Committed to health

Annual Report 2005

celesio
the healthcare group

History

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

Key financial figures 2005

Revenue	20.5 billion euros
Revenue growth	7.0 percent (6.9 percent*)
EBIT	648.2 million euros
EBIT growth	9.8 percent (10.0 percent*)
Profit before tax	554.5 million euros
Growth in profit before tax	12.0 percent (12.1 percent*)
Net profit	424.9 million euros**
Growth in net profit	25.3 percent (25.4 percent*)***
Earnings per share	4.95 euros****

Employees*****	35,407
Wholesale branches	138
Pharmacies	2,045

* In local currency
** Net profit without trade tax refund: 386.0 million euros
*** Growth in net profit without trade tax refund: 13.8 percent (13.9 percent in local currency)
**** Earnings per share without trade tax refund: 4.49 euros
***** Head count

Group structure

Celesio Group

Celesio Wholesale

Revenue: 16,946.5 million euros
Gross profit: 1,094.7 million euros
Profit before tax: 356.3 million euros
Employees: 14,392
Branches: 138

France
OCP S.A.
Saint-Ouen

Germany
GEHE Pharma Handel GmbH
Stuttgart

United Kingdom
AAH PHARMACEUTICALS LIMITED
Coventry

Austria
Herba Chemosan Apotheker-AG
Vienna

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

Norway
NMD Grossisthandel AS
Oslo

Belgium
PHARMA BELGIUM S.A.
Brussels

Slovenia*
Kemofarmacija d.d.
Ljubljana

Ireland
CAHILL MAY ROBERTS GROUP LIMITED
Dublin

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

Italy
AFM – S.P.A.
Bologna

* Including the subsidiaries in Croatia and Romania

Celesio Pharmacies

Revenue: 2,949.7 million euros
Gross profit: 1,009.5 million euros
Profit before tax: 235.1 million euros
Employees: 19,386
Pharmacies: 2,045

United Kingdom
LLOYDS PHARMACY LIMITED
Coventry

Norway
Vitusapotek AS
Oslo

Italy
ADMENTA ITALIA S.P.A.
Bologna

Netherlands
Lloyds Apotheken B.V.
Baarn

Ireland
UNICARE PHARMACY LIMITED
Dublin

Belgium
Lloydspharma S.A.
Wavre

Czech Republic
Lékárny Lloyds s.r.o.
Prague

Celesio Solutions

Gross profit*: 131.2 million euros
Profit before tax: 19.7 million euros
Employees: 1,410

Movianto**

Healthcare Logistics Limited, Bedford/United Kingdom

Castlereagh Pharmaceuticals, Belfast/United Kingdom

SANOVA Pharma GesmbH, Vienna/Austria

DEPOTS GENERAUX PHARMA S.A., Gonesse/France

CAHILL MAY ROBERTS GROUP LIMITED, Dublin/Ireland

Sanalog Logistik GmbH, Kist/Germany

SEUR PHARMA, S.A., Getafe/Spain

NMD Grossisthandel AS, Oslo/Norway

Realpol, a.s., Brno/Czech Republic

* Commissions, net profit margins and service fees
** Until March 2006 AVS Health Distribution

Content

Celesio Group

Celesio Wholesale

Celesio Pharmacies

Celesio Solutions

Caring for People's Health – Everywhere

Corporate activity and social action are not mutually exclusive, but rather depend on one another. Corporate activity cannot therefore just be seen as an end in itself, but rather it must embrace its social responsibility. Social responsibility is therefore a very important component of our corporate identity.

Why we support the organisation *Doctors for Developing Countries*

We have been in a partnership with the aid organisation *Doctors for Developing Countries* since the end of 2004. Since the foundation of the organisation, more than 2,000 doctors have travelled to developing countries on a voluntary basis, immunising children, treating patients and operating outpatient clinics. These doctors have already carried out approximately 3,700 assignments to protect the health of the poorest people.

We consciously chose this commitment, as we share a common goal: To improve people's health. Approximately 175 years ago, the founder of our company, Franz Ludwig Gehe, had already made it his duty to make drugs available to everyone that needed them. Our support for *Doctors for Developing Countries* continues this tradition.

Through this partnership, we are helping to give sick people, who would otherwise have no hope of receiving medical care, the opportunity to lead the rest of their lives in health. To us, partnership means that we do not just donate money, but also help with our logistics structures, our staff and our professional corporate know-how.

Dr Elisabeth Kauder, senior consultant at a Baden-Württemberg hospital, has been working as a volunteer for the organisation *Doctors for Developing Countries* for several years, giving medical aid to the poorest of the poor. The cardiologist and specialist in internal medicine talks to Celesio about her work.

My work for *Doctors for Developing Countries*

Celesio: Dr Kauder, for six weeks you worked on a voluntary basis as a doctor for *Doctors for Developing Countries* in Calcutta. Why do you go to an Indian slum?

Dr Elisabeth Kauder: It was my second visit to Calcutta, and I had already helped out as a doctor previously, in Nairobi and Bangladesh. I had been looking forward to returning to Calcutta for a long time, to see colleagues, patients and friends once again. For me, working in the slum district of Calcutta and giving something of my joy of life and my own abilities to the people there, is one way of making a direct contribution to those who are less fortunate than we are.

Celesio: Are these assignments one-sided in terms of giving, or do you also get something back in return?

Dr Elisabeth Kauder: Absolutely. Every day I receive a great deal more than I give. It is a wonderful feeling being able to help and give a little bit of hope. Whenever I meet Chanang for example, a former patient of mine, it is a moment full of joy and mutual affection. We are surrounded by poverty and deprivation on all sides, but the patients give me such a great gift with their courage to face life and their strength. It is very gratifying when I am able to cure or alleviate their illness.

Celesio: In Germany, you work with the latest and most expensive equipment, but this is not available to you there. Do you therefore quickly come up against medical limits during your work in Calcutta?

Dr Elisabeth Kauder: There are limits, but even with limited resources it is possible to achieve a great deal. I am able to save lives with a drug for malaria that costs just a few cents. A small operation, carried out at the right time, prevents much greater suffering. Instead of 50,000 drugs, I have just 50 in Calcutta, yet here I am able to cure or alleviate the most needy and most widespread diseases with them. My stethoscope, sphygmomanometer and otoscope are the most important instruments. I am confronted with the broadest range of illnesses on a daily basis, which means that improvisation, experience and keen senses are in demand. Listening to what is troubling the patient often helps even further with the diagnosis.

Celesio: Approximately 100 patients come to see you each day. Do you turn your back on the slum district of Calcutta in the evening and return to the comfort of your clean hotel?

Dr Elisabeth Kauder: The committee doctors share a flat, situated in the middle of the slum. The only clean water comes from buckets, which have to be carried up to the third floor. Instead of a washing machine, we have a bar of soap to clean our clothes. It's exhausting work, but it helps me better understand the everyday problems of my patients. I can also be contacted quickly in an emergency and can help on location. As I have said, the joy I get from having helped compensates for some of the things I have to do without.

Effective help in India

The kaleidoscope of Calcutta: Hand-drawn rickshaws in between taxis coloured black and yellow, street barbers next to sugar cane presses. And people, everywhere. Officially, 12 million people live in the Indian megalopolis, but it's probably more like 20 million. Calcutta is bursting at the seams. Poor people in particular suffer from the lack of clean water, nourishment and living space. In slums like Howrah, medical care is, at the very best, inadequate.

On top of this is the uncertainty of whether or not the ingredients that are written on the label are actually in the drugs. Counterfeit drugs are a problem. The danger is that falsified drugs are not only ineffective, they can even make the situation even worse. "24 percent of drugs proved to be only slightly effective or completely ineffective", reports Kay Tanna. Tanna and her colleague, Asif Adam Moosa, both pharmacists from the Celesio subsidiary Lloydspharmacy in the United Kingdom, investigated numerous drugs in Howrah with a mobile laboratory. Moosa explains that "Malaria and tuberculosis, which many adult Indians suffer from, can be combated with the correct drugs". "That is why it is all the more tragic when the illness is not cured, but instead worsened, as a result of taking ineffective drugs."

Tanna and Moosa, both of Indian descent, trained the employees in Howrah for two weeks. "If the employees on location know how to operate the mini laboratory, it makes the work easier and increases acceptance", Tanna noted. In 2006, eight other pharmacists from Celesio will travel to Calcutta to ensure the correct use of the mini laboratory. Tanna wishes that "The mini laboratory should help as many people as possible, even after I have been back working at Lloydspharmacy in the United Kingdom for a long time".

Giving human dignity in Kenya

The consultation hours do not begin until 8 o'clock in the morning, but Monica Wangari has been waiting to see the doctor since the crack of dawn along with numerous other patients. The 62-year-old has a short night behind her. Her spine is stiff, her hands are crooked and she is no longer able to sleep through a whole night due to the pain. The "Baraka" outpatient clinic belonging to the German aid organisation *Doctors for Developing Countries* is the only hope for sick people in the Mathare Valley slum of Nairobi. 180,000 people live in the second largest slum of the Kenyan capital city, with no access to drinking water, no sewerage system and no electricity.

Six doctors treat 450 residents in the outpatient clinic on a daily basis, a nurse interprets for them. HIV, malaria, tuberculosis, respiratory tract problems, diarrhoea or skin diseases are the most common illnesses. Baraka has X-ray, ultrasound and ECG equipment, a laboratory and a pharmacy, yet the doctors are often not able to cure illnesses any longer, as they are often too far advanced. "At the very least I would like to make the rest of a patient's life as pain-free and dignified as possible", says Dr Michael Richter, a Specialist in Internal Medicine from Leipzig. To give people back their dignity, impart a sense of value for the patient's own life, that is what the doctors of Baraka want. It is also for this reason that they provide patients with advice about hygiene, give them information about proper nutrition and organise feeding programmes for the most needy.

The doctors are no longer able to cure Monica Wangari, her chronic polyarthritis had already been left untreated for far too long. However, they are able to alleviate her pain to a certain extent. This counts for a lot in itself. "I have already reached a good age, which is more than I could have hoped for", says Monica Wangari, with a certain amount of pride. The average life expectancy in Mathare Valley is 46 years.

Highlights

Corporate milestones achieved

- For the first time in the company's history revenue exceeded 20 billion euros.
- For the first time earnings exceeded half a billion euros (profit before tax).
- For the first time market capitalisation of over 6 billion euros (on 30/12/2005: 6.2 billion euros) was achieved.
- For the first time Celesio owns more than 2,000 pharmacies in Europe.

Broad, stable positioning with excellent prospects

- Positioning in wholesale continues to be expanded. New pharmaceutical wholesale subsidiaries Soquifa-Medicamentos (Portugal) and Kemofarmacija (Slovenia) integrated.
- Market position in the United Kingdom strengthened with the purchase of a group of 110 pharmacies.
- Solutions business division – innovative services providing everything relating to medicines – with good growth potential in the medium- and long-term without any direct government regulation. Acquisions of the first business unit Movianto (until March 2006 AVS Health Distribution) in the United Kingdom and Germany – Healthcare Logistics and Sanalog – consolidated for the first time.
- Cash flow utilised for investments in all three business divisions. Continuous modernisation of operational processes and improvement in the range of services.

Letter to Shareholders

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

Dear Shareholders

The previous report concerning our commitment to Doctors for Developing Countries is sure to have given you the impression that we are in earnest in every regard when we say that "people's health is the focus of our entrepreneurial business activities." We live by this maxim in our day-to-day business just as in our long-term strategy.

Anyone who takes the health of others seriously must also take his own health seriously. The same applies to companies.

Celesio is in the best of health – and is developing very well

As a company, Celesio is in the best of health. We continued our strong growth in 2005 once again. The figures speak for themselves: For the first time in the company's history we achieved revenue of more than 20 billion euros. For the first time we have a network of more than 2,000 of our own pharmacies. Our market capitalisation has never been at such a high level as in 2005: With a share price of over 70 euros we were valued at 6 billion euros on the stock exchange for the first time. We increased our pre-tax profit by more than 10 percent over the previous year. And yet another milestone: We are proposing to the annual general meeting a dividend of 1.40 euros per share, including a special dividend payment of 0.05 euros because of the trade tax refund for the years 1996 to 2001.

"As a company, Celesio is in the best of health. We continued our strong growth in 2005 once again. The figures speak for themselves."

Anyone who has known Celesio for a number of years is unlikely to be surprised by these achievements, as for many years we have been continuously improving, largely regardless of short-term fashions and trends. This year for the 19th time in succession we have continued to exceed the profit of the previous year. Celesio is a long-distance runner who has not run out of breath in 19 years, and we shall do everything in our power to ensure this remains so in the future.

"Celesio is a long-distance runner who has not run out of breath in 19 years, and we shall do everything in our power to ensure this remains so in the future."

We operate in a growth market

"People over sixty years of age require around three times as many medicines in terms of value as younger people."

The healthcare market is the cornerstone of our success. For years, the pharmaceutical market has been growing at a steady pace. And the experts are also in agreement that it will continue to grow in future. Life expectancy in Germany has doubled in the last 100 years. This means that the number of older people is constantly rising. People over sixty years of age require around three times as many medicines in terms of value as younger people. Because medical innovations enable us to live longer and in better health, people are increasingly investing in their health.

As pharmaceutical wholesalers, pharmacists and with our range of services for pharmaceutical manufacturers, we are firmly rooted in the attractive healthcare market with all three business pillars.

Close proximity to the customer

In all this we have not forgotten: People and their needs are always behind these figures. This is why we make people's health the focus of our entrepreneurial business activities. In 2005, for example, the employees of our Italian pharmacies were given training in serving the disabled and barrier-free entrances were created. Pre-arranged plans of action in our Wholesale business ensure that even if operations of a branch should breakdown, continuous supply to the pharmacies' customers is assured within only a few hours.

"In the United Kingdom – as in every country – we have for many years supported the concept of the service-oriented pharmacy which offers medicines as well as competent advice and health-care services as a matter of course."

This degree of proximity to the customer pays dividends. In the United Kingdom – as in every country – we have for many years supported the concept of the service-oriented pharmacy which offers medicines as well as competent advice and healthcare services as a matter of course. This also meets the requirements of British legislation. As of 1 April 2005, pharmacies in the United Kingdom must provide patients with comprehensive care. The reimbursement of pharmacies is therefore no longer only dependent on the number of prescriptions handled. Our strategy is perfectly in line with this development: Our British subsidiary Lloydspharmacy is well ahead in providing the local community with medicines and services.

Services for pharmaceutical manufacturers

With our Wholesale and Pharmacies businesses we know the pharmaceutical market like no other. We have long experience throughout the pharmaceutical supply chain, from pharmaceutical manufacturers, to doctors and pharmacists through to the patient. This expertise gives us the edge not only in the Wholesale and Pharmacies businesses, but for over a decade it has enabled us to carry out activities for pharmaceutical manufacturers which do not form part of their core business. This allows them to concentrate more intensively on the development and manufacture of medicines.

"We have long experience throughout the pharmaceutical supply chain, from pharmaceutical manufacturers, to doctors and pharmacists through to the patient."

In 2004 we incorporated these activities in Solutions, our third business division. On behalf of the pharmaceutical industry, we deal with matters such as distribution, storage and stock management, order handling or management of receivables. We also support the pharmaceutical manufacturers in the authorisation and market launch of medicines.

However, with the activities of our third business division, we also attract new customer groups in the pharmaceutical market, such as authorities or state institutions. The awarding of a large contract to our subsidiary NMD by the Norwegian defence ministry is evidence that our services provide the right mix. The contract ranges from the supply of medicines and the maintenance of all the medical equipment through to consultancy on equipment.

"With the activities of our third business division, we also attract new customer groups in the pharmaceutical market, such as authorities or state institutions."

For any commercial activities that we offer as Solutions, our third business division, it is always vital that the focus is on medicines, that they address a wide range of medicines and a large customer group, and that they are not or do not remain restricted to a national pharmaceutical market.

Flexible reactions to changes in government regulations

"With our many years experience, our decentralised operational structure and short decision-making routes, we know how to deal with political reforms and new regulations."

With our positioning as a complete service provider of everything concerning medicines with the three business divisions Wholesale, Pharmacies and Solutions, we not only meet customer needs. The three pillars also support Celesio on a broad foundation.

In wholesale and with our pharmacies, we are operating within a strongly regulated market. With our many years experience, our decentralised operational structure and short decision-making routes, we know how to deal with political reforms and new regulations. So also as an international group with over 35,000 employees we are as flexible in entrepreneurial terms as a medium-sized enterprise. And we have established a comprehensive risk management. This sharpens our view to the future horizon. We identify risks and opportunities early and react in good time.

We also operate in 15 different European countries. For us, internationality means not only the opportunity for growth in new markets but also risk diversification. It is therefore an element of our risk management. We can offset state intervention in a national market with our counterbalance in the other countries. Therefore we are not thrown off balance by changes in individual markets.

New opportunities in the third division, Solutions

"Pharmaceutical manufacturers throughout Europe are increasingly demanding service solutions from a single source. This is precisely what we are offering already with the activities of Celesio Solutions in eight countries."

Our third division, Solutions, is not directly affected by state intervention. Furthermore it offers great medium- and long-term growth potential. For Celesio this means: Fewer government risks and new profit opportunities overall. Pharmaceutical manufacturers throughout Europe are increasingly demanding service solutions from a single source. This is precisely what we are offering already with the activities of Celesio Solutions in eight countries.

2005 was Celesio's first full year in the three-division structure: Wholesale, Pharmacies, and Solutions. And although this is only the beginning of the opportunities in this still very young segment Solutions, we have achieved a great deal in 2005. Integration of the acquisitions of the last two years, Realpol in the Czech Republic, Sanalog in Germany, SEUR PHARMA in Spain and lastly Healthcare Logistics in the United Kingdom is nearing completion. And even though the business development is much more volatile by its very nature compared with the Wholesale and Pharmacies businesses, we see the development of the key financial figures as positive for the future of our third division. We shall therefore pay particular attention to investment opportunities in the Solutions division.

