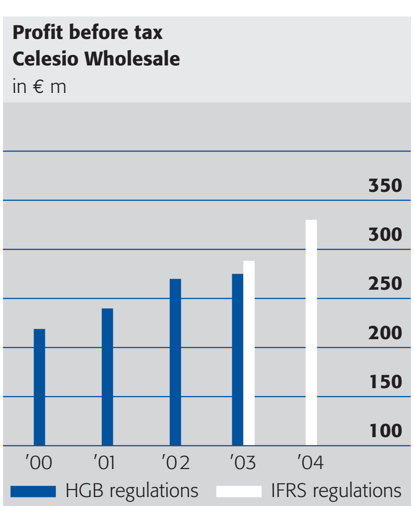
Celesio Wholesale



The generic drugs segment showed high growth, in particular in the United Kingdom, France and Norway. The expiry of patents on some of the best selling medicines, as well as changes to the way doctors prescribe medicines were crucial to this development. Celesio worked intensively with producers of generic products and was able to offer pharmacies a comprehensive range of generic medicines on attractive sales conditions. Celesio therefore increased its market share in the generic drugs segment with positive impact on gross profit.

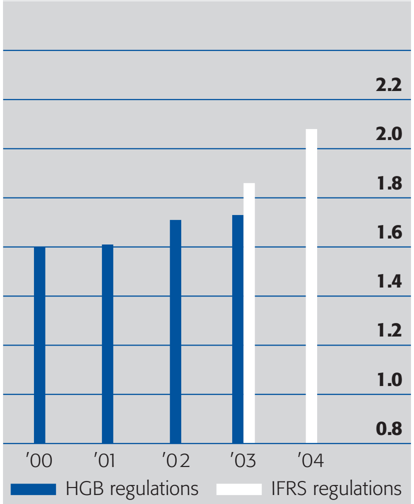
In local currency, EBIT grew by 14.0 % (14.4 % in €) and was € 358.2 m. Celesio Wholesale increased pre-tax profit by 14.0 % (14.5 % in €) to € 330.1 m. This is mainly attributable to the improved gross profit ratio and the improved cost base. In particular, the logistics concept of the German wholesale company, GEHE Pharma Handel, which utilises the branches better and streamlines the operational processes, has had a positive effect on profit. In Germany, Norway, Portugal and Italy profit grew above expectations. In the other countries, profit was in line with expectations. On the basis of pre-tax profit, return on sales in the division Celesio Wholesale rose from 1.86 % to 2.08 %.

Changed market conditions do not impact on growth in profit



The market conditions changed in some markets in 2004. However, this did not have a negative impact on total profit in this division. The geographical diversification of Celesio, consistent cost management and intensive co-operation with customers and manufacturers had a positive effect. Changes to the market conditions were for example: the new regulation of an additional tax on prescription medicines in France and the approval of expensive drugs for dispensing in public pharmacies which could previously only be dispensed in hospital pharmacies; in the United Kingdom, a reduction in the amounts reimbursed for four important generic active ingredients; in Norway, the new regulation or rather reduction of the reference price for certain groups of generic active ingredients and price reductions in 2003 impacting on the full year; the reduction of statutory wholesale margins in France, Germany and Austria; practice fees and newly stipulated co-payment regulations in Germany in force since January 2004 which, for a short period, led to patients bringing forward foreseeable doctors' appointments into the final quarter of 2003, and thereby causing shifts in revenue for pharmacies and wholesalers; furthermore in Germany prices for OTC medicines were deregulated and their reimbursement through state health insurance abolished.

Return on sales*
Celesio Wholesale
in %



* Based on profit before tax

Focusing on customer satisfaction

Celesio recognises that customer orientation and high quality service are of the utmost importance as satisfied customers are prerequisites for a successful business. In 2004 Celesio Wholesale improved customer satisfaction with numerous initiatives and, in so doing, intensified existing customer relationships as well. The company's wholesale company in Norway, NMD Grossisthandel (NMD), for example, developed a special course for training its employees to attain a higher quality of performance. The topics covered are logistics, health, the environment and quality management. In France, OCP introduced sales support software which gives employees quick access to all relevant customer information. This allows them to better meet the needs of individual pharmacists.

The high level of service quality and the broad range of services offered by Celesio Wholesale paid off in the 2004 fiscal year. For example, in April, NMD once again won the tender to supply almost all Norwegian hospitals until the end of 2007.

Celesio Wholesale

Customer loyalty models make pharmacies fit for the future

In Germany, the United Kingdom and Austria Celesio has been making independent pharmacies fit for the future with customer loyalty models and, at the same time, strengthening the entire distribution chain from the production industry and wholesale trade through to pharmacies. The participating pharmacies enjoy attractive purchasing conditions and services in the area of marketing and training.

The German wholesale company, GEHE Pharma Handel, has been offering its customers the commitment model since the beginning of 2004. With about 2,500 participating pharmacies and more than 25 partners in industry, the commitment model was the most successful wholesale-assisted cooperation model in 2004. In the United Kingdom AAH has continued to develop its umbrella brand, Vantage, which offers independent pharmacies a standard market image and a broad range of services. These pharmacies have a variety of different types of membership at their disposal with services that are tailored to their individual needs. The Herba family concept, launched by Celesio's Austrian wholesale company at the end of 2003, has become well established in the market. The joint marketing campaigns on special occasions such as Valentines Day, Easter or Mother's Day, supported by theme-related brochures and shop window decorations in particular, were very well received by Austrian pharmacies. The services will be expanded in 2005 due to the huge amount of interest.

Improved productivity and customer service

In the 2004 fiscal year, Celesio Wholesale improved its operational processes. In some countries the branch structure was streamlined and new warehouse management and logistics systems were introduced. This led to greater productivity and improved customer service, and had a positive impact on profit for 2004.

In France, OCP merged branches into new locations. In the new Atton branch the former branches in Metz and Nancy were merged and in the new Wity-lès-Reims branch the former Charleville-Mézières and Reims branches were merged. OCP also improved operational processes, for example, by interlinking the call centres more closely with one another, shortening working hours and reorganising delivery routes.

GEHE Pharma Handel rolled out the logistics concept launched in 2003, which better utilises branches' capacity and streamlines operational processes, to more branches. The first significant successes have been achieved, and in 2005 all branches are to be included in this concept. As part of these measures the German branches were consolidated into two new regions, the regions north/east and west/south.

Herba Chemosan also improved operational processes in Austria. The modernisation of the branch in Linz was completed in September 2004.

Celesio Wholesale

NMD organised branch stocking more efficiently. The entire range for the Norwegian market was brought together in the branch in Oslo which had been modernised and extended in 2003. The branches in Bergen, Trondheim and Harstad now only stock products commonly requested by customers and drugs which have to be available for patients immediately.

PHARMA BELGIUM reorganised the logistics of the Liège and Brussels branches. As a result, night orders can now be processed more quickly and it has been possible to reduce working hours in the Liège branch.

OCP PORTUGAL also streamlined its branch structure. Since the 1st quarter of 2004, the Lisbon branch has been located at a site with better transport connections, and the former Torres Novas and Santarém branches have been merged to form a new branch in Torres Novas.

Leading position in wholesale strengthened

In the 2004 fiscal year the group strengthened its leading position in the European pharmaceutical wholesale sector through acquisitions and by gaining entry to new markets. In Portugal Celesio acquired the regional wholesaler Soquifa-Medicamentos, which mainly serves the northern Portuguese market, and therefore ideally complements Celesio's business activities of its existing Portuguese wholesale company, OCP PORTUGAL. At the same time Celesio caught up with Portugal's market leader in pharmaceutical wholesaling. Soquifa-Medicamentos will be consolidated in the year 2005 for the first time.

In the 2004 fiscal year Celesio made the first moves towards gaining a foothold in the Slovenian, Croatian and Romanian markets. Celesio acquired holdings in Kemofarmacija, Slovenian's market leading wholesale company, and in Medika, the number one in Croatian pharmaceutical wholesaling. Pharmafarm in Romania and Unipharm in Croatia are subsidiaries of Kemofarmacija. These shareholdings will be included in the consolidated financial statements for the first time in the year 2005.

In 2004 Celesio was active in the wholesale sector in 10 countries with 122 branches. Celesio strengthened its leading position through organic growth and successful acquisitions. Sustainable cost management, improved branch structures, high service quality and customer orientation enabled Celesio to further improve profitability. 13,911 employees worked in the division Celesio Wholesale in the 2004 fiscal year, compared with 14,548 in the previous year.

Celesio Pharmacies

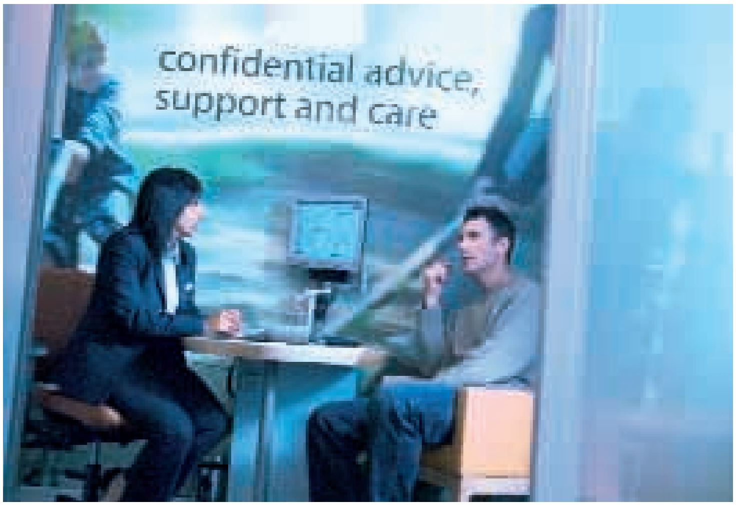
Our pharmacies: Optimal care in everything to do with health

- 7 countries
- 7 languages
- 1,883 pharmacies
- 17,604 employees
- Over 500,000 customers daily
- € 2.9 bn revenue
- € 204.8 m pre-tax profit

the healthcare group


1 prescription drop off


Lloydspharmacy
how
are
you?



confidential advice,
support and care



NEXT CUSTOMER

Countries	Revenue 2003 in € m	**Revenue 2004 in € m**	Revenue change in local currency in %	Revenue change in € in %	Pharmacies 2004	Employees 2004
United Kingdom	1,831.5	**1,992.2**	6.7	8.8	1,381	13,167
Norway	321.5	**330.2**	7.5	2.7	115	1,403
Italy	186.4	**202.2**	8.5	8.5	162	771
Ireland	105.5	**113.9**	8.0	8.0	58	864
Netherlands	97.4	**104.2**	7.0	7.0	38	627
Belgium	60.1	**72.8**	21.2	21.2	71	342
Czech Republic	48.7	**39.0**	– 19.7	– 19.8	58	430
Total	**2,651.1**	**2,854.5**	**6.8**	**7.7**	**1,883**	**17,604**

Celesio Pharmacies

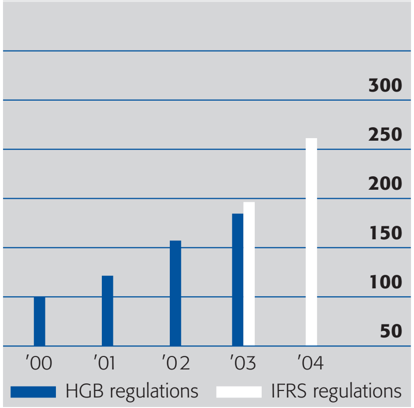
In the 2004 fiscal year, the Celesio Pharmacies division clearly grew ahead of the market. Revenue increased by 6.8 % in local currency (7.7 % in €) when compared with the prior year, and pre-tax profit increased by 39.2 % (40.9 % in €). The modernisation of pharmacies and a clear increase in gross profit ratio contributed to this positive development. Another factor in this success was the range of services offered by many pharmacies: Celesio sees its pharmacies as points of contact for the public in all areas relating to medicines and health. This is why Celesio's pharmacies also offer, for example, blood sugar and cholesterol tests.

Strong growth of existing pharmacies

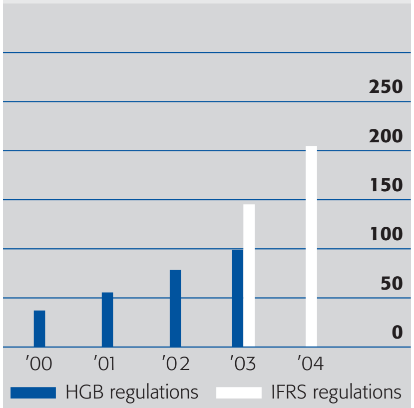
Revenue of Celesio Pharmacies increased by 6.8 % in local currency (7.7 % in €) to € 2,854.5 m. In the United Kingdom, Norway and Italy, Celesio's most important markets, revenue increased by 6.7 %, 7.5 % and 8.5 % respectively. In Ireland, the Netherlands and the Czech Republic, the opening of numerous new pharmacies was a distinguishing feature of the market. This meant that market growth in these countries was divided between a higher number of pharmacies. Celesio's Pharmacies division outperformed the market and strengthened its market position in Europe. This high growth was due primarily to the modernisation of pharmacies. Large increases in revenue were reported in the prescription sector, primarily in the United Kingdom. This is attributable to an increased number of processed prescriptions when compared with the prior year and higher average values per prescription. Revenue from OTC products developed in line with the comparable market.

EBIT increased by 31.4 % in local currency (33.0 % in €) and reached € 261.3 m. Pre-tax profit increased by 39.2 % in local currency (40.9 % in €) to € 204.8 m. This was achieved through positive gross profit development, consistent cost management and close cooperation with manufacturers. Profit developed more positively than expected. In the Czech Republic, where Celesio disposed of 26 unprofitable pharmacies in 2004, pre-tax profit showed positive growth. In the remaining countries, profit was in line with expectations. On the basis of pre-tax profit, return on sales rose from 5.48 % to 7.17 %.

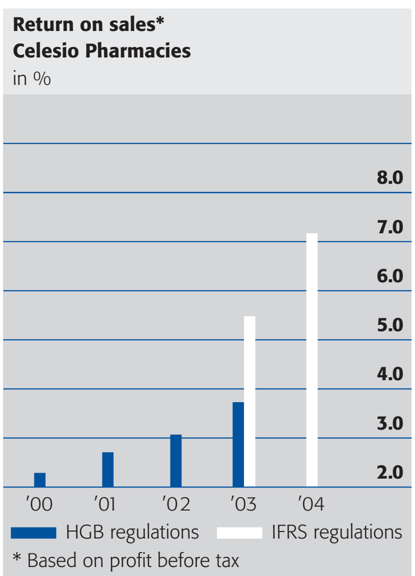
EBIT
Celesio Pharmacies
in € m



Profit before tax
Celesio Pharmacies
in € m



Celesio Pharmacies



Changed market conditions had no negative effect on profit

Market conditions changed in individual countries in the 2004 fiscal year. However, this did not have a negative impact on the overall result of Celesio's pharmacy business. Geographical diversification and sustainable cost management proved valuable for Celesio in all countries.

In the United Kingdom for example, the amounts reimbursed for four important generic active ingredients were reduced; in Norway, the reference prices of certain groups of generic active ingredients were redefined and lowered, and price reductions for specific medications and the approval of some medicines (OTC) for other distribution channels in 2003 impacted on the full fiscal year; in some regions of Italy, patients with continuously high medicine costs have been obtaining their medications only from hospitals or local health authorities; market participants in the Netherlands agreed on a reduction in the price of generic products. There were also price reductions for some prescription medicines in Belgium. However, the clawback in Belgium, which had been increased on 1 July 2003, was reduced to its original level on 1 January 2004.

In England and Wales, the National Health Service and pharmacies agreed on the reimbursement of and range of services provided by pharmacies. This new contract will come into force in Spring 2005. At the same time, it will be easier to set up pharmacies in exceptional cases and under certain conditions.

Groundbreaking pharmacy innovations and examples of best practice

In the 2004 fiscal year, Celesio used innovative measures to turn its pharmacies into new optical and acoustic experiences for its customers. This is why Celesio provides its customers with an exclusive radio programme in its pharmacies, the first one of its kind in Europe. The programme includes discussions, product information and, above all, contributions on topical healthcare issues. First introduced by Lloydspharmacy in the United Kingdom in 2003, Celesio's pharmacy business in Norway, Vitusapotek, followed suit in May 2004.

The *pharmacy of the future*, launched as a pilot project by Celesio's British pharmacy chain, Lloydspharmacy, in May 2004 is also groundbreaking. It combines modern design and a market-leading range of services to create a pharmacy concept of the future, and all this goes hand in hand with improved operational processes. The Dutch pharmacy chain, Lloyds Apotheken, introduced a goods placement programme in order to manage the sale of its OTC products better, as other Celesio pharmacy chains have previously done. If examples of best practice such as these prove to be suitable, they will be introduced in pharmacies belonging to the group in other countries.

Healthcare service provider for the population

In the 2004 fiscal year, Celesio Pharmacies expanded its range of healthcare services and, in so doing, strengthened its position as a competent advisor for all healthcare issues. In the United Kingdom, for example, further Lloydspharmacy pharmacies were fitted with consultation areas for confidential discussions with customers. Now around 85 % of pharmacies have been fitted with consultation areas. Furthermore, through the blood sugar tests which it provides free of charge, Lloydspharmacy is helping to track down the 'missing million' people in the United Kingdom who, according to estimates, suffer from diabetes but are unaware of their condition. From November 2003 to December 2004, Lloydspharmacy employees examined around half a million of people free of charge. Approximately 25,000 of these were then advised to see their general practitioners. For the large-scale, countrywide information campaign on diabetes, Lloydspharmacy was awarded the Corporate Social Responsibility prize by the renowned British magazine, *Marketing Week*.

Celesio's Italian pharmacy business strengthened its profile as an on-site healthcare expert for the public. Supported by a widespread information campaign they offered, during the *World Heart Week* in Autumn 2004 in Milan, free weight and blood pressure checks. A customer survey which was carried out mainly in Celesio's pharmacies in Milan clearly indicated that customers were extremely satisfied with the services provided. The range of products and services will be expanded on the basis of these results.

Celesio Pharmacies

Europe-wide strengthening of pharmacies' market image

One factor contributing to the success of Celesio Pharmacies is the introduction of a uniform market image in individual countries. This enables own brand product ranges to be marketed and conveys expertise to customers. It also allows pharmacies to increase their presence in the public eye and makes them easily recognisable.

In the 2004 fiscal year, Celesio developed a uniform market image for pharmacies in Belgium and the Netherlands. Since 15 April 2004, the Belgian pharmacy chain has been operating under the name of *Lloydspharma*. The pharmacies are gradually being refitted and given a uniform presentation. In the Netherlands, all pharmacies are retaining their established local names, but since 1 July 2004, they are being given a uniform exterior as part of the *Lloyds* umbrella brand.

In countries in which there is an already established countrywide market presentation, Celesio's pharmacy businesses strengthened their profile and presence in the public consciousness as a comprehensive service provider in the 2004 fiscal year. For example, at the start of the allergy season, Celesio's Norwegian pharmacy chain, Vitusapotek, sponsored the weather forecasts on Norwegian television. Lloydspharmacy in the United Kingdom used television adverts on the topic of diabetes to raise public awareness of their free blood sugar tests and confidential consultation areas in their pharmacies. Surveys confirm that since then, Lloydspharmacy is clearly more widely perceived as a comprehensive healthcare service provider.

Leading the way in setting up health centres

In the United Kingdom, Norway and the Netherlands, Celesio is involved in planning and building health centres. Here, patients receive complete medical care from doctors' practices, pharmacies and other healthcare service providers, all under one roof. The centres allow Celesio to position pharmacies close to the flow of prescriptions. Planning for them is carried out in close cooperation with doctors and health authorities. In the 2004 fiscal year, Celesio planned and built 26 centres in the United Kingdom, five in Norway and six in the Netherlands.

Position in Europe strengthened by pharmacies located in attractive areas

At the end of the 2004 fiscal year, Celesio was operating 1,883 pharmacies in seven European countries. With pharmacies located in strategically attractive areas, Celesio strengthened its leading position in the European pharmaceutical market. The group also buys pharmacies in existing markets if the sites are good and the price is right. However, the local authorities in Italy refrained and are still refraining from inviting companies to tender for the privatisation of pharmacies due to legal reasons. In Ireland, the Netherlands and Belgium, Celesio has not yet achieved the right size for a pharmacy chain. Therefore the group will push on with the strengthening of its market position in these countries.

In the 2004 fiscal year, Celesio acquired 29 pharmacies in the United Kingdom, Ireland, Belgium, the Netherlands, Italy and Norway and opened 16 pharmacies. Celesio sold or closed 44 pharmacies as part of ongoing location optimisation, 26 of which were unprofitable pharmacies in the Czech Republic. The final stages of the restructuring of Celesio's pharmacy business in the Czech Republic were decided in December 2004. Following closures and sales in the 1st half of 2005, a portfolio of pharmacies, which can be profitably run will be retained in the Czech Republic.

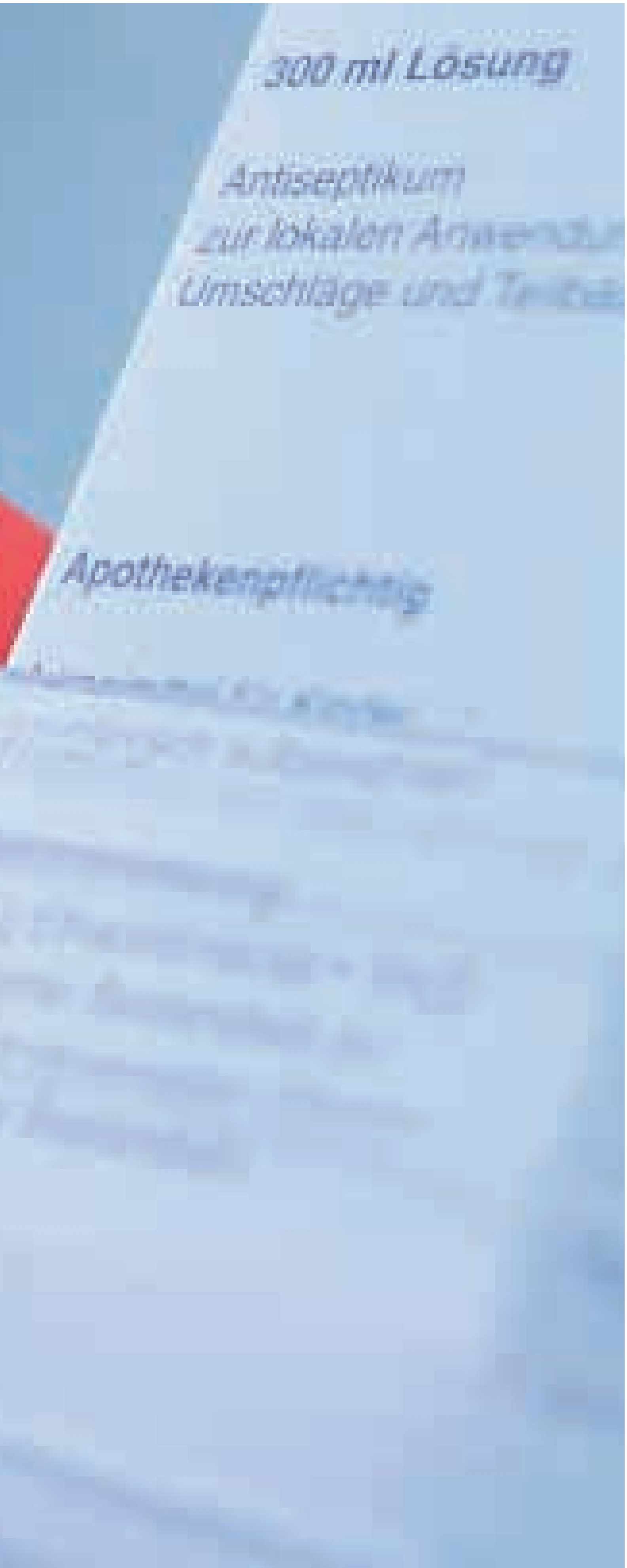
17,604 people worked in the Celesio Pharmacies division, 0.9 % more than in the previous year.

Celesio Solutions

Innovative services for the healthcare market

- 8 countries
- 6 languages
- 552 employees
- € 66.1 m gross profit
- € 1.9 bn volume of goods handled
- € 18.9 m pre-tax profit

the healthcare group


300 ml Lösung
Antiseptikum
Apothekenpflichtig








DE
SÉCURITE

Celesio Solutions

Business unit	Volume of goods handled 2003 in € m	**Volume of goods handled 2004 in € m**	Volume of goods handled change in local currency in %	Volume of goods handled change in € in %	Employees 2004
AVS Health Distribution (pharmaceutical logistics and distribution)	1,512.8	**1,867.2**	22.6	23.4	552

Celesio Solutions

In the 2004 fiscal year, Celesio united its logistics and distribution services for pharmaceutical manufacturers under the name of *AVS Health Distribution* and expanded it through acquisitions. These activities are part of the new Celesio Solutions division. The division increased the volume of goods handled in the 2004 fiscal year by 22.6 % in local currency (23.4 % in €). Gross profit rose by 10.1 % in local currency (10.1 % in €). Pre-tax profit was 3.7 % in local currency (– 3.2 % in €) lower than compared with the prior year.

Growth through services

In line with the growth and increasing complexity of the health market, demand for innovative services is increasing. Pharmaceuticals related services and services for various participants in the market are therefore set to be a significant and attractive field of growth for Celesio. The sector is not directly regulated by the state, includes a variety of customer groups with specific service requirements and has a fragmented and still largely unconsolidated competitive structure, at least in some areas. As Celesio Solutions is governed by different regulations than the ones which apply to the Celesio Wholesale and Celesio Pharmacies division, countries which are currently unsuitable for the geographical expansion of Celesio's Wholesale and Pharmacies division may be considered for the new division.

Celesio began the development of the new Solutions division in 2004 and united its existing logistics and distribution activities for pharmaceutical manufacturers under the name of AVS Health Distribution to form the first business unit of the new Solutions division. Having made acquisitions in Spain, the Czech Republic, Germany and the United Kingdom, the company has expanded and strengthened its European presence of AVS Health Distribution quite considerably. In this way a Europe-wide network that offers pharmaceutical manufacturers both standard and tailor-made logistics and distribution services from a single source has been created. This is the foundation of the new Solutions division. Alongside manufacturer-oriented services, the Solutions division will address other participants in the healthcare market with a specific range of services, such as hospitals or other institutions requiring pharmaceuticals.

Celesio Solutions

Wide range of logistics and administrative services for pharmaceutical manufacturers

The market for manufacturer-oriented services includes business processes which are increasingly being outsourced by the actors in the pharmaceutical industry because they want to concentrate on their core business (research and development of medications), core products or core markets. The desire of companies in the pharmaceutical industry for basic as well as tailor-made solutions for the whole of Europe increased in 2004. Experience in handling pharmaceuticals coupled with an awareness and knowledge that drugs are different from any other goods are some of the basic requirements for working successfully with pharmaceutical manufacturers.

The services Celesio currently offers to the pharmaceutical industry through AVS Health Distribution focus mainly on logistics and distribution. These are available to pharmaceutical manufacturers on a national, international or pan-European basis, depending on their needs. Essentially, the range of services includes basic logistical services such as transportation, warehouse storage and warehouse management, as well as customer-specific services such as the nationwide supply of refrigerated vaccines to doctors or deliveries to individual customers of a pharmaceutical manufacturer within a few hours. By using external service partners, pharmaceutical manufacturers are able to reduce their own administrative costs, make use of the benefits of economies of scale and concentrate on their core competencies.