Full steam ahead also in the Wholesale and Pharmacies businesses

This does not, of course, mean that we are neglecting our traditional business divisions. On the contrary: We are continuing on course also with our Wholesale and Pharmacies businesses, and in 2005 we further improved on our very good initial position with investments and acquisitions. Since the beginning of 2005 we have consolidated our new pharmaceutical wholesale subsidiary Soquifa-Medicamentos in Portugal and the Slovenian Kemofarmacija with its subsidiaries in Croatia and Romania. Kemofarmacija is the market leader in Slovenia. We also successfully completed the operational reorganisation of the German wholesaler GEHE Pharma Handel begun in 2003. The branches are now better utilised and the operational processes streamlined. PHARMA BELGIUM opened Belgium's most modern pharmaceutical wholesale branch in June 2005. It is now better equipped to offer the best quality of supply.

"We are continuing on course also with our Wholesale and Pharmacies businesses, and in 2005 we further improved on our very good initial position with investments and acquisitions."

We also again made good progress with our pharmacies. We can proudly say that the entire business division has grown ahead of the market. Although there have been price cuts in some countries, we were able to increase pre-tax profit by more than 14 percent compared with the previous year. This is reason enough to expand our successful business. In 2005 we opened and acquired new pharmacies. Our largest acquisition was the purchase of 110 pharmacies in the 4th quarter, with which we have expanded our position in the United Kingdom as a community pharmacy chain.

We continually reinvest our cash flow in our present and future business so that we can continue to utilise opportunities to secure and improve our position. In brief: To equip our company for the future.

"Although we had set our benchmark very high with the very good profit for 2004, we did not dislodge the bar in 2005 in any discipline."

We can be proud of the last fiscal year. Although we had set our benchmark very high with the very good profit for 2004, we did not dislodge the bar in 2005 in any discipline. In our last annual report I promised "Celesio will meet the challenges of the year 2005 with the same creativity and flexibility as it has done in the past". We have kept our word.

At this point, a word about the merger announced in the 4th quarter 2005 between one of our European competitors and a large British and Irish chemists' chain. The question of whether and in what form this merger will take place is still open. One thing we can promise you today, however: We shall seize any opportunity that arises from the realisation of this merger with the same creativity and flexibility with which we meet all the other challenges of our market.

Bringing our expertise to the political debate

We have intensified communication with political and corporate decision makers in recent years. The field of healthcare is too important, our wealth of experience too great not to bring our expertise to the debate. Our work in the European Association of Pharmaceutical Full-line Wholesalers, GIRP, or the close contact with the authorities in Brussels and the European Parliament lend voice to our position where it matters. We see this commitment as a contribution with which reliable and prudent framework conditions for the future can be created in healthcare policy.

Corporate responsibility is part of our identity

"We earn our money from people's healthcare needs and illnesses. So it is right that we pass on something of our success."

Here we do not limit our public commitment to health matters to words only. We earn our money from people's healthcare needs and illnesses. So it is right that we pass on something of our success. Corporate Social Responsibility (CSR) is therefore to us an important element of our corporate identity. It is for this reason that we do not limit ourselves to one or two randomly selected individual measures. Our CSR follows established rules and criteria. As with all the other fields of our group – with success.

The guiding principle for our involvement is therefore: With CSR we concentrate on what we know most about – people's health. Therefore, also in 2005 we again supported the Doctors for Developing Countries – financially and also with our expertise and our human resources, whether in the fields of logistics, pharmacy or in communications.

"With corporate social responsibility we concentrate on what we know most about – people's health."

A very important project in 2005 was aid following the Tsunami disaster. I was particularly pleased that once again it was evident that CSR is not a subject that is imposed on employees, but CSR at Celesio is experienced at all levels - voluntarily and with conviction. In many other national companies employees donated spontaneously to the Tsunami victims. Our employees throughout the divisions have taken on the work receipting donations for Doctors for Developing Countries so that the doctors can concentrate their efforts on helping locally. The list could go on and on.

Also in future a healthy, growing company

I would like to thank all our employees for the degree of commitment to our company, the high level of motivation in professional matters, which, however, does not end with social commitment. Without them we would not have been so successful for so many years. I would also like to thank our customers and partners. Open and reliable partnership is the cornerstone of our many years of successful operation. And, of course, I thank you too, dear Shareholders, for your confidence in our – in your company Celesio.

With farsightedness and entrepreneurial flexibility, with commitment and a solid growth strategy we shall also remain a healthy, growing company in the years to come.

Stuttgart, February 2006

Yours sincerely

Management Board

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

celes

Jacques Ambonville
Celesio Wholesale

Stefan Meister
Celesio Pharmacies

Dr Felix A Zimmermann
Chief Financial Officer

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

Supervisory Board

Prof Theo Siegert
Duisburg
Chairman

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

Prof Erich Zahn
Stuttgart

Report from the Supervisory Board

Prof Theo Siegert
Chairman of the
Supervisory Board

Celesio continued its very positive growth in the fiscal year 2005. The company has moved forward both in its traditional business divisions Wholesale and Pharmacies and in the relatively young business division Solutions. The supervisory board, as hitherto, has overseen all important decisions and developments. It has always been well informed of the current situation and perspectives of Celesio.

Close cooperation continued

The supervisory board and management board have continued to work closely together in the spirit of good corporate governance in the fiscal year 2005. In this the supervisory board does not limit its role to discussing the proposals of the management board in formal meetings, but monitors the development of Celesio carefully, critically and constructively. The management board, as in the past, provided members with regular, up-to-date and extensive information. Planning, business developments and risks were discussed with the management board. The supervisory board has overseen all relevant projects throughout the entire process. Therefore in 2005 it was able to perform its advisory roles to the full extent and make all the necessary decisions.

Close contact between the chairmen

The Chairman of the Management Board and the Chairman of the Supervisory Board consulted regularly to discuss strategy, business development and risk management in the group and at Celesio AG. The Chairman of the Supervisory Board was informed immediately of any important events which are of key significance for the assessment and development of the situation and for the management of the group. The entire committee was given extensive information by the Chairman of the Supervisory Board at the latest at the next meeting of the supervisory board.

Regular meetings of the supervisory board

The supervisory board also had four regular meetings and one extraordinary meeting in the fiscal year 2005. Some of the important topics at the meetings were the acquisitions and investments of Celesio which represent a significant part of corporate strategy. The further development of the third business division, Celesio Solutions, and legislative changes in significant Celesio markets were discussed intensively. Other subjects included compliance with the specifications of the German Code of Corporate Governance which were revised again on 2 June 2005, the review of the efficiency of the supervisory board and the updating of the Declaration of Conformity pursuant to § 161 Aktiengesetz [German Stock Corporation Act]. The supervisory board gained a comprehensive picture of the situation and perspectives of Celesio in its meetings and discussed them in detail.

The three committees of the supervisory board remain in place. The arbitration committee formed in compliance with § 27 para. 3 of the Mitbestimmungsgesetz [Co-determination Act] did not have the occasion to meet in 2005, as was the case the previous year. The audit committee met twice and the staff committee met three times. The new Chairman of the Audit Committee is Dr Trützschler, who took over the office from Prof Siegert. The committee chairmen kept the supervisory board regularly informed of the work of the committee.

Financial statements approved

The financial statements for Celesio AG and the consolidated financial statements for the year ended 31 December 2005 and also the joint management report for Celesio AG and the group were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, and awarded an unqualified auditor's report. These documents, together with the auditor's reports, were made available to all members of the supervisory board and discussed extensively at the balance sheet meeting of the supervisory board subsequent to the auditor's report. The supervisory board raised no objections to the final result of this audit. At the recommendation of the audit committee, the board approved the result of the audit as well as the financial statements for Celesio AG and the consolidated financial statements produced by the management board. The financial statements have therefore been approved. The supervisory board has reviewed and given its agreement to the proposal for the appropriation of the profit available for distribution.

With regard to the major shareholding of Franz Haniel & Cie. GmbH, Duisburg in the year under review, the management board presented the supervisory board with the report on the relations with affiliated companies for the fiscal year 2005 pursuant to § 312 Aktiengesetz together with the audit report pertaining to it drawn up by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, as auditor pursuant to § 313 Aktiengesetz. On the basis of the audit being concluded 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 this report is correct,
2. with regard to the legal transactions detailed in the report, the payment by the company was not unduly high."

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

No conflicts of interest occurred between members of the supervisory board or management board.

No supervisory board member attended less than half of the supervisory board meetings in the fiscal year 2005.

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

Stuttgart, March 2006
On behalf of the supervisory board

Prof Theo Siegert
Chairman of the Supervisory Board

Corporate Governance

Comprehensive information, an efficient supervisory board and a management geared to clear objectives – corporate governance is a matter of course for Celesio. Celesio has been fulfilling the requirements of national and international standards of good, responsible corporate management for many years already.

Clear commitment to corporate governance

Celesio has been living corporate governance inside and out for many years now. As early as 2002 when the requirements regarding the management of companies listed on the German stock exchange were summarised for the first time in the German Code of Corporate Governance Celesio already fulfilled the requirements. Celesio has usually fulfilled any subsequent changes to the code in advance or undertaken them immediately. Therefore even the latest revisions to the German Code of Corporate Governance of 2 June 2005 had no effect on Celesio's high compliance rate. Management board and supervisory board stand firmly behind the code and its objectives.

Comprehensive information regarding the annual general meeting

Corporate governance begins with open, comprehensive and reliable information to shareholders. All the essential reports and documents including the annual report for 2004 were laid out on display at the Celesio annual general meeting on 29 April 2005. These documents were also sent out to shareholders on request.

Any shareholder not able to attend the annual general meeting in person was given the opportunity to be represented by two Celesio employees as proxies bound by instruction.

Celesio furthermore provides its shareholders with up-to-date comprehensive information on the current course of business outside the annual general meeting in quarterly interim reports.

Close cooperation between management board and supervisory board

Management board and supervisory board at Celesio work closely together in the spirit of good corporate governance; there are therefore not only regular supervisory board meetings; the communications channels are short and quick decisions guaranteed wherever necessary. Both boards discuss corporate strategy and its implementation in detail. The management board provides the supervisory board with comprehensive, up-to-date information on all crucial issues, particularly on the business development.

Management board remuneration geared to clear objectives

The structure of the management board's remuneration is linked to personal achievement and responsibilities of the board members, however it also takes into account the economic situation of the company. There is no share option programme at Celesio AG. A combination of fixed and variable elements in the remuneration of the management board ensures an incentive structure which supports entrepreneurial, result-oriented action with long-term perspectives. The variable component is divided into a profit bonus and a strategy bonus. The profit bonus is based on the cash flow, a good indicator of profitability and expansionary power. For the strategy bonus the Economic Value Added (EVA)* is the decisive measure of performance: The management board is remunerated for what is referred to as added value – the result of value-oriented, entrepreneurial management. Further information on the system of remuneration is given on pages 168 and 169 of the annual report.

Efficient work by the supervisory board

Celesio's supervisory board performs its tasks comprehensively, thoroughly and efficiently. For this purpose the supervisory board set up three committees which simplify goal-oriented operation. The Chairman of the Supervisory Board is also Chairman of the Staff Committee. There is also an audit committee and an arbitration committee. The supervisory board regularly checks the efficiency of its operation – however no essential improvements were found to be necessary in 2005.

The remuneration of the supervisory board is shown on pages 169 and 170 of the annual report.

* Registered trade mark of Stern Stewart & Co.

Corporate Governance

Share ownership and transactions subject to mandatory disclosure

The accumulated shareholding of the members of the management board and the supervisory board of Celesio AG in the year under review remained less than 1 percent of the shares issued by the company.

Pursuant to § 15a Wertpapierhandelsgesetz [Securities Trading Act] any person who performs a managerial role in a German company listed on the stock exchange, and any natural or legal person closely connected to same shall notify both the company and also the Bundesanstalt für Finanzdienstleistungsaufsicht [The Federal Financial Supervisory Authority] if in the course of any calendar year they acquire or dispose of shares or financial instruments of the company pertaining thereto of a value in excess of 5,000 euros. Celesio does not have any reports of this nature for the year under review.

Close contact with the shareholders

Communication with the shareholders does not end with the annual general meeting or the interim and annual reports. The internet is an important contemporary means of communication with shareholders and other interested parties. With the aid of its homepage www.celesio.com Celesio provides up-to-the-minute, precise information – whilst offering at the same time comprehensive information to anyone interested in the background. Here Celesio publishes ad hoc reports subject to mandatory disclosure immediately and gives early notification of important dates and events. As of 17 March 2005, for instance, all interested parties were able to obtain information ahead of the annual general meeting on the business review 2004. Furthermore the introduction by the Chairman of the Supervisory Board and the speech of the Chairman of the Management Board and Chief Executive Officer were transmitted to the internet by video. Small shareholders, financial analysts and interested members of the public alike – Celesio informs everyone simultaneously of any significant new developments.

Declaration of Conformity

Celesio complies fully with the German Code of Corporate Governance in the wording of 2 June 2005 with two exceptions. The remuneration of the management board and the supervisory board are not published individually. Celesio has carefullly considered the advantages and disadvantages of these exceptions, but the arguments against publishing individually still prevail:

Management board and supervisory board are collective organs. Their success depends on their joint operation. For this reason Celesio logically publishes the remuneration as a total. To publish individually is of no additional benefit to the shareholder. To the extent that there is no significant benefit to the shareholder by publishing individually, the fiscal secrecy and protection of personal rights shall apply to the management board and supervisory board – just as to all the other Celesio employees.

Comprehensive information on the subject of corporate governance at Celesio is published on www.celesio.com, including the following Declaration of Conformity, which the management board and supervisory board issued on 8 December 2005 pursuant to § 161 Aktiengesetz [German Stock Corporation Act]:

Celesio AG complies with the recommendations of the German Code of Corporate Governance in the wording of 2 June 2005 produced by the government commission with the following exceptions:

The remuneration of the members of the management board is shown divided into fixed, performance-related components and components intended as a long-term incentive. The details are not given for each individual member (code section 4.2.4, sentence 2).

The remuneration of the supervisory board members is not disclosed for each individual member but as a total amount (code section 5.4.7, paragraph 3, sentence 1).

Since last year's declaration was issued pursuant to § 161 Aktiengesetz [German Stock Corporation Act] Celesio AG has complied with the recommendations of the German Code of Corporate Governance produced by the government commission also in the version in force since 2 June 2005 with the following exceptions:

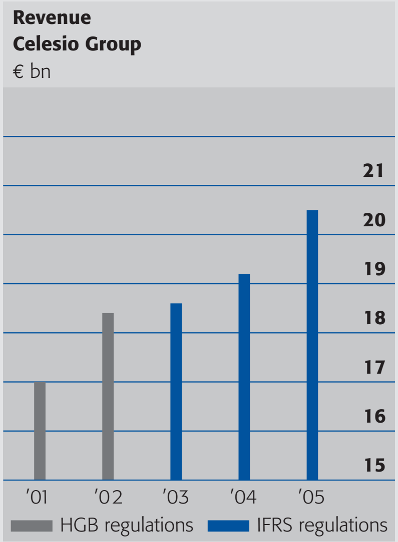
The remuneration of the members of the management board was divided into fixed, performance-related components and components intended as long-term incentives. The details have not been given for each individual member (code section 4.2.4, sentence 2).

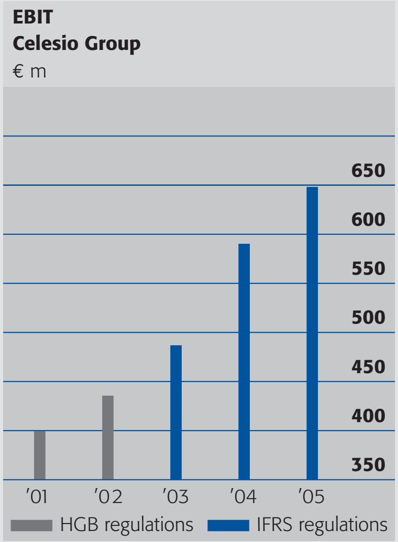
The remuneration of the members of the supervisory board has not been disclosed for each individual member but as a total amount (code section 5.4.7, paragraph 3, sentence 1).