In some countries AVS Health Distribution supports the pharmaceutical industry with other administrative services such as order processing, invoice collection, monitoring of the flow of products and goods and the provision of personnel resources as well as assistance with the drug registration process.

In the 2004 fiscal year Celesio Solutions was active in eight countries with its AVS Health Distribution business unit through DEPOTS GENERAUX in France, SANOVA in Austria, FARILLON and Castlereagh in the United Kingdom, CAHILL MAY ROBERTS in Ireland, NMD in Norway, SEUR PHARMA in Spain, Realpol in the Czech Republic and AVS Health in Germany.

Gross profit increased by 10.1 %

Gross profit achieved can generally be used as a measure of the success of the Solutions division. Services are largely paid for on a commission basis or through agreed service fees. However, logistics and distribution contracts are not only agreed on a commission basis, but in some cases on sales-related margins instead. Gross profit achieved is calculated from the total of the payments for services, commission revenues and the margins from trading revenue. The relationship between the different forms of payment may change over time.

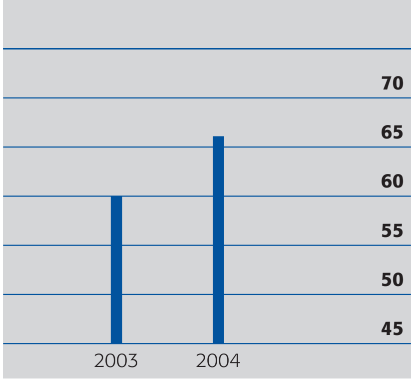
Gross profit increased by 10.1 % in local currency (10.1 % in €) to € 66.1 m compared with the prior year. In the two strongest countries, France and Austria, it increased by 11.0 % and 20.1 % respectively.

The volume of goods handled by AVS Health Distribution in the 2004 fiscal year rose by 22.6 % in local currency (23.4 % in €) to € 1.9 bn.

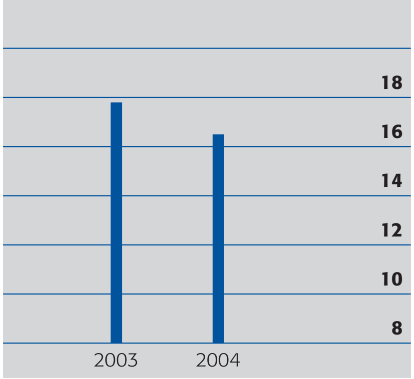
EBIT decreased by 7.5 % in local currency (7.1 % in €) to € 16.5 m. This is due to the costs related to the expansion of this business division. After adjustments for exchange rate effects, pre-tax profit was, at € 18.9 m, 3.7 % (3.2 % in €) below the level of the prior year.

552 people worked in the Celesio Solutions division, 24.9 % more than in the prior year.

Gross profit
Celesio Solutions
in € m

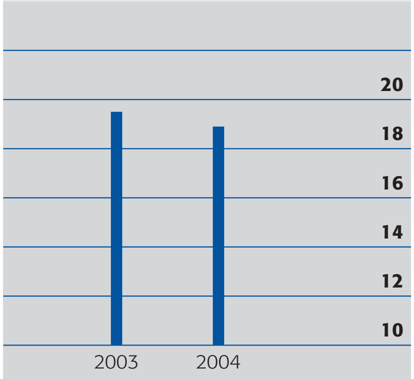


EBIT
Celesio Solutions
in € m



Celesio Solutions

Profit before tax
Celesio Solutions
in € m



Increased efficiency of operational processes

In the 2004 fiscal year AVS Health Distribution improved its operational processes and increased the capacity of its existing logistics and distribution activities. The French arm of the business, DEPOTS GENERAUX moved into a new, larger logistics centre with improved automatic systems. It is located very close to Charles de Gaulle airport in Paris and has good transport connections. In Ireland, storage capacity was increased and new cold chain logistics developed. In Norway, IT systems for order processing, stock monitoring and warehouse management were improved. These measures will have a positive impact on the profit situation in the 2005 fiscal year.

Market presence strengthened and services expanded throughout Europe

With the acquisition of SEUR PHARMA in Spain, Realpol in the Czech Republic, Sanalog in Germany and – subject to approval by the UK competition authority – Healthcare Logistics in the United Kingdom, Celesio strengthened its market presence and expanded its range of services for pharmaceutical manufacturers in Europe. Celesio therefore continued on its course of being the first company to offer pharmaceutical manufacturers pan-European logistics and distribution services. SEUR PHARMA and Realpol were consolidated on 1 September 2004 and 1 October 2004 respectively. The acquisition of Sanalog and Healthcare Logistics – subject to approval by the UK competition authority – will impact on the business development from the beginning of 2005.

Innovation comes from experience – new customers won over

Knowledge acquired over many years, a wealth of expertise and a clear focus on the pharmaceutical market allow Celesio to respond in the best possible way to the needs of the market participants. Customers naturally benefit from the experience Celesio has gained in its relationships with customers which go back many years. On this basis AVS Health Distribution was able to win over new customers in 2004 and in some cases extend existing contracts on a long-term basis.

Celesio Group

Consolidated financial statements

the healthcare group

Income statement for the fiscal year 2004 of the Celesio Group

	Notes	2003 € '000	**2004** **€ '000**
Revenue	1	**18,558,529**	**19,152,626**
Own work capitalised		7	330
Total operating performance		**18,558,536**	**19,152,956**
Cost of raw materials, consumables and supplies, and of purchased goods		(16,673,299)	(17,096,269)
Gross profit		**1,885,237**	**2,056,687**
Other income	2	123,542	145,615
Personnel expenses	3	(915,439)	(969,615)
Other expenses	4	(516,545)	(553,329)
Net income from investments	5	2,665	4,395
of which income from associates accounted for using the equity method		[451]	[489]
EBITDA		**579,460**	**683,753**
Amortisation of intangible assets and depreciation of property, plant and equipment	6	(92,607)	(93,470)
EBIT		**486,853**	**590,283**
Interest result	7	(95,018)	(95,177)
Profit before tax		**391,835**	**495,106**
Income taxes	8	(125,175)	(155,895)
Net profit		**266,660**	**339,211**
Profit attributable to minority interests		(3,327)	(3,270)
Consolidated net profit		**263,333**	**335,941**
Earnings per share – basic (€)	9	**3.10**	**3.95**
Earnings per share – diluted (€)	9	**3.10**	**3.95**

Balance sheet at 31 December 2004 of the Celesio Group

Assets

	Notes	31.12.2003 € '000	**31.12.2004 € '000**
Non-current assets			
Intangible assets	10	1,884,339	1,942,597
Property, plant and equipment	11	566,948	560,285
Financial assets	12	106,488	129,264
of which associates accounted for using the equity method		[6,117]	[9,827]
Deferred tax assets	13	98,682	80,993
		2,656,457	**2,713,139**
Current assets			
Inventories	14	1,408,849	1,447,317
Trade receivables	15	2,155,317	2,133,269
Tax receivables	15	28,859	32,591
Other receivables and other assets	15	133,094	189,595
Cash and cash equivalents	16	15,445	15,220
		3,741,564	**3,817,992**
Total assets		**6,398,021**	**6,531,131**

Equity and liabilities

	Notes	31.12.2003 € '000	**31.12.2004 € '000**
Shareholders' equity	17		
Issued capital		217,728	217,728
Capital reserves		1,113,030	1,113,030
Revenue reserves		262,300	525,748
Revaluation reserves		92,357	89,713
Minority interests		9,623	5,649
		1,695,038	**1,951,868**
Liabilities	20		
Non-current liabilities			
Financial liabilities	21	1,161,868	1,339,236
Pension provisions	18	154,609	132,663
Other non-current provisions	19	31,607	30,277
Deferred tax liabilities	13	33,466	17,851
		1,381,550	**1,520,027**
Current liabilities			
Financial liabilities	21	835,401	493,665
Trade payables	22	1,783,431	1,844,054
Other current provisions	19	129,370	140,485
Tax liabilities		107,078	125,277
Other liabilities	22	466,153	455,755
		3,321,433	**3,059,236**
Total equity and liabilities		**6,398,021**	**6,531,131**

Cash flow statement of the Celesio Group

	2003 € '000	**2004** **€ '000**
Net profit	266,660	339,211
Depreciation and amortisation/write-up of property, plant and equipment and intangible assets	92,607	93,226
Gain on disposals of non-current assets	(5,129)	(3,913)
Non-cash changes in net working capital	15,952	9,213
Other non-cash income and expenses	(2,972)	(4,486)
Cash flow	**367,118**	**433,251**
Change in operating assets	(256,212)	(48,237)
Change in operating liabilities	131,103	43,773
Net cash flow from operating activities	**242,009**	**428,787**
Proceeds from the disposal of non-current assets	31,771	23,411
Investment in non-current assets	(151,620)	(128,344)
Proceeds from the disposals of subsidiaries	3,008	2,051
Cash paid for acquisitions of subsidiaries	(106,610)	(58,684)
Net cash flow from investing activities	**(223,451)**	**(161,566)**
Dividends paid to shareholders	(72,904)	(77,381)
Proceeds from borrowings	1,607,326	363,936
Repayment of borrowings	(1,557,734)	(553,997)
Net cash flow from financing activities	**(23,312)**	**(267,442)**
Net change in cash and cash equivalents	**(4,754)**	**(221)**
Net foreign exchange difference	(532)	(4)
Cash and cash equivalents at the beginning of the period	20,731	15,445
Cash and cash equivalents at the end of the period	**15,445**	**15,220**

Statement of shareholders' equity of the Celesio Group

	Issued capital	Capital-reserves	Revenue reserves	Revaluation reserves		**Group interest in equity**	**Minority interests**	**Share-holders' equity**
				Translation reserve	Other com-prehensive income			
	€ '000	€ '000	€ '000	€ '000	€ '000	**€ '000**	**€ '000**	**€ '000**
01.01.2004	**217,728**	**1,113,030**	**262,300**	**85,788**	**6,569**	**1,685,415**	**9,623**	**1,695,038**
Dividends	0	0	(76,545)	0	0	(76,545)	(836)	(77,381)
Currency adjustments	0	0	0	(12,581)	12	(12,569)	0	(12,569)
Net profit	0	0	335,941	0	0	335,941	3,270	339,211
Revaluation of financial instruments	0	0	0	0	8,842	8,842	0	8,842
Recognition of financial instruments with an effect on income	0	0	0	0	1,083	1,083	0	1,083
Changes to consolidated group/others	0	0	4,052	0	0	4,052	(6,408)	(2,356)
31.12.2004	**217,728**	**1,113,030**	**525,748**	**73,207**	**16,506**	**1,946,219**	**5,649**	**1,951,868**
01.01.2003	**217,728**	**1,113,030**	**75,288**	**119,219**	**0**	**1,525,265**	**7,391**	**1,532,656**
Dividends	0	0	(72,292)	0	0	(72,292)	(612)	(72,904)
Currency adjustments	0	0	0	(33,431)	0	(33,431)	0	(33,431)
Net profit	0	0	263,333	0	0	263,333	3,327	266,660
Revaluation of financial instruments	0	0	0	0	6,419	6,419	0	6,419
Recognition of financial instruments with an effect on income	0	0	0	0	150	150	0	150
Changes to consolidated group/others	0	0	(4,029)	0	0	(4,029)	(483)	(4,512)
31.12.2003	**217,728**	**1,113,030**	**262,300**	**85,788**	**6,569**	**1,685,415**	**9,623**	**1,695,038**

Segment reporting of the Celesio Group

Segment reporting by business division

Segmentation by business division	Wholesale 2003 € '000	Wholesale **2004 € '000**	Pharmacies 2003 € '000	Pharmacies **2004 € '000**
Income statement				
Revenue	**15,523,232**	**15,837,939**	**2,651,062**	**2,854,479**
External revenue	15,522,090	15,837,700	2,651,062	2,854,479
Inter-segment revenue	1,142	239	0	0
Gross profit	**996,183**	**1,057,434**	**829,038**	**933,173**
Segment profit from operations	**312,646**	**357,835**	**196,346**	**261,178**
Assets, liabilities and capital expenditures				
Segment assets	4,029,171	4,022,563	2,060,491	2,132,333
of which goodwill	[434,006]	[436,121]	[1,411,457]	[1,460,343]
Segment liabilities	2,121,298	2,094,753	294,997	318,163
Capital expenditures	83,446	64,658	150,563	80,926
Employees				
Average for the year	14,513	14,004	17,017	17,367
at 31.12.2004	14,548	13,911	17,448	17,604
Reconciliation to net profit				
EBITDA	**367,391**	**410,907**	**232,136**	**297,839**
Amortisation of intangible assets and depreciation of property, plant and equipment	(54,386)	(52,675)	(35,699)	(36,570)
EBIT	**313,006**	**358,233**	**196,437**	**261,269**
Interest result	(24,740)	(28,134)	(51,089)	(56,597)
Profit before tax	**288,265**	**330,101**	**145,348**	**204,769**
Income taxes	(98,675)	(108,285)	(44,366)	(63,128)
Net profit	**189,590**	**221,816**	**100,981**	**141,641**

	Solutions		Others		Consolidation		Group	
	2003 € '000	**2004 € '000**	2003 € '000	**2004 € '000**	2003 € '000	**2004 € '000**	2003 € '000	**2004 € '000**
	542,941	**625,519**	**0**	**0**	**(158,706)**	**(165,311)**	**18,558,529**	**19,152,626**
	385,377	460,447	0	0	0	0	18,558,529	19,152,626
	157,564	165,072	0	0	(158,706)	(165,311)	0	0
	60,016	**66,080**	**0**	**0**	**0**	**0**	**1,885,237**	**2,056,687**
	17,759	**16,498**	**(40,349)**	**(45,717)**	**0**	**0**	**486,402**	**589,794**
	141,649	184,860	84,888	99,921	(50,332)	(34,444)	6,265,867	6,405,233
	[14,508]	[18,813]	[44]	[659]	[0]	[0]	[1,860,015]	[1,915,936]
	162,666	219,019	54,808	48,716	(12,351)	(10,528)	2,621,418	2,670,123
	2,802	12,677	45,595	20,113	0	0	282,406	178,374
	410	491	150	174	0	0	32,090	32,036
	442	552	156	179	0	0	32,594	32,246
	19,295	**18,306**	**(39,362)**	**(43,299)**	**0**	**0**	**579,460**	**683,753**
	(1,535)	(1,808)	(987)	(2,417)	0	0	(92,607)	(93,470)
	17,759	**16,498**	**(40,349)**	**(45,717)**	**0**	**0**	**486,853**	**590,283**
	1,758	2,398	(20,947)	(12,844)	0	0	(95,018)	(95,177)
	19,518	**18,897**	**(61,296)**	**(58,661)**	**0**	**0**	**391,835**	**495,106**
	(4,632)	(5,753)	22,498	21,271	0	0	(125,175)	(155,895)
	14,887	**13,144**	**(38,798)**	**(37,390)**	**0**	**0**	**266,660**	**339,211**

Segment reporting by geographical region

Segmentation by region	Germany		France		United Kingdom		Other countries		Group	
	2003 € '000	**2004 € '000**	2003 € '000	**2004 € '000**	2003 € '000	**2004 € '000**	2003 € '000	**2004 € '000**	2003 € '000	**2004 € '000**
Segment revenue	3,489,650	**3,421,629**	6,781,413	**6,966,551**	4,819,207	**5,177,534**	3,468,259	**3,586,912**	18,558,529	**19,152,626**
Segment assets	954,382	**849,268**	1,329,861	**1,364,115**	2,242,911	**2,372,968**	1,738,713	**1,818,882**	6,265,867	**6,405,233**
Segment capital expenditures	58,702	**28,252**	30,696	**21,427**	88,666	**62,408**	104,342	**66,287**	282,406	**178,374**

Notes to the consolidated financial statements

General

Accounting principles and methods

Celesio AG, based in Stuttgart, has applied the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, to the consolidated financial statements for the first time as of 31.12.2004. IFRS 3, IAS 36 (2004) and IAS 38 (2004) were applied voluntarily, in advance of their mandatory application, for these consolidated financial statements. In addition, with the exception of IAS 16 and 28, all changes originating from the ″Improvements Project″ initiated by the IASB have also been considered. Moreover, all binding interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) were observed in fiscal year 2004.

The consolidated financial statements prepared pursuant to IFRS comply with the Directive of the European Union on consolidated accounting (Directive 83/349/EEG). The significant differences between HGB accounting [″Handelsgesetzbuch″: German Commercial Code] and IFRS are discussed in the following section, ″First time application of IFRS″. Due to the fact that the criteria of Sec. 292a HGB have been fulfilled, no consolidated financial statements pursuant to HGB need to be prepared.

The consolidated financial statements have been prepared from the individual financial statements of consolidated group companies as of 31.12.2004. These had been prepared in compliance with the group's uniform recognition and measurement principles, based on IFRS. All consolidated companies had reported on the same balance sheet date as that used for the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with the historical cost convention with the exception of derivative financial instruments and available-for-sale financial assets which are in general recognised at fair value.

The consolidated financial statements have been prepared in euro (€) with all figures generally rounded to the nearest thousand.

General

The income statement has been prepared using the nature of expenditure method with the addition of a line item for gross profit. The balance sheet has been categorised into current and non-current items in line with IAS 1. To aid clarity, a number of items have been summarised both in the balance sheet and in the income statement. These items are discussed in detail in the notes to the financial statements.

The methods used to measure assets and liabilities are explained in the notes on the individual line items of the balance sheet.

First-time application of IFRS

IFRS 1 was observed for the first-time application of the standards issued by the IASB. Consequently, the changes to recognition and measurement methods required by the first-time application of IFRS have been made retrospectively. The adjustments were offset against the revenue reserves in the IFRS opening balance sheet as of 01.01.2003 without affecting income.

In compliance with IFRS 1, the following exceptions to this treatment were made:

- Business combinations: goodwill originating from business combinations made in the past was determined in accordance with HGB and rolled forward. This item has been carried forward to the IFRS opening balance sheet without change. Thus the net HGB carrying values were taken as the historical cost for the IFRS opening balance sheet. The net book values as of 01.01.2003 were tested for impairment pursuant to IAS 36.
- Pension provisions: accumulated actuarial gains and losses were fully considered in the provisions as of 01.01.2003, i.e. the actuarial pension obligation has been recognised in full.

For the Celesio Group, the most significant differences to the HGB recognition and measurement principles used formerly are shown below. The impact on equity and income as of the date of the opening balance sheet and the following period is shown in the reconciliations provided.

- Goodwill is not permitted to be amortised on a scheduled basis or offset. Pursuant to IAS 36 there is a duty to subject goodwill to an impairment test at least once a year.
- Pursuant to the allocation criteria in IAS 17, assets acquired under finance leases are capitalised with a corresponding liability being recognised for outstanding lease payments.
- There is a ban on recognising general valuation allowances for inventories or trade receivables. Instead of this approach, IAS 2 and IAS 39 require that net realisable value is determined on an item by item basis, or, for a portfolio of identical assets, on the basis of past experience.
- IAS 39 requires recognition of certain financial instruments at fair value as well as disclosure of any hedges.
- Pension provisions are measured using the projected unit credit method taking account of future salary and pension developments and using market interest rates; all indirect benefit obligations must also be recorded as liabilities. Application of the "corridor approach" for actuarial gains and losses pursuant to IAS 19.
- Pursuant to IAS 37 no provisions may be recognised where there is no underlying legal or constructive obligation.
- The consolidated group is demarcated on the basis of the concept of control pursuant to IAS 27 and SIC 12. This implies that the consolidated group must be extended to include any special purpose entities in which Celesio has no clear majority of voting rights but is considered to be the economic owner. Inclusion of such companies has a special impact on such balance sheet items as land and buildings, trade receivables as well as financial liabilities.

General

– Pursuant to IAS 12, deferred taxes are recognised by applying the liability method. This states that deferred taxes should be recognised for temporary differences between the tax balance sheet and the IFRS balance sheet, even for events that have no effect on income. Deferred tax assets on unused tax losses are recognised provided that it is reasonably certain that they can be utilised.

As a result of the transition to IFRS, the equity reported as of 01.01.2003 and 31.12.2003 in the IFRS statements can be reconciled to the HGB statements as of 31.12.2002 and 31.12.2003 as follows:

	01.01.2003 € '000	**31.12.2003 € '000**
Shareholders' equity according to HGB	1,639,694	1,608,979
Goodwill	0	195,646
Property, plant and equipment	(5,537)	(4,773)
Inventories	7,605	8,005
Trade receivables	11,892	14,162
Derivative financial instruments	(79,194)	(64,800)
Retirement benefit obligations	(72,376)	(68,217)
Other provisions	(1,178)	(5,462)
Change to consolidated group	(11,653)	(11,797)
Deferred taxes and other changes	43,403	23,295
Shareholders' equity according to IFRS	**1,532,656**	**1,695,038**

The transition to IFRS had the following impact on the income statement for the year 2003:

	€ '000
Consolidated net profit according to HGB at 31.12.2003	249,360
Goodwill	19,323
Property, plant and equipment	797
Inventories	488
Trade receivables	1,935
Derivative financial instruments	389
Retirement benefit obligations	(488)
Other provisions	(6,870)
Change to consolidated group	(164)
Deferred taxes and other changes	(1,437)
Consolidated net profit according to IFRS at 31.12.2003	**263,333**

General

Consolidation methods

Pursuant to IFRS 3, any equity interest in subsidiaries has been consolidated using the purchase method of accounting, i.e. assets and liabilities and, if the criteria of IFRS 3 are met, any contingent liabilities are measured at their fair value on the date of acquisition. Interim financial statements were prepared for this purpose. Any difference arising between the purchase price and the share in the net assets of the company acquired is allocated to the respective assets and liabilities where their carrying values differ from their fair values. Any remaining difference attributable to the group 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. Any negative goodwill is recorded as income immediately.

Pursuant to IAS 28, associated companies are consolidated using the equity method at the time of acquisition.

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 that are included in profit or loss.

Consolidated group

All subsidiaries over which Celesio AG has control as defined by IAS 27 have been fully consolidated. Owing to the rulings of SIC 12, nine special purpose entities have been included in the consolidated group even though Celesio AG does not hold the majority of the voting rights. The purpose of these companies is generally to lease real estate, and in one case, asset-backed securities.

The consolidated group comprises 483 German and foreign companies (in the prior year 503). As compared to 31.12.2003 the group of consolidated companies has developed as follows:

01.01.2004	**503**
Changes in fiscal year 2004	(20)
of which due to mergers with other group companies	(14)
of which due to disposals of shares	(1)
of which due to liquidations	(17)
of which due to formation of new company	2
of which due to acquisitions of shares	10
31.12.2004	**483**
of which domestic companies	13
of which foreign companies	470

19 (in the prior year 14) associated companies have been consolidated at equity. In the prior year, two companies acquired towards the end of the fourth quarter of 2003 were not consolidated as the information necessary for consolidation was not available. Non-inclusion of these companies in the consolidated financial statements did not have any material impact on a true and fair view of the group's net worth, financial position, and results of operations.

General

Business combinations conducted in the fiscal year affect the Pharmacies division (8 companies) and Solutions division (2 companies). The total purchase price amounts to € 61,066,000 of which € 2,382,000 are cash and cash equivalents. The purchase price payables were settled in full by cash payments, i.e. no settlement by transfer of own shares was involved. Revenue of € 29,448,000 is attributable to the companies acquired in the course of the fiscal year as is profit before taxes of € 2,621,000. Had these companies been consolidated from the beginning of the fiscal year, they would have contributed to revenue of € 49,175,000 and € 3,067,000 to the group's profit before tax. The assets and liabilities acquired in the course of these business combinations are not material. Their net book values generally approximate their fair values.

The summary of all investment holdings (list of shareholdings) pursuant to Sec. 313 (4) HGB has been submitted to the commercial register in Stuttgart.

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, they have been taken into account as foreign entities as defined by IAS 21. This requires translating their assets and liabilities at the mean exchange rate prevailing on the balance sheet date. Income statement items are translated using the annual average exchange rates. Any differences arising from currency translation are posted directly to equity. Goodwill arising from business combinations is translated using the mean rate prevailing on the date of acquisition. In the event that group companies leave the consolidated group, any currency differences carried in equity are released to income. Changes in exchange rates on the prior year are as follows:

Country		Closing rate		Annual average	
		31.12.2003	**31.12.2004**	2003	**2004**
United Kingdom	**GBP**	0.7048	0.7051	0.6916	0.6784
Norway	**NOK**	8.4141	8.2365	7.9909	8.3656
Czech Republic	**CZK**	32.4100	30.4640	31.8413	31.8748

Monetary items reported in local currency in the individual balance sheets of consolidated companies such as cash and cash equivalents, receivables, and current liabilities are translated using the closing rate pursuant to IAS 21. Any unrealised gains or losses are grouped in the income statement together with offsetting changes of fair values of derivatives. Non-monetary items denominated in foreign currency are translated using the historical rate.

In the reporting year, exchange rate gains amounted to € 2,372,000 (prior year: € 7,114,000) and exchange rate losses to € 4,250,000 (prior year: € 6,677,000) prior to being offset against the effects from valuing hedging instruments at fair value.

Notes to the income statement

(1) Revenue

A breakdown of revenue by business division and region is part of segment reporting.
Revenue in the Pharmacies and Wholesale divisions originates from the sale of merchandise. In the Solutions division revenues are also generated from services for manufacturers. Merchandise sales are not recognised until the transfer of title to the customer has occurred. Revenue from Solutions is recognised upon performance of services.

(2) Other income

	2003 € '000	**2004** **€ '000**
Income from disposals of non-current assets	6,221	5,993
Income from rent and leases	4,544	5,066
Advertising subsidies	34,686	45,489
Income from data sales	8,947	15,385
Other income	69,144	73,682
Total	**123,542**	**145,615**

Other income includes income from transactions that are not part of the core business of the Celesio Group. In the Pharmacies and Wholesale divisions, this includes income from marketing activities, services and data processing and IT services as well as income from renting out buildings. Other income also includes reversals of doubtful debt allowances. Government grants related to income that can no longer be matched with future expenses have been recognised in income. In the fiscal year 2004, the sum of grants with an affect on income amounted to € 574,000 (prior year: € 1,317,000).

(3) Personnel expenses/Employees

	2003 € '000	**2004** **€ '000**
Wages and salaries	706,376	751,599
Social security costs	133,756	138,215
Pension costs	16,662	21,522
Personnel services	54,047	53,255
Other personnel expenses	4,598	5,024
Total	**915,439**	**969,615**

The item "personnel services" includes expenses incurred for the services of third party personnel. This mainly relates to expenses for locums used to fill in for absent employees. Income from the reversal of personnel-related provisions has been used to offset personnel expenses.

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

Notes to the income statement

(4) Other expenses

	2003 € '000	**2004** **€ '000**
Building expenses	129,953	141,123
Transportation expenses	124,098	122,731
IT and communication expenses	54,296	59,243
Promotion and advertising expenses	31,380	42,232
Losses from disposals of non-current assets	1,262	2,304
Other expenses	175,556	185,696
Total	**516,545**	**553,329**

Other expenses chiefly consist of general administrative and selling expenses, travel expenses, consulting fees, training and bad debt allowances. Income from the reversal of provisions related to other expenses has been deducted from underlying expense items.

(5) Investment income

	2003 € '000	**2004** **€ '000**
Income from associates accounted for using the equity method	451	489
Income from other investments	2,214	3,906
Total	**2,665**	**4,395**

Income from other investments contains impairment charges of € 74,000 (prior year: € 25,000).