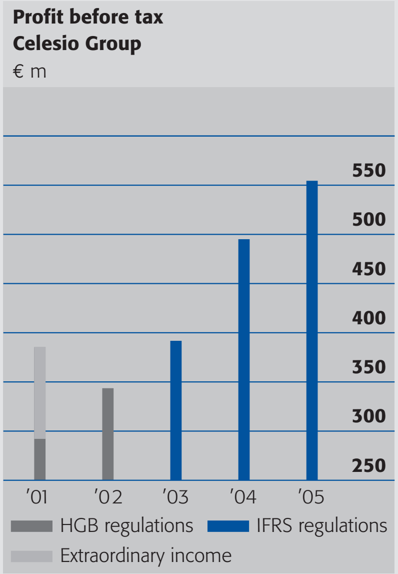
The management board

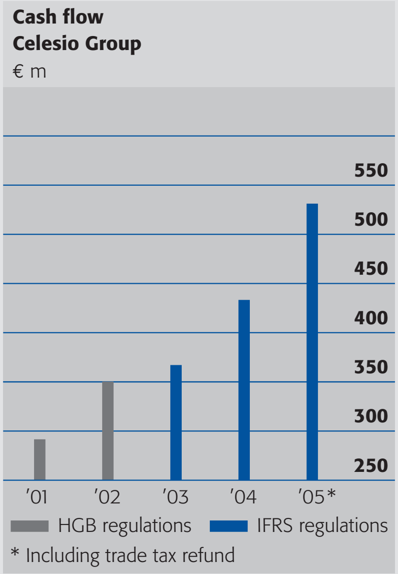
The supervisory board

Key Financial Figures: 5-Year Overview





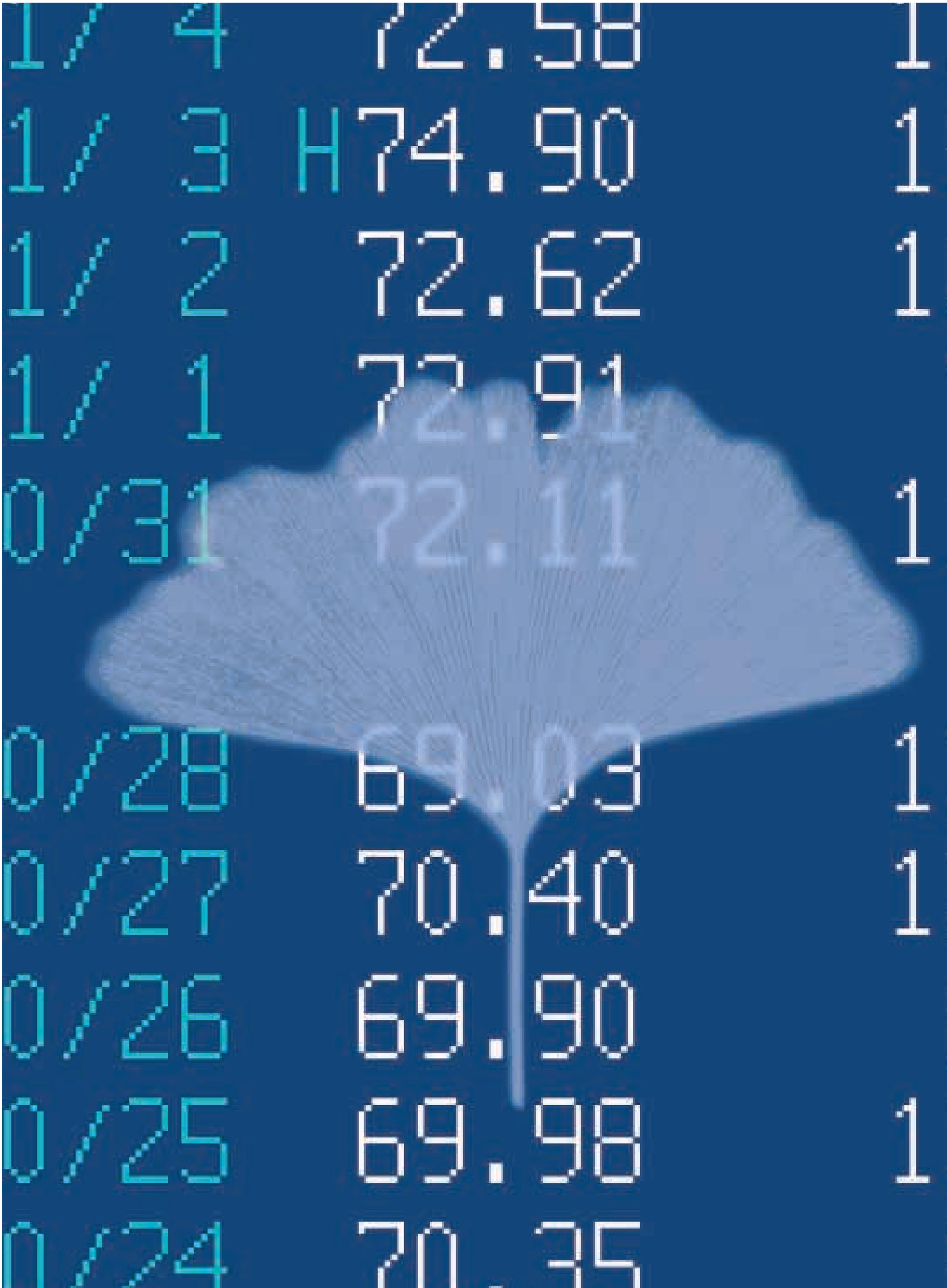




€ m	HGB regulations *2001	2002	IFRS regulations 2003	2004	**2005**
Revenue	16,971.0	18,383.4	18,558.5	19,152.6	**20,491.1**
% change	10.6	8.3	–	3.2	**7.0**
EBIT	399.5	435.6	486.9	590.3	**648.2**
Profit before tax	292.1	343.6	391.8	495.1	**554.5**
Net profit	201.3	239.6	266.7	339.2	**424.9**
without trade tax refund	201.3	239.6	266.7	339.2	**386.0**
Earnings per share	2.72	2.90	3.10	3.95	**4.95**
without trade tax refund	2.72	2.90	3.10	3.95	**4.49**
Dividend per share in €**	0.77 + 0.08	0.85	0.90	1.20	**1.35 + 0.05**
Cash flow	291.6	350.2	367.1	433.3	**530.8**
without trade tax refund	291.6	350.2	367.1	433.3	**491.9**
Non-current assets***	2,320.4	2,334.0	2,656.5	2,713.1	**3,225.1**
Shareholders' equity	1,220.6	1,639.7	1,695.0	1,951.9	**2,284.2**
Long-term capital	2,506.7	2,590.9	2,436.7	2,990.4	**4,359.7**
Total assets	5,241.8	5,509.6	6,398.0	6,531.1	**7,511.7**
% of total assets:					
Non-current assets***	44.3	42.4	41.5	41.5	**42.9**
Shareholders' equity	23.3	29.8	26.5	29.9	**30.4**
Long-term capital	47.8	47.0	38.1	45.9	**58.0**
Capital expenditures	548.4	392.6	282.4	178.4	**579.5**
Number of employees	30,816	32,007	32,594	32,246	**35,407**

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

21% increase in share price


1/ 4 72.58
1/ 3 H74.90
1/ 2 72.62
1/ 1 72.91
0/31 72.11
0/28
0/27 70.40
0/26 69.90
0/25 69.98
0/24 70.35

Celesio Shares

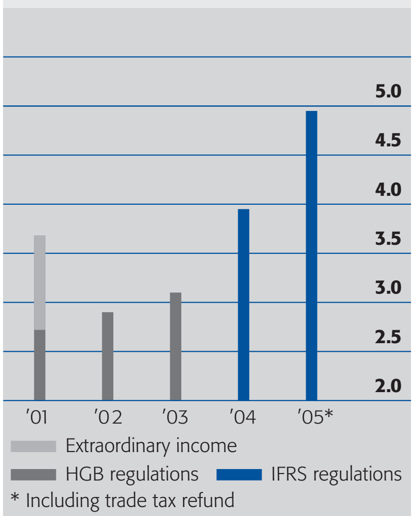
Key figures € per share	HGB regulations *2001	**2002	IFRS regulations 2003	2004	**2005**
Earnings	2.72	2.90	3.10	3.95	*****4.95**
Dividend	0.77+0.08	0.85	0.90	1.20	**1.35 + 0.05**
Dividend with tax credit (not rounded up)	0.85	0.85	0.90	1.20	**1.40**
EBIT	5.48	5.36	5.72	6.94	**7.62**
Cash flow	4.00	4.31	4.32	5.09	*****6.24**
Shareholders' equity	16.74	20.16	19.93	22.95	**26.86**
Share price (30/12/)****	43.50	37.10	38.45	59.84	**72.66**
Number of shares outstanding (30/12/ m)	72.9	85.1	85.1	85.1	**85.1**
Market capitalisation (30/12/ € m)	3,171.2	3,155.4	3,270.2	5,089.4	**6,179.7**

* Adjusted for extraordinary result
** Weighted average of number of shares
*** Including trade tax refund
**** Last trading day

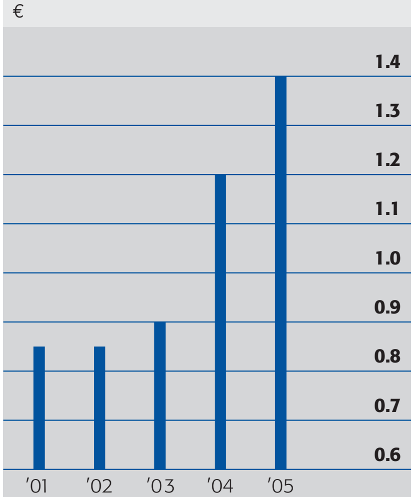
Growth market healthcare

Celesio Shares

Earnings per share
€



Cash dividend per share
€



Celesio' s successful growth in 2005 benefits its shareholders in two ways. Firstly the shares continued their long-term increase in value. In the course of the year they showed growth of 21.4 percent, reaching the highest level in their history. Secondly, Celesio intends, as in the past, to let its shareholders benefit from the good business performance and also in the trade tax refund, and is proposing a total dividend of 119.1 million euros.

Reliable growth with prospects

Celesio again signifies continuous growth in 2005. The fact that profit has increased for the 19^{th} time in succession is evidence of this. Earnings per share (including the trade tax refund) increased compared with the previous year by 25.3 percent to 4.95 euros. Shareholders benefit both in terms of share price and dividend. For 2005 Celesio is proposing a cash dividend per share of 1.40 euros to the annual general meeting – 16.7 percent more than in 2004. This contains a special dividend of 0.05 euros, the Celesio shareholders thereby benefiting – just as in the comparable case in 1999 – from the trade tax refund for the years 1996 to 2001.

Only a reliable dividend policy instils confidence and ensures the future capability of the company. Therefore the distribution ratio as in previous years also is around 30 percent of net profit before trade tax refund. In this way the shareholder is able to benefit directly from the good operating performance, with adequate margins remaining for investment in future growth.

Shares at new high level

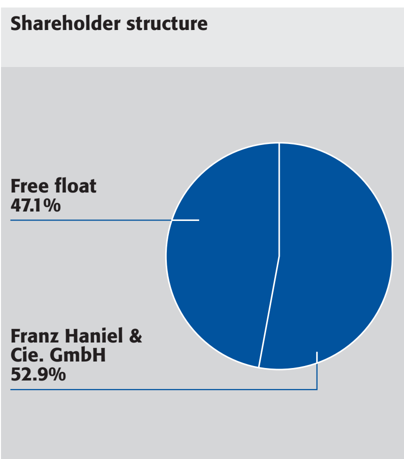
Continuous growth over many years and excellent prospects for the future – Celesio's positive development was acknowledged by the stock exchange again in 2005. Although the Celesio shares achieved dynamic growth in excess of 55 percent in 2004, in 2005 the share reached its highest price ever. With prices exceeding 70 euros, the shares reached record highs. The closing price on 30 December 2004 was 59.84 euros, and one year later, on 30 December 2005, the shares already stood at 72.66 euros. In the course of the year the Celesio shares fluctuated between 55.88 and 74.90 euros.

The performance of the shares thereby continues its success story for a further year. Instead of concentrating on short-term effects, Celesio looks to a long-term growth strategy – with continued success. Anyone who purchased a Celesio share on 30 December 1990 could have looked forward to a more than sixfold increase in the share price after 15 years.

Performance of Celesio shares
€

* Index-linked to Celesio shares

Celesio Shares



6 billion euros market capitalisation for the first time

Market capitalisation exceeded the 6-billion-euros-mark for the first time in 2005. Based on market capitalisation of the free floating stock, Celesio now ranks number 34 in the DAX index as of 30 December 2005, thus just below Germany's largest companies in the DAX-30.

In December 2004 a convertible bond issued on Celesio shares by the majority shareholder Franz Haniel & Cie. GmbH matured. After full conversion of the bond, the free floating stock of Celesio AG in April 2005 rose to 47.1 percent. With a shareholding of 52.9 percent, Haniel remains the majority shareholder. Institutional investors, in particular, utilised the enlarged free floating stock to purchase Celesio shares. The number of Celesio shares traded in 2005 increased on the prior year once more by 9.5 percent to 39.3 million.

Celesio is international oriented and the shareholder structure is also international: A large part of free-floating shares are held by US American and British investors. A significant number are also held in Germany, Switzerland and France.

Greater MDAX weighting

The increase in free floating stock and market capitalisation improved Celesio's weighting in the MDAX. On 30 December 2005 Celesio was the fifth largest company in the MDAX with a weighting of 3.90 percent – after ranking 7 in the previous year. In other indices Celesio also continues to have a major presence. In the MSCI Germany Index (Morgan Stanley Capital International) the shares' weighting was 0.47 percent. As a company with strong international orientation, Celesio also immediately gained entry to the new DAXplus Export Strategy Index founded at the end of October 2005. The index includes the ten companies from DAX and MDAX with the highest share of revenue outside Germany.

As a company with outstanding social and socio-political commitment, Celesio is also included in internationally important sustainability indices such as the Dow Jones Sustainability World Index (DJSI-World) and the FTSE4Good Europe.

In 2005 Celesio again was favourably placed among analysts. Some 25 bank analysts published regular reports on Celesio. This is an unusually high figure for a MDAX value– which once again underlines the growing importance of Celesio in the financial world.

Internationalisation of the shareholder base

Celesio's good corporate performance is being acknowledged more and more – in Germany as well as at international level. The positive growth in the share price and dividend, in addition to the increasing importance in the indices and the growing proportion of international shareholders all contribute to this. This is an excellent example of the confidence shareholders the world over have in Celesio and also the conviction of sustained growth in the future. This development would not have been possible without the comprehensive, reliable information to capital markets or, in other words, without reliable, open investor relations activity.

Celesio Shares

In the fiscal year 2005 Celesio continued and expanded its commitment to investor relations work. Longstanding contacts were maintained and intensified, and new links forged. In particular, it was important to address institutional investors abroad and, in so doing, place the shareholder base of Celesio on an even broader and more stable foundation.

Celesio was consistently present where the investors were: The management board and IR-staff of Celesio were "on the road" for over 30 days last year. 16 road shows in eight countries – from Italy to Sweden, United Kingdom to the USA – were just as much part of the programme as seven conferences, over 150 intensive individual discussions and around 30 group presentations. Celesio gave comprehensive, open reports on business development, strategy and future prospects, and was available to answer questions from investors and interested parties. In 2005 more than 40 participants attended the annual analysts' and investors' conference arranged by Celesio.

Intensified communication with private investors

Communication with private investors was expanded in 2005. With a new events concept, Celesio initially focused on Baden-Württemberg, the location of its group head office. Working closely with regional banks, Celesio introduced itself to several hundred guests. With this intensified communication with long-term oriented private shareholders, Celesio enhances the stability of its shares.

Website as a central information platform

Celesio shareholders were always able to keep abreast of current developments outside personal meetings. The detailed information given on www.celesio.com provided all current and potential shareholders with a comprehensive picture of the company. Telephone conferences were broadcast online; presentations are shown on the website as well as video recordings of important speeches by the management board. Up-to-the-minute reports and announcements of coming events can simply be called up on the website. It should therefore come as no surprise that the online service also in 2005 was again accessed by over 900,000 interested parties.

Creditor Relations work expanded

The extensive communication of Celesio was not limited to the shareholders in 2005, however. Celesio also continued its dialogue with the lending banks in 2005. Representatives from more than 60 banks visited the international bankers day, Celesio's third to date. Numerous one-to-one talks rounded off the intensive communication. Celesio also provides outside lenders with up-to-date information and on all significant developments.

15 countries in Europe

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

Management Report for the Celesio Group and Celesio AG 2005

Corporate Strategy

To be prepared today for the challenges of the future – that is the basic theme of Celesio's corporate strategy. For Celesio the positioning in an attractive market, ongoing improvement and investment in growth areas as well as the dialogue with healthcare decision-makers are part of this. In this way Celesio can build the foundation to operate with equal success in the future as it has hitherto.

Concentration on pharmaceuticals growth market

"People's health is the focus of our entrepreneurial business activities." This means for Celesio first and foremost: To be close to the healthcare needs of its customers. With well in excess of 100,000 deliveries of medicines being carried out by the Wholesale division each day, and pharmacies from the Celesio Pharmacies division serving more than 500,000 customers each day, people's health determines Celesio's day-to-day business.

This maxim also characterises the strategic positioning. Health is at the heart of the business. In other words, Celesio concentrates on its core business area, the pharmaceutical market: Pharmaceutical wholesale, pharmacies, services for pharmaceutical manufacturers and other customer groups in the pharmaceutical market. For it is in the pharmaceutical market that Celesio has many years experience. This is where the group's expertise lies.

With this Celesio, as an entire group, benefits from the growth in the pharmaceutical market that in the medium- and long-term puts the overall market growth in Europe in the shade. In the future also, the demographic trend alone is testament to this, the healthcare market will grow ahead of the overall average.

Corporate Strategy

As a European market leader, Celesio leads in the wholesale and pharmacy sectors, and is continuously expanding its range of services and presence in existing but also new markets. Meanwhile the company has a presence in 15 countries in Europe – in the large markets such as Germany, France or the United Kingdom as well as in the smaller growth markets of South-East Europe. The extent to which the supply chain is covered is constantly being increased. A gap in the range of services is being closed in particular with the new third division, Celesio Solutions. It addresses a newly emerging demand for services relating to medicines and operates in markets with overproportional growth opportunities which are largely young. With Solutions, Celesio is now firmly established as an all-round service provider in the pharmaceutical market. The division counts pharmaceutical manufacturers and other customer groups, such as authorities and government institutions, as well as the traditional customer groups pharmacies and patients to its customers.

Less risks, more opportunities thanks to broad-based structure

As a result of Celesio's broad-based structure, the overall risk of the business portfolio is being further reduced. New opportunities will also arise for Celesio. The group can utilise synergy effects and economies of scale within and between the business divisions.

Celesio's three-division structure has a number of strengths. At group level any potential risks in one individual business division are easier to offset. Combined with the broad geographical base, potential risks are counterbalanced.

Celesio's group matrix of value added levels and geographical presence includes established and young, regulated and totally unregulated markets. If for instance government measures are introduced in a local market, any resultant negative effects at group level can be balanced out in other sites of added value or in other national markets.