(6) Depreciation and amortisation

	2003 € '000	**2004** **€ '000**
Depreciation of property, plant and equipment	86,029	85,576
Amortisation of intangible assets	6,578	7,894
Total	**92,607**	**93,470**

Depreciation and amortisation includes impairment losses of € 731,000 (prior year: € 553,000).

(7) Interest result

	2003 € '000	**2004** **€ '000**
Interest and similar income	**13,761**	**15,192**
of which from affiliated companies	[312]	[465]
Interest and similar expenses	**(108,903)**	**(114,578)**
of which to affiliated companies	[(957)]	[(104)]
of which for finance leases	[(2,695)]	[(1,865)]
of which for pensions	[(4,005)]	[(4,608)]
Other financial result	**124**	**4,209**
Total	**(95,018)**	**(95,177)**

The interest portion paid on lease agreements which qualify as finance leases under IAS 17 is included in interest result.

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

Other financial result relates to changes in the fair value of derivatives used to hedge financial liabilities. In addition, exchange rate fluctuations related to non-operating receivables and liabilities denominated in foreign currency have been posted to financial result.

Notes to the income statement

(8) Income taxes

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

Deferred taxes have been recognised pursuant to the liability method defined in IAS 12. This involves recognising deferred taxes for all temporary differences between the carrying values recognised in the consolidated financial statements and the tax base of assets and liabilities as well as any deferred taxes arising from consolidation. No deferred tax liabilities are recognised for profits retained by German and foreign subsidiaries because these will be retained in the companies for the foreseeable future. In the event of a future profit distribution or sale of the equity investment, the additional tax liability would amount to € 5,463,000 (prior year: € 1,354,000). Unused tax losses that are likely to be realised in future are recognised at the amount of the deferred tax claim. The majority of these unused tax losses can be carried forward indefinitely. In the fiscal year, deferred taxes of € 49,000 (prior year: € 367,000) were recognised on unused tax losses. Deferred tax assets of € 399,000 recognised on unused tax losses were written off as these can no longer be utilised as a consequence of mergers. The utilisation of these unused tax losses, which in past periods were considered unlikely to be utilised, plus tax credits resulted in a reduction of taxes on income of € 930,000 in 2004 (prior year: € 409,000). In addition, the group carries unused tax losses of € 114,664,000 (prior year: € 121,394,000) on the balance sheet date which from a current perspective are unlikely to be utilised. No deferred taxes have been recognised on these unused tax losses.

The calculation of deferred taxes is based on the tax rates valid in the separate countries at the time they were recognised or which had been enacted for future periods. For German companies, the average tax rate is 38.9 %. This has fallen by 1.3 % on the prior year as the support for the flood victims act no longer applies.

	2003 € '000	**2004** **€ '000**
Current taxes	131,727	156,317
Deferred taxes	(6,552)	(422)
Income taxes	**125,175**	**155,895**

The current tax burden includes tax income from other periods of € 6,826,000 (prior year: € 6,217,000).

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 can be reconciled as follows:

	31.12.2003		**31.12.2004**	
	€ '000	in %	**€ '000**	**in %**
Profit before tax	391,835	100.0	495,106	100.0
Expected income tax expenses	**157,518**	**40.2**	**192,596**	**38.9**
Effect of differing national tax rates	(27,145)	(6.9)	(36,298)	(7.3)
Tax from previous periods	(6,217)	(1.6)	(6,826)	(1.4)
Tax effect of non deductible expenses and tax-free income	2,403	0.6	6,268	1.3
Tax rate changes	(565)	(0.2)	(377)	(0.1)
Use of losses carried forward prior not recognised as tax assets	(776)	(0.2)	(979)	(0.2)
Allowance on deferred tax assets recognised on tax losses carried forward	0	0.0	399	0.1
Other tax effects	(43)	0.0	1,112	0.2
Income taxes	**125,175**	**31.9**	**155,895**	**31.5**

Notes to the income statement

(9) Earnings per share

	2003	**2004**
Consolidated net profit (€ ’000)	263,333	335,941
Weighted number of no-par shares outstanding	85,050,000	85,050,000
Earnings per share (€)	**3.10**	**3.95**

Pursuant to IAS 33, earnings per share are calculated by dividing consolidated net profit (after deducting minority interests) by the weighted average number of shares outstanding during the fiscal year. As in the prior year, there are no dilutive effects from the issue of any financial instruments granting a right to shares in the group.

Notes to the balance sheet

Non-current assets

	Intangible assets € '000	Property, plant and equipement € '000	Financial assets € '000	**Total € '000**
Accumulated historical cost 01.01.2004	**1,931,586**	**1,188,397**	**112,846**	**3,232,829**
Currency translation differences	1,544	2,159	42	3,745
Changes to consolidated group	45,198	3,627	(45)	48,780
Changes in fair market value	0	0	7,534	7,534
Additions	16,673	85,073	34,190	135,936
Reclassifications	4,773	(1,799)	(4,568)	(1,594)
Disposals	(1,907)	(45,663)	(15,136)	(62,706)
31.12.2004	**1,997,867**	**1,231,794**	**134,863**	**3,364,524**
Accumulated valuation adjustments 01.01.2004	**47,247**	**621,449**	**6,358**	**675,054**
Currency translation differences	(17)	48	0	31
Changes to consolidated group	447	1,016	0	1,463
Additions	7,894	85,576	74	93,544
Reclassifications	726	1,199	0	1,925
Disposals	(1,018)	(37,544)	(9)	(38,571)
Reversals	(9)	(235)	(824)	(1,068)
31.12.2004	**55,270**	**671,509**	**5,599**	**732,378**
Net book value at 31.12.2004	**1,942,597**	**560,285**	**129,264**	**2,632,146**
Net book value at 31.12.2003	1,884,339	566,948	106,488	2,557,775

Notes to the balance sheet

(10) Intangible assets

	Industrial and similar rights € '000	Goodwill € '000	Other intangible assets € '000	Payments on account € '000	**Total € '000**
Accumulated historical cost 01.01.2004	**64,307**	**1,860,015**	**6,664**	**600**	**1,931,586**
Currency translation differences	77	1,455	10	2	1,544
Changes to consolidated group	(8)	44,329	877	0	45,198
Additions	7,406	7,194	161	1,912	16,673
Reclassifications	177	3,810	1,036	(250)	4,773
Disposals	(1,040)	(867)	0	0	(1,907)
31.12.2004	**70,919**	**1,915,936**	**8,748**	**2,264**	**1,997,867**
Accumulated valuation adjustments 01.01.2004	**43,765**	**0**	**3,482**	**0**	**47,247**
Currency translation differences	(19)	0	2	0	(17)
Changes to consolidated group	1	0	446	0	447
Additions	7,484	0	410	0	7,894
Reclassifications	0	0	726	0	726
Disposals	(1,018)	0	0	0	(1,018)
Reversals	(9)	0	0	0	(9)
31.12.2004	**50,204**	**0**	**5,066**	**0**	**55,270**
Net book value at 31.12.2004	**20,715**	**1,915,936**	**3,682**	**2,264**	**1,942,597**
Net book value at 31.12.2003	20,542	1,860,015	3,182	600	1,884,339

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. Apart from goodwill, no intangible assets with indefinite useful lives are carried in the balance sheet.

Internally generated intangible assets from which future benefits are likely to flow to the group and whose cost can be reliably measured are recognised at the cost of production. The cost of production includes all costs directly allocable to development as well as an appropriate portion of allocable overheads. Financing costs are not capitalised.

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

It is assumed that goodwill has an indefinite useful life. Correspondingly, it is not amortised on a scheduled basis pursuant to IFRS 3. Rather, it is 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 recognised at the amount by which the net book value exceeds the recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit concerned. Impairment losses are determined by allocating goodwill to cash generating units. For the Pharmacies and Wholesale divisions, these correspond to the national units (e.g. wholesale Germany). Within the Solutions division, AVS Health Distribution is deemed to be a cash generating unit in its entirety. The planning is based on five year periods. The planning projections are rolled forward to the following years. Cash flows are discounted using the weighted cost of capital. The costs of capital are composed of the finance costs which are based on long-term market interest rates and the costs of equity, which are calculated from a risk-free basic rate of return and a country-specific risk premium.

In the fiscal year, the value in use of the cash generating units was based on a growth factor of 3 % (prior year: 3 %) for all cash flows beyond the detailed planning projections. In addition, the discount factors used ranged from 6.9 % to 8.5 % (prior year: 6.5 % to 8.6 %).

Notes to the balance sheet

(11) Property, plant and equipment

	Land, land rights and buildings € '000	Technical equipment and machines € '000	Other equipment, furniture and fixtures € '000	Payments on account and assets under construction € '000	**Total € '000**
Accumulated historical cost 01.01.2004	**558,789**	**233,370**	**385,139**	**11,099**	**1,188,397**
Currency translation differences	835	287	1,012	25	2,159
Changes to consolidated group	1,479	1,738	365	45	3,627
Additions	17,501	22,656	36,653	8,263	85,073
Reclassifications	5,611	6,222	847	(14,479)	(1,799)
Disposals	(14,874)	(12,109)	(18,327)	(353)	(45,663)
31.12.2004	**569,341**	**252,164**	**405,689**	**4,600**	**1,231,794**
Accumulated valuation adjustments 01.01.2004	**223,978**	**152,697**	**244,774**	**0**	**621,449**
Currency translation differences	384	(76)	(260)	0	48
Changes to consolidated group	216	618	182	0	1,016
Additions	22,458	24,457	38,661	0	85,576
Reclassifications	783	(143)	559	0	1,199
Disposals	(10,147)	(11,170)	(16,227)	0	(37,544)
Reversals	(80)	0	(155)	0	(235)
31.12.2004	**237,592**	**166,383**	**267,534**	**0**	**671,509**
Net book value at 31.12.2004	**331,749**	**85,781**	**138,155**	**4,600**	**560,285**
Net book value at 31.12.2003	334,811	80,673	140,365	11,099	566,948
of which **finance leases**					
Net book value at 31.12.2004	**52,438**	**6,194**	**11,087**	**0**	**69,719**
Net book value at 31.12.2003	56,448	7,435	14,090	0	77,973

Property, plant and equipment are carried at amortised cost in accordance with IAS 16. Subsequent costs are capitalised. The cost of internally constructed property, plant and equipment includes all costs which can be directly allocated to the production process as well as an appropriate portion of production-related overheads and less depreciation. Financing costs are not capitalised.

Pursuant to IAS 20, any government grants or subsidies received for the acquisition or production of an asset are deducted from the cost of the related asset. As in the prior year, government grants were immaterial in fiscal year 2004.

With the exception of land, property, plant and equipment items are depreciated on the basis of their useful lives.

The useful lives for the various assets categories are (in years):

Buildings	10 – 50
Technical equipment and machines	3 – 15
Other equipment, furniture and fixtures	3 – 10

Where necessary, impairment losses are recorded 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 on the date the lease is entered at the present value of the minimum lease payments plus any incidental costs borne by the lessee or at its fair value if lower pursuant to IAS 17. These leases primarily relate to real estate. The agreements have terms of up to 14 years and some contain purchase options. The depreciation methods and useful lives applied correspond to those of comparable assets acquired for a consideration.

Notes to the balance sheet

The future payment commitments resulting from finance leases are as follows:

	31.12.2003 € '000	**31.12.2004** **€ '000**
Minimum lease payments	77,253	63,946
due within one year	12,688	12,588
due after one year but not more than five years	39,037	30,345
due in more than 5 years	25,528	21,013
Interest portion	(14,826)	(11,313)
Present value	**62,427**	**52,633**

(12) Financial assets

	Investments in associates € '000	Available-for-sale financial assets € '000	Loans to associates € '000	Other loans € '000	**Total € '000**
Accumulated historical cost 01.01.2004	**6,157**	**73,637**	**1,881**	**31,171**	**112,846**
Currency translation differences	0	3	33	6	42
Changes to consolidated group	(139)	0	0	94	(45)
Changes in fair value	0	7,534	0	0	7,534
Additions	4,145	19,761	4,081	6,203	34,190
Reclassifications	0	(3,811)	(454)	(303)	(4,568)
Disposals	0	(2,762)	(1,245)	(11,129)	(15,136)
31.12.2004	**10,163**	**94,362**	**4,296**	**26,042**	**134,863**
Accumulated valuation adjustments 01.01.2004	**0**	**2,939**	**150**	**3,269**	**6,358**
Currency translation differences	0	0	0	0	0
Changes to consolidated group	0	0	0	0	0
Additions	0	74	0	0	74
Reclassifications	0	0	39	(39)	0
Disposals	0	(9)	0	0	(9)
Reversals	0	0	(79)	(745)	(824)
31.12.2004	**0**	**3,004**	**110**	**2,485**	**5,599**
Net book value at 31.12.2004	**10,163**	**91,358**	**4,186**	**23,557**	**129,264**
Net book value at 31.12.2003	6,157	70,698	1,731	27,902	106,488

Notes to the balance sheet

Investments in associates are accounted for using the equity method pursuant to IAS 28.

Investments and securities classified as available-for-sale are initially recognised at historical cost 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 public exchanges. Unrealised gains or losses are reported in a separate reserve under equity after considering any deferred tax effects until they are realised. This resulted in a figure of minus € 41,000 (prior year: minus € 41,000) being recorded in equity as of balance sheet date. If no active market is available for the assets and their fair value cannot be determined without incurring an unreasonable expense, these financial assets are reported at (amortised) cost. As of 31.12.2004, equity investments totalling € 22,338,000 (prior year: € 21,814,000) were valued at cost for this reason. If their fair value falls below their net book value for the foreseeable future, an impairment loss is recorded against income.

Loans to investments and other loans are recognised as loans originated by the enterprise and measured at amortised cost.

(13) Deferred Taxes

The following deferred tax assets and liabilities have been recognised on the temporary differences between the tax base and the net book value of individual balance sheet items in the IFRS financial statements and on unused tax losses.