Learning from the best

Another advantage: Celesio can use experience gained in one market for other countries. Know-how and expertise are quickly passed on internally. With this best practice approach each individual member learns from the experience and knowledge of the best in the group. The managing directors meet regularly in the executive boards of the individual business divisions as do the functional heads of the operational companies to exchange information. In these meetings experience and recommendations are exchanged which are of use to all concerned. The strategy of the individual business divisions is developed jointly, monitored, adjusted. This also strengthens the feeling of cohesion. Informed employees who can "see further than the end of their nose" are able to react more quickly to changes in their market, identify and utilise new opportunities. Not only their direct area of responsibility, the business division, benefits from this – but the entire group.

And yet another advantage of Celesio's broad strategic base: Its presence spanning 15 European countries allows the development of European business models. Celesio is therefore as international as many of its customers. The origins of these European business models are often processes, structures and service profiles that have already been proven effective in individual countries.

Corporate Strategy

Celesio Solutions has great medium- and long-term potential – even business portfolios need new blood

Since 2004 Solutions has been the third business division alongside the two established divisions Wholesale and Pharmacies, thereby extending Celesio's added value chain considerably in terms of additional customer groups.

Pharmaceutical manufacturers, in particular, with international presence demand a tightly-knit network of their partners, that does not stop at national boundaries. The Celesio Solutions division already operates in eight countries with its first business unit Movianto (until March 2006 AVS Health Distribution). Movianto is the first, but not the last business unit which will make up the Solutions division in the medium- and long-term. Other business units will address and satisfy different service requirements pertaining to medicines at multinational or global level.

Movianto offers pharmaceutical manufacturers standardised and tailor-made logistics and distribution services. Movianto therefore covers the growing need of the pharmaceutical industry to concentrate on their core competence and outsource marginal business to external service providers. Step by step Movianto is expanding its range of services and consolidating its present range. Acquisitions of Sanalog in Germany, SEUR PHARMA in Spain, Realpol in the Czech Republic and Healthcare Logistics in the United Kingdom have strengthened Movianto quickly and significantly.

Sound commercial analysis, efficient integration: The key to successful acquisitions

Thanks to its many years experience, Celesio recognises the customers' requirements for a range of services with added value. With the expansion of all three business divisions, their interaction and resultant synergy effects, Celesio is optimally positioned to generate added value in terms of performance for its customers. This is why Celesio is investing continuously in the ongoing business and in acquisitions. The Wholesale and Pharmacies businesses therefore form a solid basis for further diversification and expansion.

By the way: Celesio will not run out of growth prospects in these divisions either. Kemofarmacija impressively demonstrates the attractiveness of acquisitions in the Wholesale division. With the purchase of the Slovenian market leader, Celesio took a great step forward into a small but promising growth market in South-East Europe. If the target countries have a stable economy and political climate, the new markets have the potential for a strong market position and the target companies are managed transparently and competently, then Celesio takes every opportunity to strengthen its Wholesale division through acquisitions.

Celesio also continues its high level of commitment in the Pharmacies division. This applies not only to the markets where Celesio has not yet reached the necessary strategic position. Celesio also always purchases in markets where it is already well positioned strategically providing the pharmacies are attractively located – close to doctors, the source of prescriptions, and close to customers and patients – have tailor-made their range of products and services to suit their environment, and the price is right. The purchase of a group of 110 pharmacies in the United Kingdom in the 4th quarter of 2005 is the best example of this.

Corporate Strategy

Purchasing alone is by no means the end of the story of course. In 2005 for example, Healthcare Logistics and other acquisitions from the previous year were integrated. Rapid, smooth integration is the key to the success of any acquisition. Celesio preserves the cultural identity, the individuality and the identity of the companies acquired in as much as this is possible and justifiable. Necessary changes are only initiated when the company and its employees have been made aware of the need to change. It is only through smooth integration that it is possible to maintain sensitive customer relations and keep the best people on board, both of which represent mostly the greatest value of any acquisition.

Celesio also does not see integration as a one-way process. The principle of "learning from the best" also applies, of course, to new subsidiaries: The group is eager to learn from the successes of its subsidiaries and is equally eager to pass on its know-how to the new group member. In this way both sides enjoy mutual benefit. The result is an individual company that is better positioned and a strengthened business division – in short: Sustained added value for Celesio.

Investing in the future

Acquisitions are only one part of Celesio's growth strategy. Every day Celesio sets the course to the future across the group at various points in its operating business. The wholesale branches are being more and more closely coordinated. Pharmacies are continually being modernised, their efficiency improved, their employees are receiving intensive training, and new regional growth markets are being won. Earnings from business today are already being invested into the business of tomorrow in order to secure a continual improvement in future earning power. This ensures that Celesio will be just as successful in the years to come as it has been in the past.

Our commitment: Dialogue for a clear healthcare policy

In order to equip Celesio for the future, external communications is also necessary. Closer dialogue with the customers as to their needs and requirements is a matter of course for Celesio. However intensive the interaction with the public, interaction with healthcare policy-makers forms part of our corporate strategy. Only as part of an exchange with the institutions and decision-makers can Celesio help shape the healthcare policy landscape. In the interests of the company, its employees and shareholders, but also society, Celesio is committed to a healthcare system that can be assured in the long-term. Both at national as well as supranational level, for instance through the European Association of Pharmaceutical Full-line Wholesalers, GIRP, Celesio brings its in-depth specialist knowledge of the healthcare market into discussion. The public, also affected by healthcare policies, benefits just as much as the business environment from a solidly founded discussion. Only through this can clear, sustainable political decisions be made. Reliable decisions are a pre-requisite for Celesio to operate successfully in the long-term.

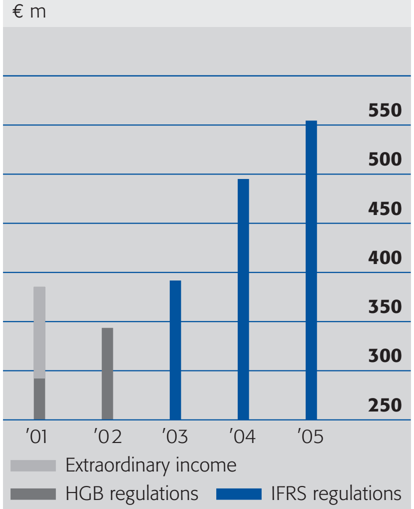
Set the course today with the challenges of the future in mind – Celesio is optimally equipped for this with its different business divisions, its broad geographical presence and future-oriented investment.

Business Review

Celesio also maintained its course for growth in 2005. Revenue rose by 7.0 percent over the previous year to 20.5 billion euros. Profit before tax grew disproportionately by 12.0 percent. Increases in the gross profit margin and efficiency ensured yet another improved profit margin group-wide: Return on sales based on pre-tax profit reached 2.71 percent.

Revenue and profit significantly improved

Profit before tax
Celesio Group
€ m



Celesio continued to grow in 2005 – both in terms of revenue and profit. Compared to 2004 Celesio increased its group revenue significantly to 20.5 billion euros, corresponding to a 7.0 percent (6.9 percent in local currency) rise over the previous year. The acquisitions also contributed to growth. Without the acquisitions and adjusted for disposals Celesio would have grown by 4.2 percent (4.1 percent in local currency).

Outside Germany, Celesio generated revenue in 2005 totalling 16.8 billion euros, representing 82.2 percent of group revenue. This is evidence of the strong internationalisation of Celesio and therefore the independence of the development of individual markets.

Group profit before tax rose by 12.0 percent (12.1 percent in local currency) to 554.5 million euros. This significant increase is all the more remarkable as Celesio had already achieved a substantial increase in profit in 2004 by comparison with the previous year.

Acquisitions consolidated

Celesio also continued its long-term growth strategy in 2005 from organic growth on the one hand and acquisitions on the other. As a result the group has an even greater presence in Europe, and the European Celesio network was expanded, thereby enabling it to become even tighter.

The acquisitions in the Wholesale division – Soquifa-Medicamentos in Portugal, Kemofarmacija in Slovenia with subsidiaries in Croatia and Romania – were consolidated for the first time, as were the acquisitions of Movianto in the Solutions division – the German company Sanalog and the British company Healthcare Logistics.

Celesio Group	2004		**2005**		Change in €	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	19,152.6	100.00	**20,491.1**	**100.00**	7.0	6.9
Gross profit	2,056.7	10.74	**2,235.5**	**10.91**	8.7	8.7
EBIT	590.3	3.08	**648.2**	**3.16**	9.8	10.0
Profit before tax	495.1	2.59	**554.5**	**2.71**	12.0	12.1
Net profit	339.2	1.77	***424.9**	***2.07**	*25.3	*25.4
Cash flow	433.3	–	***530.8**	**–**	*22.5	*22.5

* Including trade tax refund

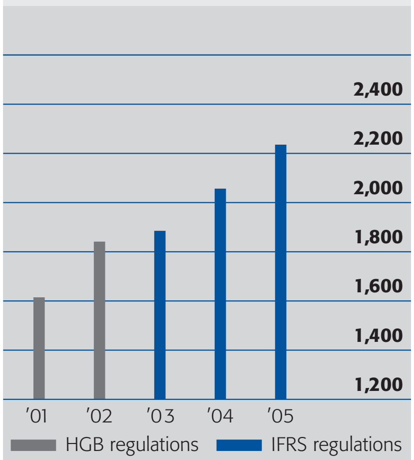
Celesio has been optimising its existing pharmacies locations on an ongoing basis. In the 4th quarter of 2005 particularly Celesio strengthened its Pharmacies business significantly with the acquisition of 110 pharmacies in the United Kingdom. The group exceeded the 2,000-mark in the number of pharmacies for the first time in the history of Celesio: At 31 December 2005 Celesio was represented in seven European countries with a total of 2,045 pharmacies.

Profitable growth improves profit level indicators

Celesio improved its profit level indicators in 2005: The gross profit margin and return on sales reached a new record high. Also interest coverage showed further improvement despite the high investment volume. Acquisitions contributed to the change in all the items on the income statement; the income statement remained comparable to the previous year, however.

Business Review

Gross profit
Celesio Group
€ m



Group revenue rose by 7.0 percent (6.9 percent in local currency) in the 2005 fiscal year. The Celesio Wholesale division continued its long success story and the Celesio Pharmacies division increased its share of the group's profit and gross profit despite the low revenue growth. Organic growth and acquisitions had a positive impact on the Celesio Solutions division. However, due to the business model, gross profit is the more relevant indicator for business volume for Solutions.

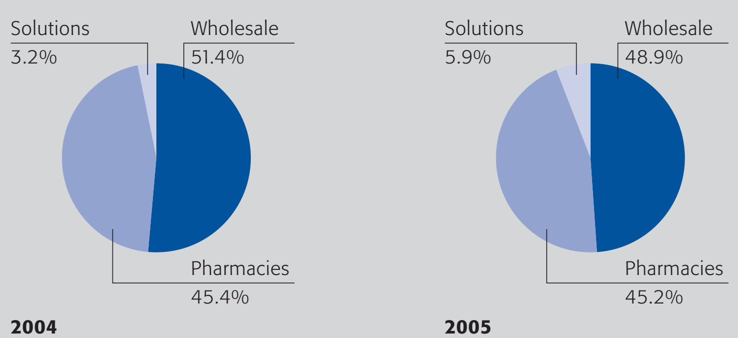
Gross profit rose by 8.7 percent (8.7 percent in local currency) to 2,235.5 million euros. The gross profit margin improved within the group by 17 basis points to 10.91 percent. In Wholesale a change in product mix and further optimised purchase conditions were unable to fully compensate for the negative effects on the gross profit margin of government measures and increased discounts. The gross profit margin for the Pharmacies business again showed significant improvement on average over the year, despite government measures. A changed product mix, in particular a greater proportion of generic products in turnover, and further improved purchase conditions contributed to this. The contribution of Celesio Solutions to the gross profit of the group and hence to the group gross profit margin increased, although only absolute gross profit and not the gross profit margin is relevant for this business division.

Celesio shows the item Other expenses and income for the first time in the 2005 fiscal year. It offsets other income against other expenses. This summary increases the informative value of the income statement as there is frequently a connection between the income and expense items. The relevant items are also shown gross in the notes.

Acquisitions in particular contributed to the disproportionate increase in net expenditure from other expenses and income. At the same time the pharmacy portfolio was undergoing continuous optimisation with the sale of pharmacies as well as land and buildings belonging to pharmacies. These disposals produced a comparatively high contribution to profit.

The advertising costs subsidies received and income from data sales increased slightly. Net expenditure from the formation and reversal of bad debt allowances fell last year, and is still at a generally low level. Acquisitions in particular have increased building expenditure. Higher rents, particularly in the Pharmacies business, also contributed to increased building expenditure. Higher fuel prices and the acquisitions in Wholesale caused a significant increase in transportation expenses. However, transportation expenses in Wholesale are still less than 0.7 percent of revenue.

Gross profit according to business divisions
Celesio Group
%



Business Review

Personnel expenses rose more strongly than revenue. This was due on the one hand to a higher proportion of the personnel-intensive Pharmacies business, where personnel expenses, but also gross profit, rose considerably more than revenue. Wage increases were largely offset by streamlining measures and the increase in gross profit – as the result of the increase in and higher margins of revenue. The acquisitions had considerable impact on absolute personnel expenses. Pension costs increased, in particular as the result of the acquisitions. However, they still only account for a small proportion of overall personnel expenses. Personnel services expenses increased as the result of holiday cover in particular in the Celesio Pharmacies division.

Net income from investments only rose slightly, an essential component of this being the dividend from the holding in Andreae-Noris Zahn AG.

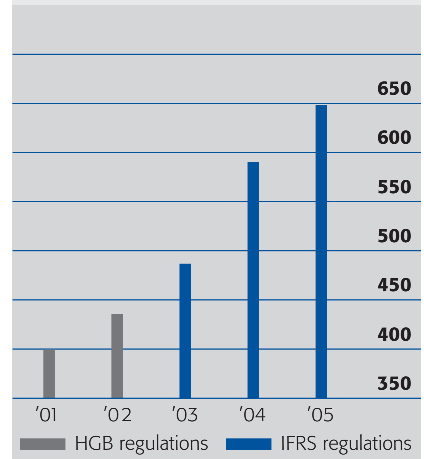
The increase in depreciation and amortisation is essentially attributable to the acquisitions. In the operating business, investments in the last few years have only increased depreciation and amortisation slightly. Goodwill was shown to be recoverable in the annual impairment test; there was therefore no reason to recognise an impairment loss.

Celesio improved earnings before interest and taxes (EBIT) significantly by 9.8 percent (10.0 percent in local currency) to 648.2 million euros. Return on sales, based on EBIT, was 3.16 percent after 3.08 percent the previous year. The Celesio Pharmacies division improved its share of earnings before interest and taxes, without taking account of the Others segment, to 42.5 percent (41.1 percent in the previous year).

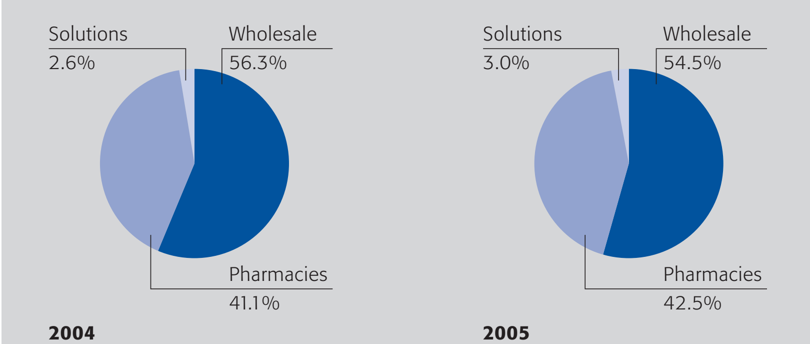
Despite the high level of investment, interest result showed a slight improvement. Correspondingly interest coverage (EBIT in relation to interest result) rose significantly to 6.92 after 6.20 the previous year. This highlights Celesio's solid financing capability. The continued slight improvement in refinancing costs and the fact that investments in the operating business and significant parts of the acquisitions were financed from cash flow contributed to this. The free cash flow was positive for a long time in the course of the year, and in this period was utilised for repayment of financial liabilities.

In this fiscal year, the interest expense from additions to pension provisions also fell, the crucial factor being the lower level of interest.

EBIT
Celesio Group
€ m



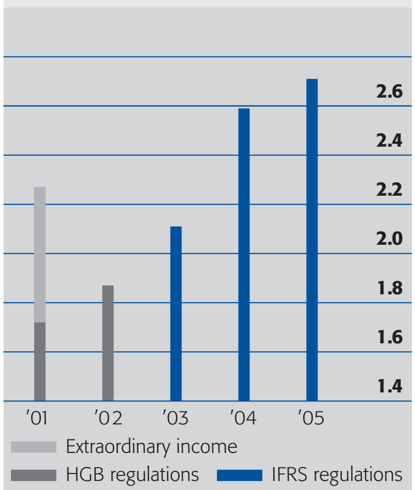
EBIT according to business divisions
Celesio Group*
%



* Without Others segment

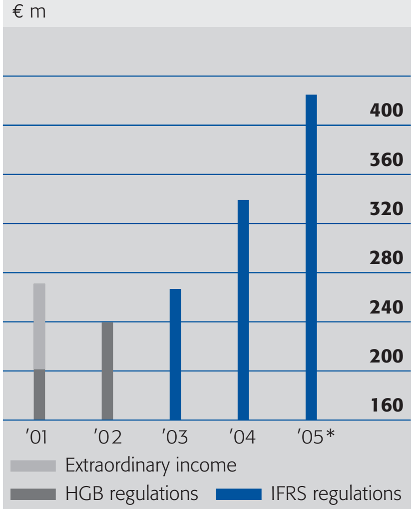
Business Review

Return on sales*
Celesio Group
%



* Based on profit before tax

Net profit
Celesio Group
€ m



* Including trade tax refund

Profit before tax grew at 12.0 percent (12.1 percent in local currency) significantly ahead of revenue. Return on sales, based on pre-tax profit, reached a new record high at 2.71 percent.