	31.12.2003 Assets € '000	31.12.2003 Liabilites € '000	**31.12.2004 Assets € '000**	**31.12.2004 Liabilities € '000**
Temporary differences				
– with effect on income	126,987	67,345	125,404	68,941
– without effect on income	216	5,748	483	7,263
Future tax savings due to unused tax losses carried forward	11,106	0	13,459	0
less offsetting	(39,627)	(39,627)	(58,353)	(58,353)
	98,682	**33,466**	**80,993**	**17,851**

Deferred taxes without any effect on income are a result of accounting for changes in the value of available-for-sale financial assets and derivative financial instruments used for cash flow hedges without any effect on income.

More information on deferred taxes can be found in note 8.

Notes to the balance sheet

(14) Inventories

Raw materials, consumables and supplies, finished goods and merchandise are recognised at cost based on weighted average purchase prices or, in the Pharmacies division, using the retail method.
Pursuant to IAS 2 they are measured at balance sheet date at the lower of cost or net realisable value. This involves accounting for risks associated with holding and selling inventories by recognising specific valuation allowances. The company has not entered any long-term construction contracts pursuant to IAS 11. The Celesio Group has not made any collateral assignment of its inventories.

	31.12.2003 € '000	**31.12.2004** **€ '000**
Raw materials, consumables and supplies	2,155	1,715
Finished goods and merchandise	1,404,516	1,443,426
Payments on account	2,178	2,176
Total	**1,408,849**	**1,447,317**

In the reporting year inventories were written down by € 6,276,000 (prior year: € 5,401,000). This was counteracted by revaluations from reversing valuation allowances of € 5,397,000 (prior year: € 3,114,000). The net book value of inventories valued at net realisable value amounts to € 29,811,000 (prior year: € 44,641,000).

(15) Receivables and other assets

With the exception of financial derivatives, receivables and other assets are carried at the lower of amortised cost or net realisable value. All discernible specific risks are therefore accounted for by appropriate valuation allowances. Interest-free or low interest receivables with terms of over 12 months are discounted. In the reporting year valuation allowances of € 19,056,000 (prior year: € 19,828,000) were recorded. This was counteracted by revaluations from reversing valuation allowances of € 16,193,000 (prior year: € 16,628,000). Net book values generally correspond with fair value. Receivables denominated in foreign currency were translated using the mean exchange rate prevailing on balance sheet date. Changes in value due to exchange rate fluctuations were posted to the income statement.

As of balance sheet date, receivables and other assets are as follows:

	31.12.2003 € '000	**31.12.2004** **€ '000**
Trade receivables	2,155,317	2,133,269
Tax receivables	28,859	32,591
Receivables from affiliated companies	186	69
Receivables from associated companies	20	1,042
Derivative financial instruments	4,486	12,857
Other assets	128,402	175,627
Total	**2,317,270**	**2,355,455**

Among other items, other assets contain supplier bonuses, outstanding input tax reimbursements and other tax receivables, receivables from employees and other short-term receivables.

Notes to the balance sheet

In the fiscal year several arrangements for the sale of receivables were installed as well as an asset-backed securities programme. The nominal contract volume of existing contracts over the course of the fiscal year and their utilisation as of balance sheet date is summarised below:

	Nominal volume € m	Volume at 31.12.2003 € m	Volume at 31.12.2004 € m	Lease term
Asset-backed securities programme OCP REPARTITION SAS, Saint-Ouen/France	250.0	242.0	249.3	26 August 2005
Sales of receivables GEHE Pharma Handel GmbH, Stuttgart/Germany	153.4	153.4	0	30 December 2004
LLOYDS PHARMACY LIMITED, Coventry/United Kingdom, and AAH PHARMACEUTICALS LIMITED, Coventry/United Kingdom	GBP 100 m	129.4 (GBP 91.2 m)	0	3 December 2004
Herba Chemosan Apotheker-AG, Vienna/Austria	20.0	17.5	0	31 March 2004
		542.3	**249.3**	

The sales of receivables and asset-backed securities programme have not led to the derecognition of trade receivables.

(16) Cash and cash equivalents

	31.12.2003 € '000	**31.12.2004 € '000**
Cash in hand and cheques	1,896	3,126
Bank balances	13,549	12,094
	15,445	**15,220**

Movements in cash and cash equivalents as defined by IAS 7 are shown in the attached cash flow statement. Cash in hand and bank deposits have been recognised at face value. Foreign cash reserves have been valued using the mean rate on balance sheet date.

No bank deposits have been assigned as collateral, either for existing loans or approved lines of credit.

(17) Shareholders' equity

The issued capital of Celesio AG has not changed on the prior year and is split into 85,050,000 no par value shares. Authorised capital of € 43,546,000 is available until 07.05.2007.

In addition to the reserves carried by Celesio AG, the reserves also contain the profits generated since the first-time consolidation of subsidiaries in the financial statements and the effects of consolidation entries. Minority interests relate to the net assets held in the subsidiaries concerned after being adjusted to the accounting standards of the Celesio Group.

Other comprehensive income contain changes to equity arising from measuring financial instruments used for cash flow hedges at fair value. These amounted to € 16,547,000 (prior year: € 6,610,000). In addition, this item also includes changes in the fair value of securities categorised as "available-for-sale" which totalled minus € 41,000 in the reporting year (prior year: minus € 41,000). An amount of € 1,083,000 was released to income in the fiscal year (prior year: € 150,000).

Notes to the balance sheet

The fall in minority interests is mainly based on the successive acquisition of shares in Herba Chemosan Apotheker-AG, Vienna/Austria.

(18) Pension provisions

Depending on the economic, legal, and tax environment of the respective country, the employees of the Celesio Group are entitled to join differing pension schemes. These include both defined benefit arrangements and defined contribution schemes. The obligations arising from the defined benefit schemes are covered by external pension funds and appropriate provisions. The obligations depend on the years of service and, in most cases, the final salary received. The plan assets carried by the pension funds include shares, fixed interest securities and real estate.

The actuarial valuation of these pension obligations is based on the projected unit credit method pursuant to IAS 19. This method involves considering both the vested and non-vested rights to receive a pension as of balance sheet date, current pensions, and prospective increases in wages and salaries and pensions. Actuarial gains and losses are recognised using the corridor method.

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

	2003 %	**2004** **%**
Discount rate by currency region		
– EURO	5.7	5.0
– NOK	5.5	4.6
– GBP	5.4	5.3
Projected wage and salary increases	2.0 – 4.6	2.5 – 4.6
Projected pension increases	1.5 – 3.0	1.0 – 4.0
Expected return on plan assets	2.5 – 7.0	3.1 – 6.7

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

	31.12.2003 € '000	**31.12.2004** **€ '000**
Service cost	10,786	15,275
Past service cost	282	110
Amortisation of actuarial profits and losses	0	(17)
Interest expense	21,963	22,304
Expected return on plan assets	(17,958)	(17,696)
Total	**15,073**	**19,976**

The interest portion contained in the additions to pension provisions is also recognised under interest expense after deducting the expected return on plan assets. The actual income from plan assets in the reporting year amounted to € 23,109,000 (prior year: € 19,753,000).

Pension provisions developed as follows in the reporting year:

	2003 € '000	**2004** **€ '000**
Provisions for pension liabilities at 01.01.	157,420	154,609
Pension expenses	15,073	19,976
Pension payments	(12,574)	(42,155)
Currency, consolidated group and other changes	(5,310)	233
Provisions for pension liabilities at 31.12.	**154,609**	**132,663**

Notes to the balance sheet

The fall in pension provisions by € 21,946,000 is primarily due to pension obligations being increasingly met by external pension funds.

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

	2003 € '000	**2004** **€ '000**
Defined benefit obligation- funded	377,001	410,009
Fair market value of plan assets	296,269	360,610
Shortage of cover	**80,732**	**49,399**
Defined benefit obligation- unfunded	76,820	88,650
Subtotal	**157,552**	**138,049**
Unrecognised actuarial gains/losses	(2,943)	(5,386)
Pension provisions at 31.12.	**154,609**	**132,663**

The defined contribution pensions plan installed for companies of the Celesio Group involves no other commitment for the group than payment of the defined contribution to the external fund. Expenses from current contributions to these plans amounted to € 6,154,000 in the reporting period (prior year: € 5,238,000).

(19) Other provisions

Pursuant to IAS 37, 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 discernible risks. The most likely amount is taken. Rights of recourse 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 potential losses from pending transactions are recognised if the contractual obligation is higher than the expected economic benefits.

Provisions with a term of more than 12 months are discounted. Interest rates of between 4.5 % and 5.5 % are used for this purpose.

Non-current provisions and current portions of provisions developed as follows in the reporting year:

	31.12.2003	**31.12.2004**							
	Net book value	Changes in currency and in the consolidation group	Additions	Utilisations	Reversals	Discount	Reclassifications	Net book value 31.12.2004	of which due within 1 year
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Other personnel obligations	61,742	(525)	39,575	(25,355)	(1,205)	527	(2,951)	71,808	44,793
Other provisions	99,235	127	23,232	(25,944)	(647)	0	2,951	98,954	95,692
Total	**160,977**	**(398)**	**62,807**	**(51,299)**	**(1,852)**	**527**	**0**	**170,762**	**140,485**

The provisions for other personnel obligations mainly cover rights to bonuses, early phased retirement benefits ("Altersteilzeit"), severance payments, and long-service bonuses. Other provisions mainly comprise provisions for property, restructuring, litigation risks, and potential losses.

Notes to the balance sheet

(20) Liabilities

	31.12.2003	31.12.2004			
		Due in			
	Net book value € '000	up to 1 year € '000	1 to 5 years € '000	more than 5 years € '000	**Net book value € '000**
Financial liabilities					
Liabilities to banks	1,436,872	232,651	53,691	800,878	1,087,220
Promissory notes	242,462	0	378,607	46,423	425,030
Commercial papers	241,916	249,302	0	0	249,302
Finance lease liabilities	62,427	10,712	24,652	17,269	52,633
Other financial liabilities	13,592	1,000	6,212	11,504	18,716
	1,997,269	**493,665**	**463,162**	**876,074**	**1,832,901**
Trade payables and other liabilities					
Trade payables	1,783,431	1,844,054	0	0	1,844,054
Tax liabilities	107,078	125,277	0	0	125,277
Liabilities to affiliated companies	1,424	226	0	0	226
Liabilities to associated companies	701	1,379	0	0	1,379
Other liabilities	464,028	454,150	0	0	454,150
	2,356,662	**2,425,086**	**0**	**0**	**2,425,086**
	4,353,931	**2,918,751**	**463,162**	**876,074**	**4,257,987**

(21) Financial liabilities

Generally, IAS 39 requires that all financial liabilities are carried at amortised cost. Financial liabilities designated as the underlying of a fair value hedge are recognised at fair value. The fair values of financial liabilities have been determined using interest rates valid for the corresponding maturities and repayment schedules as of balance sheet date.

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

a) Liabilities to banks

The Celesio Group generally depends on long-term bilateral credit facilities. These are generally availed of on a short-term, revolving basis and are subject to variable interest rates. Variable interest rates can be adjusted at periods of less than 12 months. Special purpose lease entities have in addition arranged fixed interest loans to finance real estate. Liabilities to banks are broken down by maturity. Liabilities to banks are denominated in the following foreign currencies and at the following interest rates valid on the balance sheet date:

		31.12.2003		**31.12.2004**	
Currency	Due in	Average effective interest rate in %	Carrying amount € '000	Average effective interest rate in %	Carrying amount € '000
EUR			**454,791**		**554,196**
	1 year	2.5	306,328	2.9	77,251
	1 to 5 years	4.6	31,892	4.9	25,324
	more than 5 years	5.4	116,571	3.3	451,621
GBP			**954,324**		**494,712**
	1 year	4.3	249,740	4.5	117,088
	1 to 5 years	4.5	284,485	5.6	28,367
	more than 5 years	4.4	420,099	5.6	349,257
CZK			**23,922**		**27,420**
	1 year	2.5	23,922	2.8	27,420
NOK			**3,835**		**10,892**
	1 year	3.2	3,835	2.6	10,892
			1,436,872		**1,087,220**

Notes to the balance sheet

b) Promissory notes

To ensure its long-term financing, the Celesio Group has issued several promissory notes with original terms ranging from four to seven years. These are denominated in euro or pounds sterling and are generally subject to variable interest rates. A portion of a nominal value of € 55,500,000 (prior year: € 55,500,000) is subject to a fixed interest rate and has a fair value of € 53,958,000 (prior year: € 55,310,000). The effective interest rates range at the balance sheet date between 2.81 % and 5.77 % (prior year: 3.13 % – 4.66 %).

c) Commercial papers

Short-term commercial papers denominated in euro were issued in connection with the asset-backed securities programme in France. The total available volume amounts to € 250 m of which € 249,302,000 (prior year: € 241,916,000) had been drawn on. The average effective interest rate here at the balance sheet date is 2.19 % (prior year: 2.17 %).

d) 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 Wholesale division.

e) Other financial liabilities

Other financial liabilities chiefly contain security deposits received and other interest-bearing liabilities.

Collateral for financial liabilities has mainly been assigned to special purpose lease entities for long-term leases for real estate. In these cases, collateral equal to the secured loans of € 104,135,000 (prior year: € 114,244,000) has been assigned. In addition, commercial papers of the asset-backed securities programme are fully secured by trade receivables.

(22) Trade payables and other liabilities

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

All liabilities denominated in foreign currency (including any hedged items) are translated using the mean closing rate. Any resulting changes in value are posted to the income statement. The remaining liabilities are as follows:

	31.12.2003 € '000	**31.12.2004** **€ '000**
Personnel liabilities	97,451	102,784
Other tax liabilities	88,150	72,447
Outstanding invoices	99,911	114,928
Derivative financial instruments	65,296	61,112
Further liabilities	113,220	102,879
Total	**464,028**	**454,150**

Notes to the balance sheet

(23) Derivative financial instruments

In the course of its business operations, Celesio is exposed to interest rate and foreign exchange risks. These risks are hedged against by use of derivatives. The use of derivatives is subject to uniform group guidelines, compliance of which is monitored constantly. This includes a separation of functions between trading, administration, and accounting and restricting activity to a small group of banks with excellent credit ratings and only granting power of attorney to a few, qualified employees. Derivatives are only entered into for hedging purposes.

With regard to interest-rate risks, a distinction must be made between fixed interest and variable interest 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 the market interest rates fluctuate, the market price of the financial instrument will change (fair value risk due to 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 on balance sheet date. The interest rate related risk will therefore lead to a profit or loss if the fixed-interest instrument is sold before maturity. For financial instruments subject to variable interest rates, the interest rate is adjusted in line with respective market rates. However, there is a risk here that there may be a short-term fluctuation in interest rates leading to changes in the interest due (cash flow risk due to interest rates).

Exchange rate risks refer to the possible impairment of balance sheet items and any future transactions that have been planned due to fluctuations in exchange rates.

In addition, there are risks related to credit ratings and risks of default. These refer to the risk that a contractual partner does not perform its contractual duties in full or in part, leading to a financial loss. To minimise the risk of default, the Celesio Group only works with contractual partners who enjoy top credit ratings. Given the current financial derivatives, the maximum theoretical risk of default equals the positive fair values of the instruments. These amount to € 12,857,000 as of balance sheet date (prior year: € 4,486,000).

Hedges are used to secure both the fair value of balance sheet items and future cash flows. This includes exchange rate hedges for intended purchases of merchandise. Interest caps and interest swaps were used in the fiscal year to hedge interest risks. An interest cap puts an upper limit on a variable interest rate. An interest swap involves swapping the fixed or variable interest rate of the underlying transaction for its entire term. Forward exchange contracts and currency swaps were used in the fiscal year to hedge against exchange rate fluctuations.

All derivatives entered into by the Celesio Group are initially recognised at cost in accordance with IAS 39 and subsequently measured at fair value on balance sheet date. The provisions of IAS 39 have been applied for hedge accounting. This involves recognising any financial instrument used as a hedge either as a fair value hedge or as a cash flow hedge. Changes in the value of a fair value hedge are recorded directly in profit or loss for the period. By contrast, that portion of the change in value of a cash flow hedge qualifying as highly effective is posted to shareholders' equity without affecting profit where it will be released 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 posted directly to profit or loss. They are offset by the contrary movements in the fair value of the hedged items.

Depending on their fair value on balance sheet date, derivative financial instruments are reported under other assets or other liabilities respectively.

Notes to the balance sheet

The nominal volume of a derivative hedge transaction is the imputed volume derived from the related cash flows. The hedged item and related risk do not in themselves constitute the nominal volume – only the changes in market prices and interest rates related to it. The fair value of the hedge is the amount that Celesio would have to pay or would receive if the hedge were released. The fair values of forward exchange contracts are based on the latest official exchange rates taking account of forward discounts and premiums. The fair value of interest hedges is based on the discounted future estimated cash flows. The market interest rates applying to the respective residual term of the derivative are used for this purpose.

The fair values of derivatives are as follows:

	31.12.2003			**31.12.2004**		
	Fair market value € '000	of which fair value hedges € '000	of which cash flow hedges € '000	Fair market value € '000	of which fair value hedges € '000	of which cash flow hedges € '000
Interest instruments	**(63,224)**	190	(60,117)	**(52,047)**	1,542	(52,581)
Currency instruments	**730**	0	(137)	**9,636**	0	900
Other derivatives	**1,684**	0	0	**(5,844)**	0	0
Total	**(60,810)**	**190**	**(60,254)**	**(48,255)**	**1,542**	**(51,681)**

The face value of these derivatives in relation to their residual terms is displayed in the following table:

	31.12.2003				**31.12.2004**			
	Nominal value € '000	up to 1 year € '000	1 to 5 years € '000	more than 5 years € '000	Nominal value € '000	up to 1 year € '000	1 to 5 years € '000	more than 5 years € '000
Interest instruments	**1,174,110**	0	961,284	212,826	**1,383,472**	220,288	690,431	472,753
Currency instruments	**358,998**	358,998	0	0	**503,386**	503,386	0	0
Other derivatives	**39,732**	39,732	0	0	**47,480**	47,480	0	0
Total	**1,572,840**	**398,730**	**961,284**	**212,826**	**1,934,338**	**771,154**	**690,431**	**472,753**

(24) Contingent liabilities and other financial commitments

	31.12.2003 € '000	**31.12.2004 € '000**
Contingent liabilities from bills of exchange	6,877	11,363
Guarantee contingencies	221,466	193,078
Total	**228,343**	**204,441**

Guarantees were primarily issued by the wholesale business in the United Kingdom (€ 149.1 m) and Austria (€ 21.8 m) as well as the pharmacy business in Italy (€ 17.8 m).

For fiscal year 2004, Celesio AG issued the following guarantees for the benefit of its Irish subsidiaries (wholesale and pharmacy business): "Pursuant to Article 17 (1) b of the Companies (Amendment) Act 1986 of the Republic of Ireland, Celesio AG has irrevocably guaranteed the liabilities of its group companies, AAH Ireland (including its subsidiaries) and Unicare Pharmacy Ltd. (including its subsidiaries) originating in the fiscal year." According to the management board it is unlikely that a substantial risk will result from these guarantees. As a result these subsidiaries were exempted from certain disclosure requirements.

Notes to the balance sheet

Other financial obligations	31.12.2003 € '000	**31.12.2004** **€ '000**
Rent agreements and operating leases due within one year	64,340	55,508
due after one year but not more than five years	282,899	190,380
due in more than 5 years	168,390	283,159
	515,629	**529,047**
Purchase price obligations from business combinations	2,746	140,718
Purchase obligations for capital expenditures		
– Property, plant and equipment	5,032	1,824
– Intangible assets	93	2,579
– Other assets	1,941	0
	525,441	**674,168**

Commitments related to rental agreements and leases are mainly attributable to the wholesale and pharmacy business in the United Kingdom (€ 405.8 m), pharmacies in Ireland (€ 79.3 m) and Italy (€ 15.8 m) as well as the wholesale business in Germany, (€ 3.7 m).
In addition, future rental income from sub-leases of property of € 37,096,000 (prior year: € 34,560,000) can be expected.

The purchase price commitments from business combinations mainly relate to acquisitions of shares in Healthcare Logistics Ltd., Bedford/United Kingdom, Soquifa-Medicamentos S.A., Braga/Portugal, Sanalog Logistik GmbH, Planegg/Germany, and Kemofamacija d.d., Ljubljana/Slovenia.

Notes to the cash flow statement

Pursuant to IAS 7, the consolidated cash flow statement presents the changes in liquid funds of the Celesio Group due to cash flows over the course of the reporting period. Liquid funds correspond to the cash and cash equivalents reported in the balance sheet.

Changes in cash and cash equivalents from operating activities are calculated indirectly. This involves eliminating all non-cash items from the net profit or loss made by the group for the year such as depreciation or amortisation and considering the cash effects of changes in net working capital. Current operating assets include inventories, trade receivables and other assets. Current operating liabilities include trade payables, provisions and other interest-free liabilities. The changes in cash from operating activities include interest receipts of € 14,771,000 (prior year: € 14,218,000), and interest payments of € 81,645,000 (prior year: € 101,133,000). Income taxes resulted in cash payments of € 160,861,000 (prior year: € 127,720,000).

Cash flows from investing activities comprise payments for capital expenditures, receipts from the sale of non-current assets, and the cash effects of acquiring and disposing of companies. Payments made for acquisitions of subsidiaries correspond with the payments of the purchase price less any cash and cash equivalents acquired. Non-cash investments in non-current assets amounted to € 768,000 (prior year: € 5,780,000) relating to finance leases.

Cash payments from financing activities contain dividends paid to the shareholders of Celesio AG and minority shareholders of subsidiaries, plus receipts from new loans taken out and repayments of existing loans, as well as equity contributions from the shareholders, if any.

Notes to the segment reporting

Segmentation at Celesio has been made in accordance with IAS 14. It is a result of internal organisational and reporting structures within the group. The same accounting standards have been used as for the group.

Internal organisational and reporting structures at Celesio are based on the business divisions of Wholesale, Pharmacies and, for the first time this fiscal year, Solutions as well as Others. Previously, the Solutions division was incorporated in the Wholesale division. The classification made in the prior year has been adjusted accordingly. The primary format used for segment reporting is by business division.

Notes on segment reporting by business division

The Wholesale segment comprises the wholesale trading activities Celesio conducts with third party customers. The Pharmacies segment includes all activities related to the services provided by pharmacies belonging to the Celesio Group. This includes the entire logistics chain starting with purchasing from the manufacturers through to selling to the consumers. The Solutions division consists of performing services closely related to pharmaceuticals such as logistics and distribution as well as trading activities. The "Others" segment is used to report the activities of the parent, Celesio AG and other non-operating companies. Consolidation of inter-segment activities is shown separately.

Supplies of goods and services within the group are at arm's length.

Segment profit from operations pursuant to IAS 14 corresponds to the EBIT without considering the profit from associates accounted for using the equity method. Segment assets and liabilities consist solely of operating assets and liabilities, i.e. pursuant to IAS 14, financial liabilities and tax receivables and liabilities have not been included.

In addition to the disclosures required by IAS 14, other major items of the income statement have been presented by segment.

Notes to the segment reporting by geographical region

The segment titled ”other countries” contains the Netherlands, Austria, Norway, Spain, Portugal, the Czech Republic, Belgium, Ireland and Italy. Segment revenue is allocated to the region in which the revenue has been realised. Segment assets are allocated to the region in which the assets are located while capital expenditures relate to non-current assets allocable to the segment.

Other notes

Related parties

Related parties as defined by IAS 24 include the management board and supervisory board of Celesio AG and the majority shareholder, Franz Haniel & Cie. GmbH, Duisburg, and its subsidiaries, as well as associated companies. All transactions with related parties have been conducted at arm's length.

Total remuneration and the structure of compensation paid to members of the management board and supervisory board is presented in following sections.

There are contracts for management and other services in place with Franz Haniel & Cie. GmbH and its subsidiaries. In addition, there are some short-term loans and investments with the majority shareholder. In addition, the German companies of the Celesio Group are included in the fiscal unity for trade tax purposes of which Franz Haniel & Cie. GmbH is the parent. At balance sheet date the related liabilities amounted to € 214,000 (prior year: € 263,000). In the reporting year expenses of € 1,186,000 (prior year: € 1,975,000) were incurred and income of € 458,000 (prior year: € 311,000) received.

Associated companies are in general accounted for using the equity method.

Notices from shareholders

According to a notice, dated 02.04.2002, pursuant to Sec. 41 (2) Sent. 1 WpHG ["Wertpapierhandelsgesetz": Securities Trading Act] Franz Haniel & Cie. GmbH, Duisburg, held a total of 60 % of the voting rights in our company on 01.04.2002. Franz Haniel & Cie. GmbH prepares consolidated financial statements containing Celesio AG and its subsidiaries. These consolidated financial statements are published and filed with the commercial register of the local court of Duisburg, Germany, No. B 25.

According to Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 58.0 % at the end of the reporting year.

Corporate governance

The management board and supervisory board last issued a declaration of compliance with the recommendations of the German Corporate Governance Codex pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] on 01.01.2005 and published this on their website at www.celesio.com.

Total remuneration and compensation structure of the management board

Total remuneration paid to the management board in the fiscal year 2004 amounted to € 4,769,000 (prior year: € 4,771,000). Of this amount € 1,024,000 (prior year: € 1,474,000) was fixed compensation and € 3,316,000 (prior year: € 2,497,000) variable compensation (profit bonus) and € 429,000 (prior year: € 800,000) for the strategy bonus. There is no stock option programme in place at Celesio AG.

The personnel committee is responsible for setting the remuneration paid to the management board. This committee is composed of the Chairman of the Supervisory Board, Prof Theo Siegert, and two other members of the supervisory board, Mr Hans-Martin Poschmann and Dr Ihno Schneevoigt.

Total remuneration paid to the management board is based on an appropriate balance between the tasks and performance of the members of the management board and the economic position of Celesio AG. Total compensation of management board members comprises a fixed monthly income and a performance-based variable component. The variable component is made up of a profit bonus and a strategy bonus.

Profit bonus

This bonus is based on the cash-flow of the Celesio Group. Cash flow is an indicator of the group's earnings power, has a long-term focus and favours expansion. The profit bonus is calculated as a percentage of the cash flow generated in the respective fiscal year.

Strategy bonus

The measurement base used for this bonus is EVA (Economic Value Added)*, a performance indicator. Thus, the measurement base is the development of the value added to the company. This fosters value-based management and an entrepreneurial management culture.

* Registered trademark of Stern Stewart & Co.

Other notes

The former members of the management board of Celesio AG and their surviving dependents received remuneration of € 197,000 (prior year: € 174,000). A provision of € 3,815,000 was made for pensions (prior year: € 3,792,000).

Total remuneration and compensation structure of the supervisory board

The remuneration paid to the supervisory board is defined in Art. 5 of the articles of incorporation of Celesio AG. In addition to reimbursement of their out-of-pocket expenses, the members of the supervisory board receive fixed compensation of € 5,000 annually and an additional payment of € 800 for each half percentage point of dividends distributed to shareholders in the past fiscal year that is in excess of 4 % of subscribed capital. These payments are net of VAT which must be added as applicable. The Chairman receives twice the standard amount paid to the other members of the supervisory board and the deputy receives one and a half times the standard. Each member of a committee – with the exception of the committee founded to satisfy Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": Codetermination Act) – receives € 2,000, with the Chairman of a committee receiving € 4,000.

Total remuneration paid to the supervisory board in the fiscal year 2004 thus amounted to € 745,850. Of this amount, € 67,500 was attributable to fixed compensation paid for membership of the supervisory board and € 669,600 for variable components pegged to dividend pay-outs plus € 8,750 for committee activities.
Prof Zahn received a fee of € 3,900 for consulting services rendered to GEHE Pharma Handel GmbH.