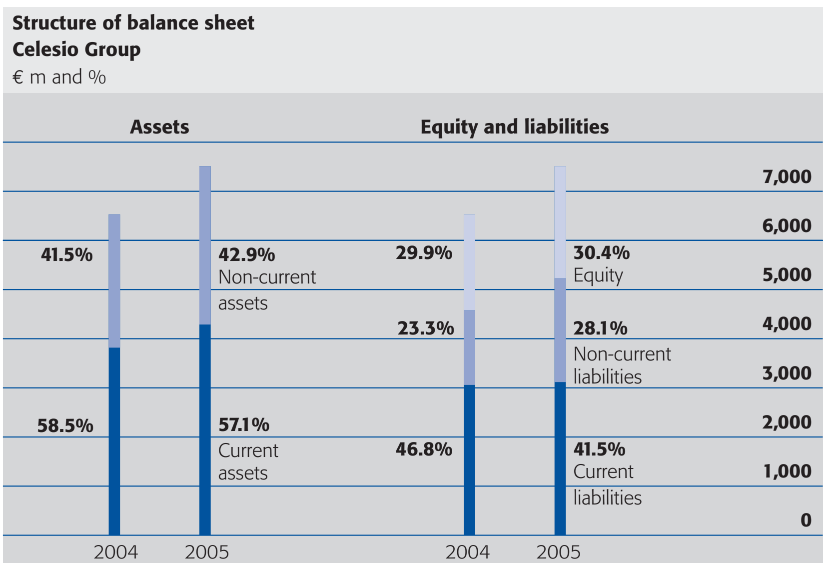
Tax expense reduced significantly, due to the trade tax refund, by 26.3 million euros to 129.6 million euros. The tax ratio was 23.4 percent after 31.5 percent the previous year. Excluding the trade tax refund, the tax ratio would have been 30.4 percent in the reporting period. The reduction in the tax ratio, adjusted to take account of the trade tax refund, was the result of the further increase in the share of profit from abroad, reductions in the rate of tax, in particular in Austria, and also tax refunds for previous years for foreign subsidiaries.

Due to the reduced tax ratio, net profit showed a significantly disproportionate increase of 25.3 percent (25.4 percent in local currency) to 424.9 million euros. Earnings per share accordingly showed strong improvement, at 4.95 euros being significantly higher than the previous year's 3.95 euros. Adjusted to take account of the trade tax refund, net profit increased by 13.8 percent (13.9 percent in local currency) and earnings per share rose by 13.7 percent (13.8 percent in local currency).

Balance sheet ratios further improved

The balance sheet ratios showed further positive development: Despite the acquisitions, shareholders' equity improved to 30.4 percent and gearing to 0.93. This means that Celesio is excellently positioned for financing further growth.

At 31 December 2005, total assets had risen by 980.5 million euros. The acquisitions of the 2005 fiscal year essentially contributed to this increase. The amount relating to the first-time consolidation of these companies was 680.1 million euros. Furthermore the effects of the change in the spot rate on the reporting date contributed an amount of 82.8 million euros to the increase of the total assets.



Non-current assets increased by 512.0 million euros. The additions from acquisitions accounted for 470.7 million euros of this increase. Goodwill increased by a total of 410.3 million euros: 43.8 million euros from acquisitions in Wholesale, 278.1 million euros for Pharmacies and 88.4 million euros from acquisitions in the Celesio Solutions division. All goodwill was shown to be recoverable in the annual impairment test. The increase in property, plant and equipment is exclusively attributable to the acquisitions. In the existing business, capital expenditures were lower than depreciation and disposals.

At year end, net current assets (current assets less liabilities excluding financial liabilities) increased significantly. In addition to the usual year-end effect and organic growth, acquisitions also had a significant influence on the increase.

Current assets increased by a total of 468.6 million euros. The additions from acquisitions accounted for 209.4 million euros in the year 2005. At year end Celesio significantly increased its inventories. In building up inventories, Celesio at the same time ensured supply capability at year end and utilised purchasing advantages in the current year. On average for the year Celesio is satisfied with the development of the inventories.

Business Review

Net working capital Celesio Group	31/12/2004 € m	**31/12/2005 € m**	**Change € m**
Inventories	1,447.3	1,639.4	192.1
Trade receivables	2,133.3	2,382.1	248.8
Trade payables	1,844.1	2,189.4	345.3
	1,736.5	**1,832.1**	**95.6**
Other operating assets	291.8	343.0	51.2
Other operating liabilities	839.5	897.8	58.3
Net working capital	**1,188.8**	**1,277.3**	**88.5**
Adjusted for non cash items			
Exchange rate effects			(14.3)
Change in the scope of consolidation			(14.1)
Other non cash items			9.9
Net cash flow from change in net working capital			**70.0**

Acquisitions and the very good year-end and Christmas business ensured an increase in trade receivables. As regards other receivables and assets and income tax receivables, the increase was largely attributed to higher prepayment of taxes and input tax refund claims.

Liabilities other than financial liabilities rose by 412.2 million euros. The first-time consolidations in the course of the year 2005, led to an increase of these liabilities of 183.8 million euros. Pension provisions increased as in the 2005 fiscal year newly earned claims and pension provisions accrued through acquisitions were added. Nevertheless pension provisions still accounted for less than 1.9 percent of total assets. The low level of pension obligations overall demonstrates the low significance of pensions in the Celesio Group. Trade payables largely increased parallel to inventories. Income tax liabilities rose as a result of the higher level of pre-tax profits. Acquisitions in particular led to a slight increase in other current provisions and other liabilities.

Shareholders' equity was increased by 332.3 million euros to 2,284.2 million euros. The shareholders' equity ratio rose to 30.4 percent after 29.9 percent in the previous year. This was attributable to net profit of 424.9 million euros less the dividend for the 2004 fiscal year of 102.1 million euros. The effects of the currency conversion totalled 15.8 million euros. In particular the change in market value of derivatives, which were all used exclusively for hedging against interest and currency risks, resulted in a reduction of other comprehensive income. The increase of minority interests in shareholders' equity is the result of the attributable portion of profit for the fiscal year 2005.

Financial liabilities increased overall by 236.0 million euros. The financial liabilities from the acquisitions contributed to this increase. At the time of the respective first-time consolidations, these amounted to 39.2 million euros. Non-current financial liabilities rose significantly. The financing of acquisitions and the redemption of a short-term sale of trade receivables programme in France through non-current financial liabilities are principally responsible for the increase of 561.9 million euros. This also caused current financial liabilities to decrease significantly. Within the non-current financial liabilities, a further promissory note was issued and non-current bank liabilities extended.

Liabilities Celesio Group	2004 € m	**2005 € m**
Financial liabilities	1,832.9	**2,068.9**
Pension provisions	132.7	**140.2**
Trade payables	1,844.1	**2,189.4**
Other liabilities and provisions	769.6	**829.0**
Total	**4,579.3**	**5,227.5**

Business Review

Investing in the future

In 2005, Celesio invested a total of 579.5 million euros. This represents an additional 401.1 million euros compared to last year. The acquisitions in 2004 and 2005 of Soquifa-Medicamentos, Kemofarmacija, 110 British pharmacies, Healthcare Logistics and Sanalog, which were paid for in the 2005 fiscal year, all contributed to this increase. The total investment volume is divided up into 461.8 million euros for acquisitions and the opening of new premises in the Wholesale, Pharmacies and Solutions divisions and 117.7 million euros for investments in the operating business.

The investments according to the divisions are divided up as follows: 110.5 million euros were invested in the Wholesale division, 344.7 million euros in the Pharmacies division, 118.0 million euros in the Solutions division and 6.3 million euros in Celesio AG. As in previous years, the focus in 2005 was on investment in property, plants and equipment in addition to acquisitions and opening of new premises.

Capital expenditures Celesio Group	2004 € m	**2005 € m**
Celesio Wholesale	64.7	**110.5**
Celesio Pharmacies	80.9	**344.7**
Celesio Solutions	12.7	**118.0**
Others	20.1	**6.3**
Total	**178.4**	**579.5**

Investments were offset by proceeds from the disposal of assets or from the disposal of subsidiaries amounting to 42.9 million euros. The net cash flow of funds amounted to 536.6 million euros, taking into account additions from finance leases and liquidity acquired as part of acquisitions.

As was the case in previous years, modernisation and construction of new branches was the main focus of the operating investment in Celesio Wholesale. The new branch was opened in La Louvière, Belgium and a central warehouse for items that are rarely required entered into operation in France. Work processes were further optimised following a number of projects in the United Kingdom, France, Germany, and Norway. Investments in IT led to increased efficiency. Moreover, some of the countries in the Wholesale division initiated a joint project to utilise synergies also in the IT field.

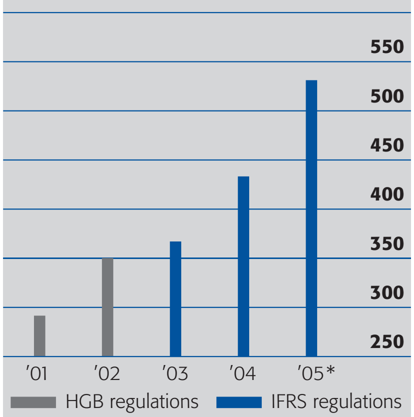
In the Pharmacies division, a significant amount of the investments in the operating business involved refurbishment, modernisation and in some cases relocation of pharmacy sites. Investment was also made in the further development of IT systems.

In the Solutions division, the bulk of investments in the operating business involved modernisation and expansion of warehouses in Norway, the United Kingdom, and Spain. There was also a focus on IT investment.

Business Review

High growth level in cash flow

Cash flow
Celesio Group
€ m



* Including trade tax refund

In the fiscal year, Celesio increased its cash flow by 22.5 percent to 530.8 million euros. Without the trade tax refund, growth in cash flow would have been 13.5 percent (13.5 percent in local currency). Non-cash elements of net profit such as depreciation and amortisation on non-current assets and allowances on current assets rose less sharply than cash elements of net profit. Consequently cash flow increased less strongly than net profit.

The dividend for the 2004 fiscal year, investments in the operating business and the increase in net current assets at year end were completely financed from cash flow. Also substantial parts of the acquisitions were financed from cash flow. The remaining part of the acquisitions was largely financed from non-current financial liabilities. It should be noted that a significant part of the acquisitions, in particular in the Celesio Solutions division, although already concluded in the last fiscal year, only became due for payment in 2005. Those investments and acquisitions which were not yet cash effective at the end of 2005 are included under Others.

Cash flow **Celesio Group**	2004 € m	**2005** **€ m**
Cash flow	433.3	*530.8
Dividends paid	(77.4)	(103.3)
Cash flow after dividends paid	**355.9**	**427.5**
Proceeds from the disposal of non-current assets	23.4	31.7
Investments in the operating business	(108.1)	(117.7)
Free cash flow before acquisitions and change in net working capital	**271.2**	**341.5**
Change in net working capital	(4.5)	(70.0)
Acquisitions and new openings	(70.3)	(461.8)
Proceeds from the disposal of subsidiaries	2.1	11.2
Others	(8.6)	37.0
Free cash flow	**189.9**	**(142.1)**

* Including trade tax refund

Celesio AG financial statements

The financial statements of Celesio AG reflects its activity as a management holding.

At 31 December 2005 total assets rose by 194.0 million euros to 2,420.2 million euros. It was chiefly the acquisitions that were responsible for increasing total assets.

The net profit of Celesio AG rose compared to the previous year by 30.4 million euros to 110.2 million euros. Net profit is made up essentially from the costs of the holding and the income from shareholding of the subsidiaries. Net profit and a withdrawal from revenue reserves result in profit available for distribution of 119.1 million euros. This profit available for distribution is to be proposed as a dividend and paid out.

Dividend to total 1.40 euros

At this year's annual general meeting the management board and supervisory board are to propose the payment of a total dividend of 1.40 euros per share for all full dividend-bearing 85.05 million no par value shares. In line with Celesio's dividend policy, 1.35 euros of the dividend correspond to an approximate 30 percent participation in the net profit of 386.0 million euros, excluding the trade tax refund of 38.9 million euros net. Added to this is a special dividend in the sum of 0.05 euros per share, by means of which the shareholders are to share the benefit of the trade tax refund. This corresponds to an additional payment of 4.3 million euros. In total, 119.1 million euros are to be paid out as dividends.

Forecast

The pharmaceutical market will also continue to grow in 2006. Celesio participates as an all-round service provider with all three business divisions from market growth. Thanks to its broad and customer-oriented strategic positioning, Celesio is expecting to grow at least as strongly as the market in the years ahead. In 2006 Celesio is expecting to exceed for the 20th time in succession the profit of the previous year.

Pharmaceutical market growth disproportionate

The pharmaceutical market will continue to grow significantly in future, too. Demographic development is bringing about increasing demand for medicines. Firstly, the number of old people is increasing. Scientists are expecting the proportion of older people in the total population to increase disproportionately. Added to this, older people require significantly more medicines on average. Today people over the age of sixty need more than three times as many medicines as younger people in terms of value. Also, thanks to medical innovations, the elderly group and hence those needing more medicines is growing disproportionately. Positive growth comes full circle: Medical innovation increases the demand for medicines.

Well positioned in the growth market

Celesio is firmly established in the pharmaceutical market and will therefore also continue to benefit from market growth. Celesio anticipates that the European pharmaceutical market will grow by around 5 percent in 2006. With the three divisions Wholesale, Pharmacies and Solutions, Celesio is positioned at various stages of the added value chain. Celesio therefore participates across the board in the positive development. Celesio is independent of individual products, individual customers or individual markets.

Wholesale growth in line with the comparable market

The development in Wholesale hitherto has shown that Celesio reacts quickly and successfully to regulatory changes. With its range of services tailor made to customers' needs, high level of cost awareness, broad geographical positioning, sophisticated logistics and experienced management Celesio Wholesale is also optimally equipped for the future. In organic terms growth in Celesio Wholesale is expected to be in line with the comparable market.

Pharmacies to grow organically ahead of the market

Celesio is also well positioned in the pharmacy sector: With locations close to the customers and the source of prescriptions as well as a comprehensive service. Celesio Pharmacies are therefore in an excellent position to meet the challenges of the future. Celesio is expecting its pharmacies to grow also organically ahead of the market. Acquisitions and new openings in attractive locations will be additional growth drivers for the division.

Good prospects for Solutions

The market for services related to medicines is very young and not consolidated to any great degree – in brief: It is still an immature market. As such, it offers medium- and long-term growth potential. How quickly this potential can be raised and realised depends essentially also on the right acquisition opportunities. For its existing business unit Movianto, Celesio is also already anticipating satisfactory organic growth in 2006. It can be expected, however, that Movianto will, by the nature of its business, have a more volatile profit contribution to make than Wholesale and Pharmacies. This is due to the project and contract business with large customers, where the overall number of customers is smaller, but the individual order volume significantly larger than in the other business divisions. With improved capacity, technical upgrading and international positioning, Movianto is particularly well equipped for future market growth.

Continued revenue and profit growth in 2006

For 2006 Celesio expects revenue to grow overall ahead of the market.

Also for profit growth Celesio anticipates a further significant increase. The target figure on average over several years is double-digit growth in profit before tax.

Risk Management

No entrepreneurial business activity is without risk: Anyone who wants to take up opportunities will therefore encounter risks. Celesio thinks and acts as an entrepreneur and in so doing always calculates the risks and keeps them under control.

Utilise opportunities – calculate risks

Entrepreneurial action is an essential part of Celesio's corporate culture – only in this way can Celesio react quickly to radical changes in the market. Yet anyone wanting to capitalise on opportunities must not lose sight of the risks involved. This applies particularly to the growth market of health-care as it is largely subjected to government regulation. The business divisions Wholesale and Pharmacies, in particular, can be affected by such government measures at national level.

Celesio reduces its risks by means of an established diversification strategy – with its three business divisions and with international activity in 15 different countries. Negative changes in an individual market can therefore be counterbalanced at group level by positive developments in other countries. The three business divisions – Wholesale, Pharmacies and Solutions – operate in areas regulated to different degrees.

Risk management is integral part of the group

The awareness and the control of risks are part of Celesio's identity. Risk management is therefore an integral part of all Celesio Group companies, and not only the responsibility of an isolated department. Control and management of risks are in the hands of those who are best placed to assess risks: The experts from the individual specialist areas. Their work is centrally coordinated and evaluated by the Corporate Audit & Consulting Services department. Processes are defined in a risk management manual in order to record and classify risks on a regular basis. Risks can then be highlighted, evaluated and addressed appropriately.

Current and longer-term risks in focus

A group-wide process ensures that current risks are identified and addressed as well as potential longer-term negative developments. Twice a year, a group-wide risk inventory is carried out with which the individual departments and local companies identify their respective risks, classify them and take risk prevention measures. The risk map is then checked for plausibility before the management board deals with it in detail.

A multi-level reporting system ensures up-to-the-minute notification of the management board outside the regular risk inventories at all times of any risks identified in the subsidiaries.

Risk Management

Careful audit of investment and acquisitions

The international broad positioning of Celesio reduces risks in individual countries and markets, but also requires new acquisitions and investment decisions time and again. A careful analysis and audit of the investment or acquisition is mandatory, so as to ensure that increasing diversification does not conceal unforeseen risks. In addition to a comprehensive legal, technical and financial due diligence, it is essential that the management board takes a critical look at its own investment assumptions in advance. Smaller investments or acquisitions, for example the purchase of an individual pharmacy, are carried out locally according to prescribed audit criteria. By this means Celesio utilises the local knowledge and guarantees its entrepreneurial flexibility. Larger acquisition projects are prepared centrally by the Mergers & Acquisitions department – if necessary together with other specialist departments – for decision by the management board.