Share ownership and transactions subject to mandatory disclosure

The accumulated shareholding (including options and the like) of members of the management board and members of the supervisory board of Celesio AG remained below 1 % of the total shares outstanding of the company.

Pursuant to the version of Sec. 15a WpHG which was in force until 29.10.2004, the members of the management board and the members of a supervisory board of a publicly listed German corporation and its parent, as well as the spouses and de facto partners, parents, and children of these managers and directors had a duty to report to the company and to the Bundesanstalt für Finanzdienstleistungsaufsicht (regulatory authority for financial services providers) if they buy or sell any shares in the company, or any rights associated with these shares. In this regard, Celesio AG received the following notices concerning the fiscal year 2004: sale of 2,000 no-par value Celesio shares (WKN 585 800, ISIN: DE0005858005) for € 55.50 per share on 05.10.2004, sale of 1,000 of these shares for € 54.75 on 29.09.2004, sale of 1,857 of these shares for € 53.75 per share on 26.08.2004, sale of 3,143 of these shares for € 53.25 on 30.07.2004, sale of 5,000 of these shares for € 52.00 per share on 21.07.2004, sale of 5,000 of these shares for € 51.50 per share on 08.07.2004 and sale of a further 5,000 of these shares for € 48.95 per share on 29.06.2004; each transaction conducted by Ms Waltraud Wätjen, Gielde, Germany.

Due to the law to improve investor protection which came into force on 30.10.2004, Sec. 15a WpHG was amended. In its current wording, people who hold a management function at a publicly listed German company or any legal or natural people who are related to such a functionary have a duty to report to the company and to the Bundesanstalt für Finanzdienstleistungsaufsicht if they buy or sell shares or related financial instruments in the company. Celesio did not receive any notices in this regard for the reporting year.

Proposal from the management board for the appropriation of profits

The profit of Celesio AG available for distribution amounts to € 102,060,000.00 (prior year: € 80,102,960.03). The management board proposes distributing this amount of € 102,060,000.00 in full (prior year: € 76,545,000.00) as a dividend for the fiscal year 2004.

Based on this proposal for the appropriation of profits, the dividend per share amounts to € 1.20 (prior year: € 0.90).

Stuttgart, 14 February 2005

The management board

Members of the management board

Dr Fritz Oesterle
Stuttgart/Germany
Chairman and
Chief Executive Officer

Membership of further management boards and comparable committees:
- Executive Committee GIRP (Groupement International de la Répartition Pharmaceutique Européenne), Brussels/Belgium

Membership of supervisory boards and other control committees:
- Lloyds Nederland B.V., Weesp/Netherlands
- Herba Chemosan Apotheker-AG, Vienna/Austria
- Norsk Medisinaldepot AS, Oslo/Norway
- Landesbeirat Baden-Württemberg Allianz Versicherungs-AG, Munich/Germany
- Untertürkheimer Volksbank e.G., Stuttgart/Germany
- Verwaltungsrat Christophsbad Göppingen Dr. Landerer Söhne GmbH, Göppingen/Germany

Jacques Ambonville
Saint-Ouen/France

Membership of supervisory boards and other control committees:
- GEHE Pharma Handel GmbH, Stuttgart/Germany, Chairman
- OCP S.A., Saint-Ouen/France, Chairman
- Herba Chemosan Apotheker-AG, Vienna/Austria
- NMD Grossisthandel AS, Oslo/Norway
- OCP PORTUGAL, PRODUTOS FARMACÊUTICOS; S.A., Maia/Portugal

Stefan Meister
Stuttgart/Germany

Membership of supervisory boards and other control committees:
- Lloyds Nederland B.V., Weesp/Netherlands
- Herba Chemosan Apotheker-AG, Vienna/Austria
- Vitusapotek AS, Oslo/Norway (from 01.01. until 18.11.2004)

Dr Felix A Zimmermann
Stuttgart/Germany
(since 01.06.2004)

Members of the supervisory board

Prof Theo Siegert Duisburg/Germany Chairman (since 28.04.2004)	Member of the Management Board Franz Haniel & Cie. GmbH	Membership of supervisory boards and other control committees: – METRO AG, Düsseldorf/Germany, Chairman (since 04.06.2004) – ERGO Versicherungsgruppe AG, Düsseldorf/Germany
Günther Hülse Duisburg/Germany Chairman (until 28.04.2004) (Member until 30.11.2004)	Chairman of the Management Board Franz Haniel & Cie. GmbH	Membership of supervisory boards and other control committees: – METRO AG, Düsseldorf/Germany, Chairman (until 03.06.2004) – TAKKT AG, Stuttgart/Germany (until 30.11.2004), Chairman (until 04.05.2004) – Allianz Lebensversicherungs-AG, Stuttgart/Germany (until 30.06.2004)
Ihno Goldenstein Delmenhorst/Germany Deputy Chairman	Employee Goods-In Department GEHE Pharma Handel GmbH Chairman of the Central Company Council	
Klaus Borowicz Delmenhorst/Germany	Head of Branch Office GEHE Pharma Handel GmbH	
Prof med Julius Michael Curtius Weimar/Germany	Cardiologist	
Dr Hubertus Erlen Berlin/Germany	Chairman of the Management Board Schering AG	Membership of supervisory boards and other control committees: – B. Braun Melsungen AG, Melsungen/Germany – Schering Berlin Inc., Montville/New Jersey, USA – Partner für Berlin Gesellschaft für Hauptstadt-Marketing mbH, Berlin/Germany – Kuratorium der Bertelsmann Stiftung, Gütersloh/Germany
Dirk-Uwe Kerrmann Weiterstadt/Germany	Commercial employee GEHE Pharma Handel GmbH	
Jörg Lauenroth-Mago Magdeburg/Germany	Trade Union Secretary ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	Membership of supervisory boards and other control committees: – GEHE Pharma Handel GmbH, Stuttgart/Germany
Ulrich Neumeister Stuttgart/Germany	Logistics employee GEHE Pharma Handel GmbH	
Hans-Martin Poschmann Berlin/Germany	Trade Union Secretary ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	Membership of supervisory boards and other control committees: – GEHE Pharma Handel GmbH, Stuttgart/Germany (until 18.03.2004) – Oviesse GmbH, Cologne/Germany (until June 2004)
Dr Ihno Schneevoigt Munich/Germany	Ret: Member of the Management Board Allianz Versicherungs-AG Allianz Lebensversicherungs-AG	Membership of supervisory boards and other control committees: – E.ON Academy GmbH, Düsseldorf/Germany – ESMT European School of Management and Technology GmbH, Berlin/Germany (since Januar 2004) – Ströer Out-of-Home Media AG, Cologne/Germany (since 20.02.2004) – DSM Deutsche Städte-Medien GmbH, Frankfurt am Main/Germany (since 27.01.2004) – Korn/Ferry International Corp., Los Angeles/USA (since February 2004)
Dr Klaus Trützschler Duisburg/Germany (since 23.12.2004)	Member of the Management Board Franz Haniel & Cie. GmbH	Membership of supervisory boards and other control committees: – TAKKT AG, Stuttgart/Germany, Chairman (since 04.05.2004) – Allianz Versicherungs-AG, Munich/Germany (since 22.04.2004) – Bilfinger Berger AG, Mannheim/Germany – Readymix AG, Ratingen/Germany – Heitkamp-Deilmann-Haniel GmbH, Herne/Germany (until 25.05.2004)
Prof Erich Zahn Stuttgart/Germany	Professor of Business Studies University of Stuttgart	Membership of supervisory boards and other control committees: – IFB Dr. Braschel AG, Stuttgart/Germany, Chairman (until June 2004) – Kuratorium Fraunhofer-Institut für Produktionstechnik und Automatisierung IPA, Stuttgart/Germany

Auditor's Report

We have audited the consolidated financial statements of Celesio AG, Stuttgart consisting of the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements for the business year from 1 January to 31 December 2004. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company management board. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Celesio Group for the business year in accordance with IFRS.

Our audit, which also extends to the group management report prepared by the Board of Managing Directors for the business year from 1 January to 31 December 2004 has not led to any reservations. In our opinion, on the whole the combined group management report, together with the other information of the consolidated financial statements, provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the combined group management report for the business year from 1 January to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Stuttgart, 15 February 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Schwarzhof)	(Wißfeld)
Auditor	Auditor

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Websites

Celesio AG and companies in the Celesio Group:

www.celesio.com

Celesio Wholesale:

France	www.ocp.fr
Germany	www.gehe.de
Austria	www.herba-chemosan.at
Norway	www.nmd.no
Czech Republic	www.gehe.cz

Celesio Pharmacies:

United Kingdom	www.lloydspharmacy.co.uk
	www.johnbellcroyden.co.uk
Norway	www.vitusapotek.no
Italy	www.admentaitalia.it
Ireland	www.unicarepharmacy.ie
Netherlands	www.lloydsapotheek.nl
Belgium	www.lloydspharma.be
Czech Republic	www.lekarnylloyds.cz

Celesio Solutions:

AVS Health Distribution

United Kingdom	www.farillon.co.uk
Austria	www.sanova.at
Czech Republic	www.realpol.cz

Our wholesale companies offer access-protected business to business solutions for pharmacies:

France	www.ocp.fr
Germany	www.gehe-point.de
United Kingdom	www.aah-point.com
Austria	www.herba-point.at
Norway	FarmaLink
	(cannot be accessed by the public)

Glossary

Cash flow	Cash flow is an indicator of the financial health and earnings power of a company. At Celesio, the cash flow is calculated from the income for the year net of depreciation and amortisation and the elimination of non cash income and expenses.
Commercial paper	A bond which is issued within a commercial paper programme to manage short-term financing requirements. It has a maturity of less than one year.
Consolidated group	Those subsidiaries within a group that are included in the consolidated financial statements.
Corporate governance	The term corporate governance stands for responsible management and control of a company. The corporate governance standards were developed to enable comparison of the management structures of internationally operating companies. For German companies, these standards are collated in the German Corporate Governance Codex. There is a legal obligation for all publicly listed German companies to make an annual declaration on the extent to which they have complied with the recommendations.
Derivative financial instruments	Certificate or contract that is not an asset in its own right but relates to another – generally tradeable – asset. These financial instruments are also generally themselves tradeable. Examples of derivative financial statements are interest swaps, forward exchange contracts or currency options.
Earnings per share	Pursuant to IAS 33, earnings per share are calculated by dividing consolidated net profit (after deducting minority interests) by the weighted average number of shares during the fiscal year.
EBIT	Earnings Before Interest and Taxes.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation.
Economic Value Added (EVA)	The operating result is related to the total cost of capital, i.e. the costs of debt and equity. Value is added if the company returns a profit that is in excess of the cost of capital.
Employees	Number of employees including trainees, those doing military and community service and those on maternity leave.
Equity method	Method used to consolidate associated companies in the consolidated financial statements. The investment is initially valued at acquisition cost and thereafter adjusted to reflect the development of equity at the associated company.
Fair values	The measurement of a balance sheet item on the balance sheet date at a value which can be realised on an active market, e.g. an exchange.
Finance leases	A lease by which the lessor primarily assumes the role of providing finance. Economic title passes to the lessee.
Gearing	A financial indicator for displaying the relationship between equity and debt capital. It is calculated by dividing total debt by equity.
GIRP	Groupement International de laRéparition Pharmaceutique Européenne. European association of pharmaceutical wholesalers.

Hedging	Hedging interest, currency, and exchange rate risks by use for example of derivative financial instruments which limit the risk of the underlying transaction.
HGB	Handelsgesetzbuch. German Commercial Code.
IAS	International Accounting Standards.
Interest cap	A guaranteed upper interest rate acquired for a premium. If market interest rates rise above the guaranteed upper limit, the buyer of an interest cap receives the difference from the seller of the cap.
Interest coverage	EBIT in relation to interest result.
Interest swaps	An agreement between two parties to exchange interest payments on the basis of different interest rates. In this way, variable interest rates can be swapped with fixed interest rates.
International Financial Reporting Standard (IFRS)	International Financial Reporting Standards (IFRS) – formerly International Accounting Standards (IAS) – are issued by the International Accounting Standards Board (IASB) with the aim of harmonising international financial reporting and improving the comparability of financial statements.
Net financial debt	Net financial debt is the financial liabilities net of derivatives and cash and cash equivalents.
Net working capital	Financial indicator to measure the solvency of a company. Calculated as the difference between current operating assets (inventories, trade receivables and other assets) and current operating liabilities (trade payables, accruals and other liabilities).
Operating leases	A lease under which the lessor retains economic title to the leased asset.
Price/Earnings ratio	The share price of a company divided by earnings per share.
Risk management	Systematic procedure for identifying potential risks for the company, quantifying them and selecting and realising measures to mitigate the risk or reduce its possible negative impact.
Volume of goods handled	The total value of goods, based on the sale price, that are handled as part of logistics and distribution activities.

General information

This annual report is available in German, English, French and Italian. The German version of this annual report is legally binding.

Celesio AG's financial statements and management report for the 2004 fiscal year are published in the *Bundesanzeiger* [German Federal Gazette] and deposited at the Commercial Register of the local court of Stuttgart.

Information on Celesio shares

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Bloomberg Code	CLS GR

Investors Calendar 2005

Investment conference, New York	12 January 2005
Investment conference, Frankfurt	19 January 2005
Balance sheet press conference, Stuttgart	17 March 2005
Celesio analysts and investors conference, Mainz	21 March 2005
Annual general meeting, Stuttgart	29 April 2005
Dividend payment	2 May 2005
Interim report, 1st quarter 2005	17 May 2005
Investment conference, Frankfurt	1 June 2005
Interim report, 1st half-year 2005	11 August 2005
Interim report, 1st – 3rd quarter 2005	14 November 2005

The latest information on the Investors Calendar can be found at www.celesio.com.

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