Controlled financial market risks

As risk-conscious as Celesio is in its investment and acquisitions, it also audits its financing activities just as conscientiously. As a growth-oriented, international group Celesio is exposed to interest and currency risks. The currency risk is limited, however, as the Celesio companies operate in predominantly closed currency areas. Potential transaction risks arising from cross-currency transactions are therefore rare.

These risks are hedged 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.

Protection from interruptions, breakdowns and loss of data

IT-security is one of Celesio's priorities, as secure information technology protects Celesio's day-to-day business from interruptions, breakdown and loss of data. A team of IT-specialists concentrate exclusively on the security of the information technology. It also ensures that the local and group-wide security guidelines are being observed. If problems arise nevertheless, Celesio has taken the necessary action. Emergency plans kick in immediately and ensure that business operations are maintained. Of course Celesio has initiated security networks and emergency measures not only for information technology but also in other areas of its operations. These extend from the maintenance of the power supply through to ensuring necessary staffing levels.

Corporate Social Responsibility

Corporate social responsibility is also an important part of Celesio's identity. Celesio is committed to people's health at international, national and regional level. The range of initiatives which Celesio and its employees are involved in extends from disaster relief to awareness of healthcare issues.

Commitment to the health of people

Celesio makes its living from the healthcare needs of people. It is therefore only right to pass on part of its success. The company is involved at socio-political and a social level. The main focus of this commitment, as is the entire operational activity of Celesio – is people's health. This is what Celesio knows most about and where it can be of most help. At international, national and regional level, on the spot or through supporting aid organisations, Celesio wants to help give the sick an opportunity to live a healthy life.

Celesio supports Doctors for Developing Countries

Celesio had already agreed the partnership with the Doctors for Developing Countries committee in the last fiscal year. Since its foundation, the aid organisation has managed more than 3,700 doctors' assignments, who work on a voluntary unpaid basis in poor areas in Africa, South America, India and Asia. More than 2,000 doctors have treated the sick, vaccinated children and run wards. All this was and is only possible through donations.

The partnership between Celesio and Doctors for Developing Countries was brought to life on many levels in 2005. Celesio organised immediate aid following the Tsunami flood disaster at the end of 2004. In many subsidiaries, employees gave and collected donations spontaneously. Considerable sums, just under 200,000 euros in total, were collected in different countries. Approximately 50,000 euros in donations were transmitted to Doctors for Developing Countries, enabling them to help particularly in southern India, Sri Lanka and Aceh in the north of the Indonesian island of Sumatra.

Acute and long-term aid with money and expertise

In addition, Celesio has put its positioning in the field of healthcare and its entrepreneurial experience and professionalism to good use. More than 130 employees from the group's German companies have supported the Doctors for Developing Countries committee in their free time by processing the donations received. Without help, the committee, due to its limited human and technical resources, would not have been able to deal with the flood of donations in connection with the Tsunami disaster.

The German company, GEHE Pharma Handel, initiated the campaign Aid is measurable [Hilfe ist messbar]. In exchange for a donation to Doctors for Developing Countries blood pressure tests were carried out free of charge. The French wholesale subsidiary, OCP, offered the Foreign Office assistance in financial and logistical matters. NMD, Celesio's Norwegian wholesale company, supplied two hospitals in Indonesia with medicines and logistic services free of charge. Collection boxes were also set up in Celesio's British Lloydspharmacy shops, and the Italian Pharmacies business Admenta Italia donated medicines.

These campaigns show: Corporate Social Responsibility at Celesio is not the fig leaf of a successful group or a PR gag, but is rather something that is experienced by all employees. Across regions and divisions, Celesio employees feel a sense of social and corporate responsibility. The maxim "People's health is the focus of our entrepreneurial business activities" does not stop at customary day-to-day business at Celesio.

This commitment is not limited to a handful of high-profile aid measures, but Celesio also has long-term involvement in places where little is reported about. For example since the beginning of the partnership Celesio has supported the work of Doctors for Developing Countries in Nairobi, Kenya (see page 6). In Calcutta, India, Celesio provided a mobile laboratory and sent trained pharmacists to test the efficacy of medicines (see page 4).

Corporate Social Responsibility

Commitment to healthcare in Celesio's own markets

Also in its own markets Celesio and its subsidiaries offer social and socio-political assistance. Normally it is less emergency aid that is required there, but more initiatives in the field of prevention. It is for this reason that Celesio's activities are concentrated here on methods for the early diagnosis of disease and maintaining health.

Celesio's commitment is evident in various locations: The diabetes tests of Celesio's British pharmacies were also performed in Ireland in 2005. Lloydspharmacy employees took part in a charity walk to collect money for diabetes research. GEHE Pharma Handel and the pharmacy network live healthily [gesund leben] sponsored the nationwide healthcare campaign Cardiovascular Run [Herz-Kreis-Lauf] in 2005 at a total of 18 running events throughout Germany. The Italian Celesio pharmacies set up barrier-free accesses to help the disabled, put up signs in Braille and trained their employees in how to cater for the needs of disabled customers. Vitusapotek in Norway worked closely on several projects with the Norwegian cancer society, Kreftforeningen. Together they sponsored a reality TV programme in which the participants gave up smoking. In summer Vitusapotek focussed on the subject of sun protection and skin cancer. In autumn the subject of breast cancer was the focal point. Pink bows were sold in all the pharmacies. The proceeds went to breast cancer research.

At the front door – and in the company

Celesio's commitment to the health of people does not end "at the front door" – but is also put into practice in the companies themselves, so that Celesio's employees remain healthy, too. At the head office of the group and of Celesio's German Wholesale company in Stuttgart, Celesio has forged a close partnership with the swimming club Cannstatt 1898 e.V. Celesio employees are able to use the swimming club's facilities and its extensive range of sports activities.

In 2000 the French wholesale subsidiary, OCP, initiated a campaign to help employees give up smoking. The employees were given information in stages as to the risks involved with smoking and personal assistance in giving up smoking. Last year the smoking ban was extended to offices and to the cafeteria. Thus far concentrated on the OCP head office in Paris, the initiative is now also to be extended to the other branches in France.

Many individual measures – one strategy

Social and socio-political commitment is expressed in numerous individual measures at Celesio. Some are listed above, albeit only by way of example and representation. All individual measures have two things in common, however: Firstly they are run by Celesio employees and promoted by the company. And secondly they live the fundamental conviction of Celesio: Putting people's health at the centre of its entrepreneurial business activities. Corporate Social Responsibility is therefore the expression and part of Celesio's corporate culture.

Employees

Investment in employees is investment in the future. Celesio acknowledges the importance of well trained, motivated employees for its commercial success. This is why Celesio offers extensive training and development programmes, value-added incentive structures and international perspectives. An investment that pays dividends.

International employee structure

With a total of 35,407 employees in 15 countries at 31 December 2005 Celesio increased the number of employees slightly by 9.8 percent. 3.5 percent more employees were working in Wholesale and 10.1 percent more in the Pharmacies division compared with the previous year. The number of employees in the young business division Solutions significantly increased compared to the previous year by 155.4 percent due to acquisitions. Celesio's international positioning is also evident from the employee structure: Nine out of every ten employees were working outside Germany.

Human resources beyond national boundaries

The group's human resources work must be as international as the group itself. Celesio allows the necessary freedom in its group guidelines for the national companies to meet local challenges in a flexible enterprising manner. At the same time the principle "Learn from the best" also applies to human resources. Personal, regional-specific experience is exchanged within international project teams and principles developed jointly. Since 2004 there have been group-wide standardised specifications, for instance, for staff appraisals: A detailed analysis of the abilities of the employees, planning the next career move and follow-up planning are established components of these staff appraisals.

Therefore not only is potential identified at an early stage but, through comparison, management and also key positions group-wide can be filled more easily and successfully from within the company's own ranks. Celesio's personnel information system and intranet publication of job opportunities underpin the international human resources. The result is that in 2005 employees from different countries were working at the head office of the Celesio Group in Stuttgart. In addition, Celesio filled vacant managerial positions internally as it prefers to do.

Development programmes for the managers of the future

The international approach is pursued in the training and development of employees. Foreign language courses for English as the company language are standard. Intercultural training programmes complement typical development programmes such as rhetoric or project management. Selected employees from all Celesio companies take part in special staff development programmes. The group character of these programmes promotes teamwork. Furthermore, future managers are trained in the spirit of corporate strategy and for the requirements of Celesio. This encourages employees with management potential at an early stage and prepares them for their future activities. This is an investment in the sustained success of Celesio.

The financial incentive remuneration structure for managerial staff is in the spirit of a sustained growth strategy. In 2005 standardised benchmarks were also defined for fair performance-related system of rewards. The combination of personal and strategic objectives and a strong cash flow orientation makes it worthwhile for managerial staff to pursue Celesio's growth strategy with commitment.

Employees

Attractive employer for current and future employees

With its international work environment, attractive remuneration structures and an interesting development programme Celesio is an attractive employer. Celesio's flat hierarchical structure with its short decision-making channels encourages employees to work on their own initiative and own responsibility, and this makes it particularly appealing to very entrepreneurially-minded employees.

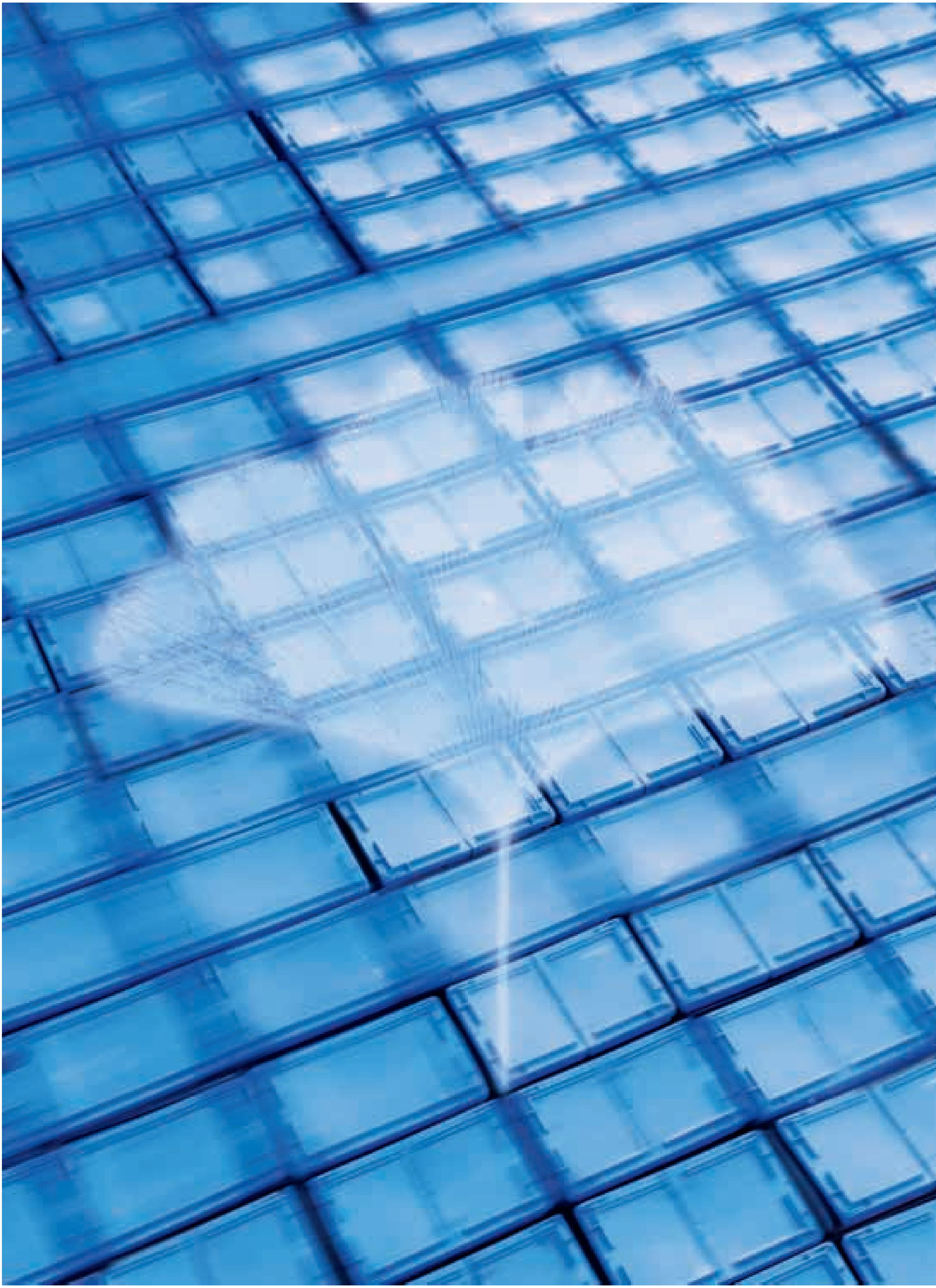
As a strongly growth-oriented company, contact with potential new employees is particularly important for Celesio. Celesio therefore presents itself as an attractive employer to graduates, subject specialists, trainees and students at important trade fairs and events. As a result and through the close cooperation with universities, Celesio is already familiar as a potential employer to those just starting out on their professional career.

Celesio's investments in its present and future employees pay dividends not only in terms of a motivated workforce and sustained commercial success – they have also gained the company recognition in terms of awards: Time and again Celesio's British pharmacy chain has won the Investor in People award.

Dependence Report

The major shareholder of Celesio AG is Franz Haniel & Cie. GmbH, Duisburg. We have therefore drawn up the necessary report pursuant to Section 312 of the Aktiengesetz [German Stock Corporation Act] regarding the relations with affiliated companies. This concludes with the following statement: "In summary, we hereby declare that Celesio AG and its subsidiaries have received an appropriate payment for each legal transaction based on the circumstances known to us at the time at which the transactions took place."

138 branches



Celesio Wholesale

Countries	Revenue 2004 € m	**Revenue 2005 € m**	Revenue change in € %	Revenue change in local currency %	Branches 2005	Employees 2005
France	6,939.4	**7,150.4**	3.0	3.0	53	4,853
Germany	3,421.6	**3,638.2**	6.3	6.3	19	2,558
United Kingdom	3,057.3	**3,193.5**	4.5	5.3	19	3,975
Austria	843.2	**855.3**	1.4	1.4	7	801
Portugal	306.7	**478.1**	55.9	55.9	12	339
Norway	373.2	**407.4**	9.1	4.5	4	425
Belgium	408.8	**392.4**	(4.0)	(4.0)	6	307
Slovenia*	–	**291.8**	–	–	11	549
Ireland	234.7	**255.4**	8.8	8.8	3	219
Czech Republic	132.7	**161.6**	21.8	13.7	3	216
Italy	120.1	**122.4**	1.9	1.9	1	150
Total	**15,837.7**	**16,946.5**	**7.0**	**7.0**	**138**	**14,392**

* Including the subsidiaries in Croatia and Romania

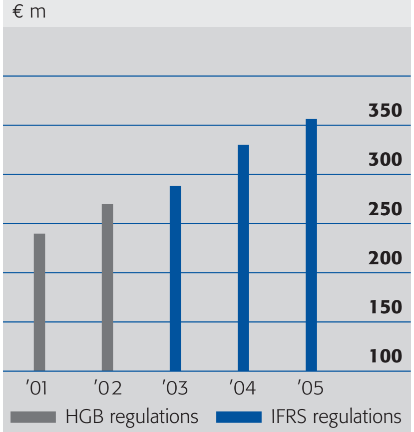
Fast, safe, reliable: Supplying pharmacies everywhere with everything pharmacies need

Celesio Wholesale

With a clear focus on the customers' requirements, consistent cost management and entrepreneurial flexibility, Celesio Wholesale significantly increased revenue and profit again in 2005. With its successful customer loyalty programmes, ongoing improvement in operational processes and branch structure, and the successful integration of acquisitions, the Wholesale business is excellently positioned in Europe.

Strong revenue growth, profit up on previous year

Profit before tax Celesio Wholesale
€ m



Compared to the previous year Celesio increased revenue in Wholesale in 2005 significantly by 7.0 percent to 16,946.5 million euros. The three companies with the highest revenue in France, Germany and the United Kingdom increased revenue by 3.0 percent, 6.3 percent and 4.5 percent (5.3 percent in local currency) respectively.

The first-time consolidation of the Portuguese company, Soquifa-Medicamentos, and of the Slovenian company, Kemofarmacija, also contributed to growth. Yet even without acquisitions Wholesale growth would have been 4.2 percent (4.2 percent in local currency) – equally strong as the comparable market. These figures show once again that Celesio with its broad geographical positioning, good market positioning and entrepreneurial flexibility can fend off negative effects in individual markets successfully. For instance in the United Kingdom government-imposed price cuts impaired growth in 2005. The British Celesio wholesaler, AAH, responded to the price cuts with increased efforts in sales – and sold more packs in 2005 than in the previous year.

The development of Wholesale in France, which was below-average by comparison with the past, was due to the fact that the patent protection expired for some high-turnover medicines. These were increasingly replaced by more cost-effective generic products. The significant increase in Germany is attributed to the fact that in 2004 the market growth and hence also the revenue of German pharmaceutical wholesale decreased as the result of the measures of the Healthcare Modernisation Act [Gesundheitsmodernisierungsgesetz]. In Austria, the neighbouring market, the pharmaceutical market and Herba Chemosan only showed slight growth. Since the beginning of 2005 some expensive medicines are only prescribed to a very limited extent there due to the introduction of new prescription regulations. Wholesale in Portgual, Ireland and the Czech Republic, by contrast, showed strong growth.

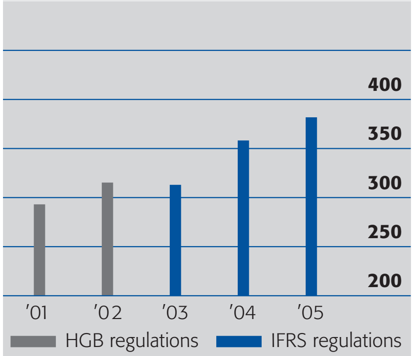
In the generics field, Celesio's Wholesale business developed particularly well in the United Kingdom, France and Norway. As the result of working closely with producers of generic products, Celesio was able to offer its wholesale customers attractive conditions and a broad range of products. Celesio thereby benefited from the strong growth in the generic product segment.

Nevertheless the government-imposed price reductions in the United Kingdom and a change in the product mix at GEHE Pharma Handel weakened the gross profit ratio. Celesio was able to partially counteract this development with an extended range and improved purchasing. The gross profit ratio in 2005 in Wholesale was 22 basis points below the previous year.

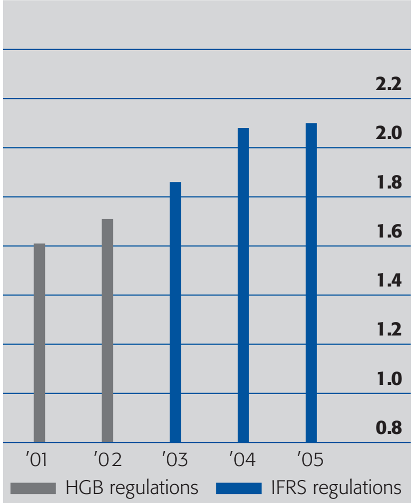
In 2005 the EBIT in Celesio Wholesale grew by 6.6 percent (6.7 percent in local currency) to 381.8 million euros. EBIT rose about as strongly as revenue. The fact that Celesio continually monitored costs very closely paid dividends here. The cost structure was improved through efficiency improvement programmes. Increased transport costs impacted negatively, however.

Profit before tax rose by 7.9 percent (8.0 percent in local currency) to 356.3 million euros. Return on sales, based on pre-tax profit, rose slightly by 2 basis points to 2.10 percent.

EBIT
Celesio Wholesale
€ m



Return on sales*
Celesio Wholesale
%



* Based on profit before tax

Celesio Wholesale

Flexible reaction to changed market conditions

Changes in market conditions – mostly as the result of government regulation – are nothing out of the ordinary in the pharmaceutical market. Thanks to its geographical diversification, high degree of flexibility and high level of customer-orientation Celesio is optimally positioned to deal with such changes and also compensate for them within individual business divisions. Furthermore productivity is continually being improved. Therefore, in 2005 Celesio Wholesale again increased revenue and profit, although there were changes in different markets.

In France the reimbursement prices of various combinations of active ingredients were reduced. Further economy measures have already been decided: On 1 January 2006 the prices of original preparations without patent protection and generic products were reduced, and as of 1 March 2006 medicines classed as non-effective will no longer be reimbursed. As opposed to 2004, when governmental intervention was directed at wholesaling (margin reductions), the cost saving measures in 2006 primarily impact on retail and the industry.

In Germany, the negative effects of the deregulation of prices of OTC medicines from the year 2004 are still in evidence. However, in the cost saving measures being discussed by the new government, it is not wholesale, which in 2004 had already made a considerable contribution to the reorganisation by margin reductions, that is being directly targeted.

In the United Kingdom, the wholesale prices of reimbursable original preparations were reduced by 7 percent on average effective from 1 January 2005 as the result of the PPRS (Pharmaceutical Price Regulation Scheme; medicine pricing agreement between the health ministry and pharmaceutical industry). The reimbursement prices for some generic products were also reduced.

A graduated pricing system has been in force in Norway since the beginning of the year 2005 for selected generic active ingredients. It defines set price reductions at regular intervals. The new government comprising Social Democrats, Socialist Left and Centre Party may make more funds available to the health system. This could provide new impetus also for the pharmaceutical market.

There have also been changes in the market environment in Portugal and Italy. Since October 2005 there have been price cuts at all levels of distribution in Portugal. The wholesale margin was reduced and the market for OTC medicines liberalised. In Italy the statutory prices of certain prescription medicines were reduced on 1 January 2005.

Celesio Wholesale

Close link to customers

Celesio Wholesale is continuously working to improve the added value for its customers and to tailor its range of services to fit the needs of its customers even better.

Having a close link to customers is particularly important. Celesio Wholesale therefore continued the development of its customer loyalty models in different countries in 2005. This strengthens the owner-managed pharmacy – and the entire distribution system. Every investment in a future-proof pharmacy is also an investment in stable customer relations. Celesio's German company, GEHE Pharma Handel, has developed the brand live healthily [gesund leben] as part of the commitment model. Now around 2,700 pharmacies are taking part in the commitment model. They appreciate the advantage of being more easily recognised by the end user with this brand that represents quality. Also the national campaign Cardiovascular run [Herz-Kreis-Lauf] 2005, sponsored by GEHE Pharma Handel, raised the profile of the participating pharmacies. With their fitness and health tests for sports enthusiasts and anyone else who is interested, these pharmacies gained a particularly positive image. In addition, GEHE Pharma Handel intensified cooperation with its industrial partners in purchasing, sales and marketing.

NMD in Norway further strengthened its cooperation model Ditt Apotek in 2005. Ditt Apotek positions the participating pharmacies particularly in the field of sport. As "Pharmacies for Sport" they stress their competence in the prevention and treatment of accidents in mass sports. Related to this, pharmacy staff were given special training by orthopaedists and physiotherapists at the beginning of 2005. NMD also strengthened its contact with sports clubs. As a result, the Ditt Apotek brand along with its sports expertise was firmly established at local level in Norway.

In Austria, Herba Chemosan expanded its customer loyalty programme Herba Family: A new element pooled the marketing services for pharmacies in the fields of customer management, process optimisation and expertise development. Participating pharmacies can now use the umbrella brand Herba Family and choose from a selection of different marketing instruments.

Celesio Wholesale	2004		**2005**		Change in €	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	15,837.7	100.00	**16,946.5**	**100.00**	7.0	7.0
Gross profit	1,057.4	6.68	**1,094.7**	**6.46**	3.5	3.5
EBIT	358.2	2.26	**381.8**	**2.25**	6.6	6.7
Profit before tax	330.1	2.08	**356.3**	**2.10**	7.9	8.0

Customer loyalty programmes such as these reflect Celesio's appreciation of the needs of its customers – the basis for a high level of customer satisfaction. Celesio employees are trained on courses and in training sessions to focus on a high quality service level and customer-orientation. The Norwegian company, NMD, provided training to its employees on the subjects of logistics, health, environment and quality management on a course specially designed in-house. In France sales-supporting software introduced in 2004 proved its worth. Customer service was markedly improved, as sales staff are now able to access important customer data more quickly and hence also respond better to the needs of the pharmacists. Good experience with IT innovations is passed on in the Celesio Group. In Italy also with practical consequences, for example: With Celesio's online service AFM Point pharmacists can conveniently handle and monitor orders, and they can access product information. Point-solutions are already being used successfully in France, Germany, the United Kingdom and Austria. The system has now also been introduced in Italy and is making the work of AFM's customers markedly simpler.

Celesio Wholesale

Branches constantly modernised and extended

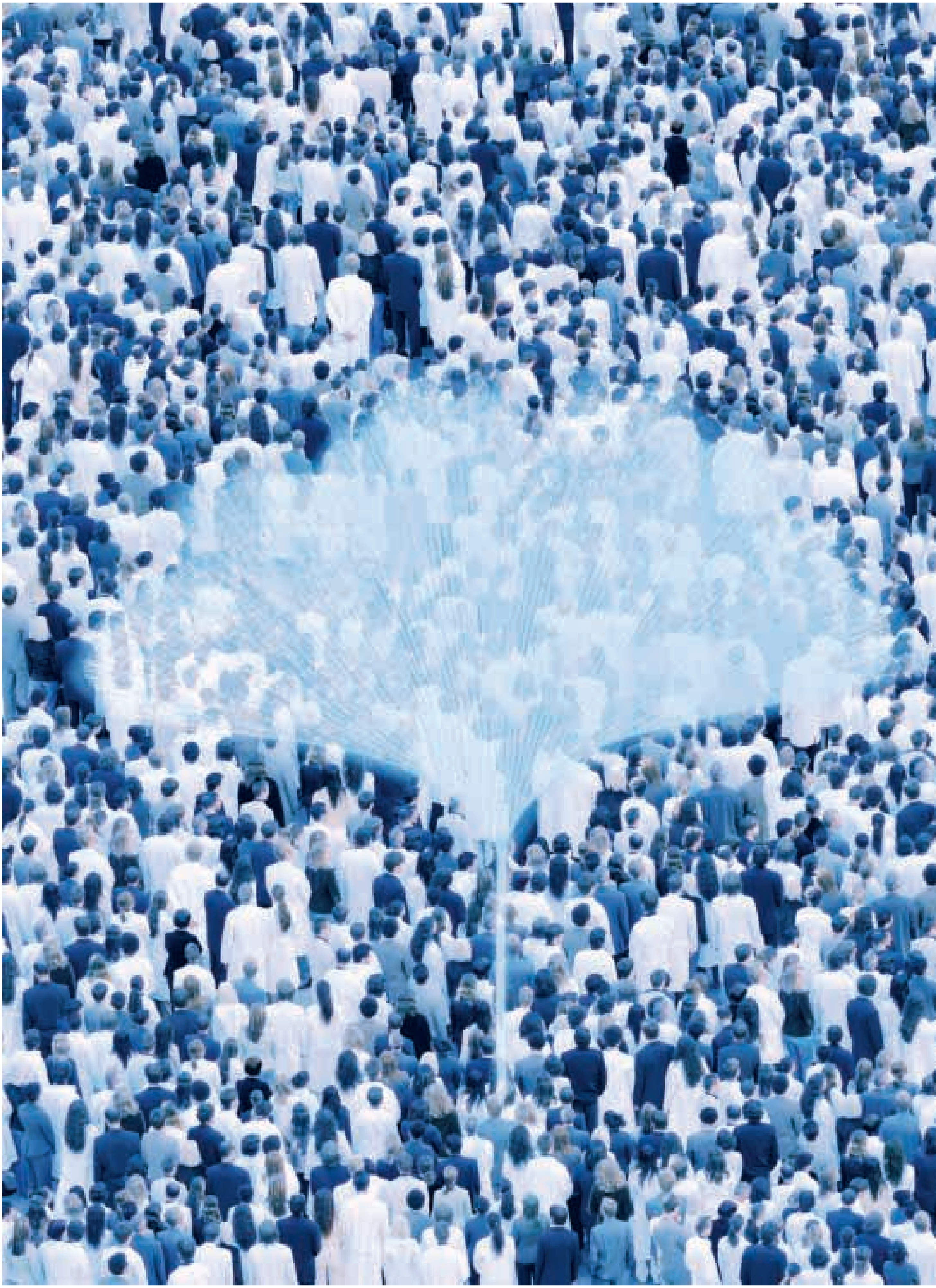
Celesio again concentrated on restructuring and modernising its branch network in the previous fiscal year. In Germany GEHE Pharma Handel completed the restructuring begun in 2003. Since 2005 all German branches are integrated in the new branch concept. The branches are now even better utilised and the operational sequences streamlined – a successful restructuring which was already reflected in the year-end results.

The British company, AAH, completed the modernisation of its Bristol branch. Here too, as in Germany, improvements in operational processes already had a positive impact on profit. In June 2005 PHARMA BELGIUM opened Belgium's most modern, highly automated pharmaceutical wholesale branch in La Louvière. Three former branches were merged in La Louvière – for a better quality of supply and greater efficiency.

The branch network was not only restructured and modernised, but also extended. Celesio expanded in Wholesale, acquired additional companies and entered new markets. The acquisition of Soquifa-Medicamentos and Kemofarmacija has enabled Celesio to strengthen particularly its position in Portugal and in the growth markets in South-East Europe. The impact of these two acquisitions was not only positive in geographical terms. Revenue and profit were also significantly improved. Here once again Kemofarmacija highlighted Celesio's successful acquisition operation – from the choice of the company and its market through to its rapid integration. The Slovenian market leader was significantly ahead of schedule in its development in 2005. In the 3rd quarter Celesio increased its holding in Kemofarmacija to over 90 percent.

2005 again demonstrated that Celesio Wholesale is able to continue to grow significantly despite numerous state interventions in the healthcare market. Entrepreneurial flexibility, close contact to the customers and their requirements, cost-awareness and investments in the future were and will remain to be the most important factors also in the future.

2,045 pharmacies



Celesio Pharmacies

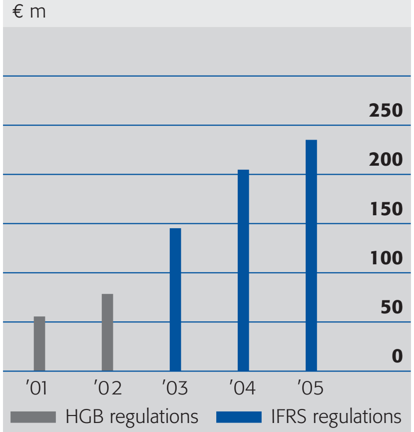
Countries	Revenue 2004 € m	**Revenue 2005** **€ m**	Revenue change in € %	Revenue change in local currency %	Pharmacies 2005	Employees 2005
United Kingdom	1,992.2	**2,025.2**	1.7	2.5	1,527	14,879
Norway	330.2	**368.0**	11.4	6.7	120	1,351
Italy	202.2	**205.2**	1.5	1.5	162	759
Netherlands	104.2	**115.4**	10.7	10.7	51	717
Ireland	113.9	**112.3**	(1.4)	(1.4)	58	931
Belgium	72.8	**85.5**	17.5	17.5	82	393
Czech Republic	39.0	**38.1**	(2.3)	(8.7)	45	356
Total	**2,854.5**	**2,949.7**	**3.3**	**3.2**	**2,045**	**19,386**

Our pharmacies:
Optimum care in everything
to do with health

Celesio Pharmacies

In the fiscal year 2005 the Celesio Pharmacies division grew ahead of the market. Revenue increased by 3.3 percent to 2,949.7 million euros, pre-tax profit by 14.8 percent to 235.1 million euros. Located close to patients and the source of prescriptions together with its extensive range of services and consulting expertise, Celesio's pharmacies are optimally positioned also with view to changing market conditions.

Profit before tax
Celesio Pharmacies
€ m



Growth stronger than the market, disproportionate increase in profit

The Celesio Pharmacies division also continued its growth course in 2005. Revenue increased by 3.3 percent (3.2 percent in local currency) over the previous year to 2,949.7 million euros, growing ahead of the market. The demand for medicines increased, leading to a further rise in the number of prescriptions handled. However, price reductions in some countries dampened market growth. In the countries with the highest turnover, the United Kingdom, Norway and Italy, revenue rose by 1.7 percent (2.5 percent in local currency), 11.4 percent (6.7 percent in local currency) and 1.5 percent respectively. The increase was particularly sharp in the Netherlands and Belgium.

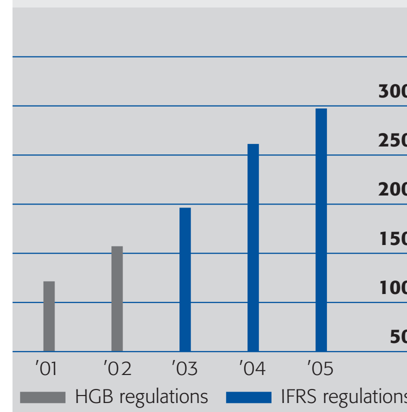
The British company, Lloydspharmacy, secured its leading market position and continued to expand. Although revenue growth was severely hampered by the price reductions for prescription preparations imposed by the NHS (National Health Service), Lloydspharmacy showed good growth – particularly in view of the general slump in consumption in British retail. The continued improvements in the product range and product presentation contributed to growth. Particularly Lloydspharmacy's focus on additional, attractive product groups as well as the expansion of its high quality own-brand range was very successful.

In Norway, Celesio Pharmacies grew more strongly than the market. Growth in both prescription and OTC medicines was positive in 2005. Celesio's Italian pharmacies also grew significantly ahead of the generally weak market. The pharmacies in Norway and Italy that had been modernised previously developed particularly well. In Ireland and the Czech Republic market growth was spread across a greater number of pharmacies following numerous new openings in the respective markets.

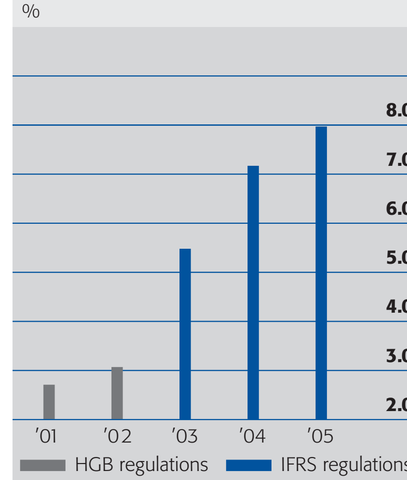
The gross profit ratio of Celesio Pharmacies increased significantly by 153 basis points to 34.22 percent. In particular better purchase opportunities and a change in product mix that includes more generic products had a positive effect.

EBIT rose by 13.8 percent (14.1 percent in local currency) to 297.4 million euros – thus significantly stronger than revenue. Pre-tax profit grew by 14.8 percent (15.0 percent in local currency) to 235.1 million euros. Return on sales for Celesio Pharmacies, based on pre-tax profit, rose significantly from 7.17 percent in the previous year to 7.97 percent. Above all the positive growth in gross profit, strict cost control and improvements in operational efficiency were the reasons for this positive development. After Celesio had disposed of 39 pharmacies in the Czech Republic in 2004 and 2005, and had extensively reorganised the business, the Czech pharmacies showed a positive profit before tax again in 2005.

EBIT
Celesio Pharmacies
€ m



Return on sales*
Celesio Pharmacies
%



* Based on profit before tax

Celesio Pharmacies

Optimally positioned also in changed market conditions

Celesio operates in a strongly regulated market environment with its Pharmacies division. Therefore also in 2005 there were changes again. However, as in Wholesale, Celesio is experienced in dealing with such market interventions in its Pharmacies business and knows how to deal with them. The strengths for which Celesio is known for - geographical diversification, entrepreneurial flexibility, cost management and customer-oriented services – once again ensured a most pleasing development of the Pharmacies division last year.

In the United Kingdom, the pharmacy prices for reimbursable original preparations were reduced on 1 February in 2005 by an average 7 percent. The price reductions are imposed by the PPRS (Pharmaceutical Price Regulation Scheme; medicine pricing agreement between the health ministry and pharmaceutical industry). Also, for individual generic products the prices were reduced in 2004 and in 2005. Also, on 1 April a new contract between the British NHS and the pharmacies came into force with a six-month transition period. The agreement governs the remuneration and scope of services of the pharmacies.

As a result of the contract, pharmacies are able to provide a broader range of services with the support of the government. Consequently the pharmacies' remuneration is not solely dependent upon the quantity of prescriptions processed, but also on the quality and the range of services. The agreement envisages three categories of services: Essential services offer basic services such as the delivery of prescriptions, return of unused medicines, advice for minor ailments. The two other categories offer additional services, for example Medicine Utilisation Reviews (M.U.Rs) for patients (advanced services) or advice on how to give up smoking (enhanced services).

This significant extension of responsibilities offers excellent opportunities for Lloydspharmacy, which has already invested extensively in confidential consultation areas and staff training. In England and Wales, Celesio's pharmacies have more than 1,000 pharmacists qualified to perform M.U.Rs, and have achieved a leading market position in this area.

Also with regard to other requirements of the new pharmacy contract, Celesio is able to demonstrate its strengths: In future prescriptions are to be sent electronically to pharmacies (EPS; Electronic Prescription Service). Lloydspharmacy is well positioned to offer EPS and associated services in all its pharmacies in England and Wales in the near future.

A graduated pricing system has been in force in Norway since early 2005 for selected active ingredients that defines set price reductions at regular intervals. Furthermore it is expected that the new government may make more funds available to the healthcare system, leading to new impulses also for the pharmaceutical market.

Celesio Pharmacies

In the Netherlands, the government, pharmacy association, pharmaceutical manufacturers and health insurers have agreed to reduce the price of generic products and original preparations by 2 percent with effect from March 2005 and by 1.4 percent effective from October 2005. Furthermore, on 1 January 2006 the health insurance system underwent fundamental changes. The division between private and statutory health insurance was abolished and a standardised market created from profit-oriented insurance companies offering a basic rate and additional insurance. By the end of March 2006 all Dutch residents are to be insured within the new model. Celesio sees these changes principally as an opportunity – even under new conditions the company will ensure optimum patient care.

In Italy the prices of some prescription medicines were reduced on 1 January 2005. Since the summer, allowing OTC medicines to be sold also in supermarkets has been in discussion. Even in Italy, Celesio is campaigning emphatically for the retention of the requirement that *all* drugs be dispensed in pharmacies.

The customer and his needs always the focal point

The division's development, for example in the United Kingdom, illustrates that Celesio is equipped for changes in the market environment with its customer-oriented services. Celesio Pharmacies is constantly developing its range of services, product range and the quality of its consultation – to cater even better for the customers' needs. Additional individual promotions raise awareness of the pharmacies and position them as competent experts in all matters concerning health.

In Norway, Vitusapotek organised its own communications training for employees working in contact with customers so that they can understand the customer's needs better and more quickly. Internal mystery shoppers visited pharmacies regularly to check the quality of the sales and services. Based on their extensive assessment and suggestions for improvements, the quality of the services was and is being improved even further.

Celesio Pharmacies	2004		**2005**		Change in €	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	2,854.5	100.00	**2,949.7**	**100.00**	3.3	3.2
Gross profit	933.2	32.69	**1,009.5**	**34.22**	8.2	8.2
EBIT	261.3	9.15	**297.4**	**10.08**	13.8	14.1
Profit before tax	204.8	7.17	**235.1**	**7.97**	14.8	15.0

Celesio's Italian pharmacies are looking particularly to the requirements of disabled customers with barrier-free access, signs in Braille and special service and consultation training. In Ireland, Unicarepharmacy raised its public profile as an all-round healthcare service provider. As is already very successfully practised in the United Kingdom, Celesio's pharmacies in Ireland are now also offering their customers blood sugar tests. In 2004 Lloydspharmacy in the United Kingdom had been awarded a prize for outstanding social commitment for its large-scale information initiative on the subject of diabetes. A variety of campaign days on various topics and products in 2005 enhanced the public image and customer loyalty of Unicarepharmacy. The monthly customer campaigns of Celesio's Belgian pharmacies on different topics, for example holidays and first aid in the summer, were equally well received.

In close proximity to the source of prescriptions and patients

Health centres offer patients significant advantages: Complete medical care all under one roof – doctor's surgery, pharmacy and other healthcare service providers. The advantage for Celesio: In health centres the pharmacies are placed directly at the source of prescriptions. In the United Kingdom, Norway and the Netherlands Celesio participates in the development of such health centres. Alongside Celesio, doctors and health authorities are closely involved in their planning and realisation. 15 health centres were thus opened or under construction in 2005.

Celesio Pharmacies

Ongoing location optimisation – over 2,000 pharmacies for the first time

In 2005 Celesio had more than 2,000 pharmacies in seven countries in its portfolio for the first time. The existing pharmacy network is constantly being optimised. The strategy here is clear: Close to the customer and source of prescriptions together with a broad range of goods and services, tailor-made for the local customers. Existing pharmacies are fitted out appropriately, but also new pharmacies are acquired – if the price and location are right.

A big step forward – to an even greater local presence – was the acquisition of a group of 110 British pharmacies in the 4th quarter of 2005. The new pharmacies are located predominantly in the North-West of England, and therefore complement Celesio's existing pharmacy network ideally in geographical terms. With this acquisition Celesio extended its position as the market leading community pharmacy chain with a total of 1,527 pharmacies in the United Kingdom. Following approval of the British competition authority, the pharmacies were consolidated for the first time on 1 December.

The continuous optimisation of its portfolio is part of Celesio Pharmacies' daily business. Alongside the 110 pharmacies acquired in the United Kingdom in the 4th quarter, 53 further pharmacies were acquired in the year 2005. 25 pharmacies were opened. But optimisation also means disposing of unsuitable locations. This led to 26 pharmacies being closed or sold.

Expanding Celesio's pharmacy presence

In Ireland, the Netherlands and Belgium Celesio has not yet reached the optimum size for a pharmacy chain. So particularly in these markets the expansion of the pharmacies' presence is being strategically pursued. In Italy Celesio is not expecting a further enhancement of its pharmacy presence as long as there are no further privatisation proceedings and the legal situation for privatisation is not finally clarified. In April 2005, Italy's Supreme Administrative Court objected to the privatisation of pharmacies in Milan, declaring it void. The City of Milan instituted proceedings against that judgment at the Italian Court of Cassation. In addition, the European Commission took up the matter and commenced formal breach of contract proceedings against Italy in December. The European Commission demanded that Italy bring its legislation relating to shareholdings in pharmacies into line with EU legislation, as it contravenes the freedom of establishment and the free movement of capital within the European Union.

>150,000 m² of warehousing

Celesio Solutions

Business unit	Gross profit 2004 € m	**Gross profit 2005** **€ m**	Gross profit change in € %	Gross profit change in local currency %	Employees 2005
Movianto* (healthcare logistics)	66.1	**131.2**	98.7	98.9	1,410

* Until March 2006 AVS Health Distribution

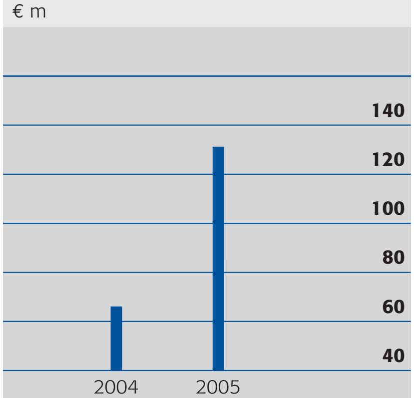
**Growth driver:
Innovative services for
the healthcare market**

Celesio Solutions

The recently established Solutions division has shown significant growth in 2005 with its first business unit Movianto. The acquisition of the British market leader Healthcare Logistics, in particular, played a significant role in the increase in gross profit of 98.7 percent to 131.2 million euros and in the profit before tax of 4.4 percent to 19.7 million euros. Numerous new agreements and renewed contracts demonstrate: Movianto's range of services is winning over more and more pharmaceutical manufacturers. The growth of the Solutions division will be dynamic overall, i.e. over and above Movianto's activities, in the medium- and long-term.

Significant growth spurt

Gross profit
Celesio Solutions
€ m



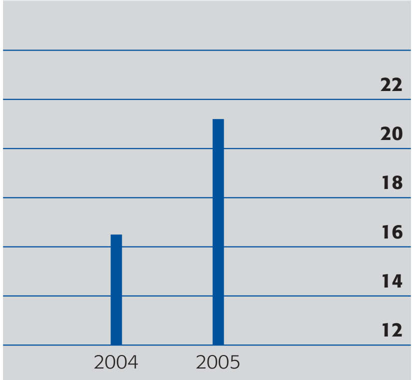
The young Solutions division (since 2004) has, with its first business unit Movianto (until March 2006 AVS Health Distribution), shown very dynamic growth. The new catchy and meaningful name Movianto, is being developed into a service label for innovative, international logistics and distribution services for the pharmaceutical industry. Under the umbrella brand Movianto, Celesio Solutions' first business unit has combined nine national companies and is building these up to make an international business model. Movianto is the first but certainly not the last business unit to constitute the Solutions division in the medium- and long-term. Other business units will address and cover different service requirements pertaining to medicines at multinational or global level.

Absolute gross profit in 2005 almost doubled compared with the previous year by 98.7 percent (98.9 percent in local currency) to 131.2 million euros. The absolute gross profit achieved rather than revenue is the most relevant measure of success and comparability. The customers normally only pay on the basis of services rendered. So only in isolated cases is trading revenue involved. Gross profit is derived from total remuneration for services rendered and margins from trade business.

The acquisition of the British market leader Healthcare Logistics, in particular, contributed to this significant growth of the gross profit of Movianto. Organic growth of Movianto in terms of gross profit was 9.9 percent (10.1 percent in local currency). The acquisitions were consolidated for the first time in the 1st quarter (Sanalog) and 2nd quarter (Healthcare Logistics) of 2005.

In 2005, EBIT increased significantly by 28.7 percent (28.9 percent in local currency) to 21.2 million euros. This extraordinarily positive development is also essentially attributable to Healthcare Logistics. Pre-tax profit totalled 19.7 million euros, constituting growth of 4.4 percent (4.5 percent in local currency) compared to 2004. Especially the cost of building up the young division, higher depreciation and amortisation and not least the cost of financing the acquisitions had a dampening effect on profit development.

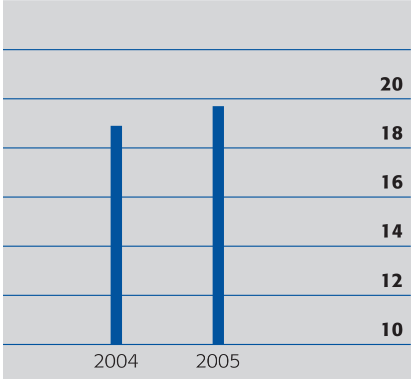
EBIT
Celesio Solutions
€ m



Wide range of pharmaceutical services

Movianto offers pharmaceutical manufacturers standardised and tailor-made logistics and distribution solutions for pharmaceuticals. Its services also includes the adoption of administrative tasks for the pharmaceutical industry. By this means Movinato processes orders for its customers, monitors flow of products and goods and makes sales data available. Movianto's international positioning – with a presence in the United Kingdom, Austria, France, Ireland, Germany, Spain, Norway and the Czech Republic – allows also a geographically tailor-made service for pharmaceutical manufacturers.

Profit before tax
Celesio Solutions
€ m



Celesio Solutions

New agreements and numerous contract renewals

The range of services offered by Movianto is well received by its customers. The business unit has the world's ten largest pharmaceutical manufacturers among its customers. They have confidence in the many years experience in handling medicines, the very high demands of quality, the entrepreneurial flexibility and especially the clear commitment to the pharmaceutical market and pharmaceuticals. In 2005 Movianto was successful in winning new contracts with pharmaceutical manufacturers and renewing numerous existing ones.

Movianto won contracts in the field of cold chain logistics for the supply of vaccines to doctors' surgeries such as in Ireland and Northern Ireland. At the beginning of November 2005, Movianto also gained an important new customer in Germany and is responsible for the distribution and storage of part of its product range for the whole of Germany. The management of all the associated services is now in the hands of Movianto.

Celesio Solutions	2004 € m	2004 % of gross profit	**2005 € m**	**2005 % of gross profit**	Change in € %	Change in local currency %
Gross profit	66.1	100.00	**131.2**	**100.00**	98.7	98.9
EBIT	16.5	24.98	**21.2**	**16.17**	28.7	28.9
Profit before tax	18.9	28.61	**19.7**	**15.03**	4.4	4.5

Range of services modernised

Movianto is constantly extending and improving its range of services. In 2005, the Irish, Northern Irish and part of the British cold chain fleet was fitted with a state-of-the-art satellite-supported tracking system and a real time temperature monitoring system. Movianto has created new storage capacity in Spain. In the United Kingdom and France the facilities for packing and packaging have been extended. Pharmaceutical manufacturers increasingly want market-specific packing and packaging for their products.

Celesio Solutions

Attractive market: Without government regulation, with a broad range of customer groups

Given the high medium- and long-term growth opportunities, Celesio is concentrating particularly on expanding Solutions. More acquisitions are naturally part of this growth strategy.

The healthcare market is growing and is at the same time becoming increasingly complex. The demand for services associated with medicines also increases apace. Pharmaceutical manufacturers and other market players will increasingly focus on their core competences and everything not associated with them will be outsourced to third parties as service partners, not least of course due to the associated cost advantages. This market for services for everything concerning medicines is – irrespective of its growth potential – also attractive for other reasons. Firstly it is not directly subject to government regulation. It also includes customer groups from both the private and public sector. And: The market is still young and strongly fragmented, thereby offering real opportunities for growth and consolidation.

Solutions is a new quality of the Celesio portfolio. With Solutions, its third business division, Celesio is tapping into newly developing growth-oriented markets unregulated by the state and also into countries that currently are not suitable for a geographical expansion of Celesio Wholesale or Celesio Pharmacies. Just like Celesio's Wholesale and Pharmacies businesses, Solutions is not dependent on individual medicines or individual customers.

In showing a positive trend overall, Celesio expects more volatile contributions to profit from Movianto, the existing business unit, than from the divisions Wholesale and Pharmacies. For as a result of the project and contract business with larger customers, the total number of customers is smaller but the individual order volume significantly greater than in the other business divisions.

€ 20.5 bn revenue

Consolidated Financial Statements

Income statement for the fiscal year 2005 of the Celesio Group

	Notes	2004 € '000	**2005** **€ '000**
Revenue	1	**19,152,626**	**20,491,115**
Own work capitalised		330	2,737
Total operating performance		**19,152,956**	**20,493,852**
Cost of raw materials, consumables and supplies, and of purchased goods		(17,096,269)	(18,258,368)
Gross profit		**2,056,687**	**2,235,484**
Other expenses and income	2	(407,714)	(433,082)
Personnel expenses	3	(969,615)	(1,062,183)
Net income from investments	4	4,395	5,639
of which income from associates accounted for using the equity method		[489]	[802]
EBITDA		**683,753**	**745,858**
Amortisation of intangible assets and depreciation of property, plant and equipment	5	(93,470)	(97,706)
EBIT		**590,283**	**648,152**
Interest result	6	(95,177)	(93,628)
Profit before tax		**495,106**	**554,524**
Income taxes	7	(155,895)	(129,630)
Net profit		**339,211**	**424,894**
Profit attributable to minority interests		(3,270)	(4,116)
Consolidated net profit		**335,941**	**420,778**
Earnings per share – basic (€)	8	**3.95**	**4.95**
Earnings per share – diluted (€)	8	**3.95**	**4.95**

Balance sheet at 31 December 2005 of the Celesio Group

		Notes	31/12/2004 € '000	**31/12/2005 € '000**
Assets	**Non-current assets**			
	Intangible assets	10	1,942,597	2,407,650
	Property, plant and equipment	11	560,285	598,218
	Financial assets	12	129,264	133,932
	of which associates accounted for using the equity method		[9,827]	[9,770]
	Deferred tax assets	13	80,993	85,293
			2,713,139	**3,225,093**
	Current assets			
	Inventories	14	1,447,317	1,639,377
	Trade receivables	15	2,133,269	2,382,111
	Income tax receivables	15	32,591	45,130
	Other receivables and other assets	15	189,595	211,886
	Cash and cash equivalents	16	15,220	8,079
			3,817,992	**4,286,583**
	Total assets		**6,531,131**	**7,511,676**

		Notes	31/12/2004 € '000	**31/12/2005 € '000**
Equity and liabilities	**Shareholders' equity**	17		
	Issued capital		217,728	217,728
	Capital reserves		1,113,030	1,113,030
	Revenue reserves		525,748	845,479
	Revaluation reserves		89,713	99,888
	Minority interests		5,649	8,056
			1,951,868	**2,284,181**
	Liabilities	20		
	Non-current liabilities			
	Financial liabilities	21	1,339,236	1,901,104
	Pension provisions	18	132,663	140,236
	Other non-current provisions	19	30,277	34,199
	Deferred tax liabilities	13	17,851	34,497
			1,520,027	**2,110,036**
	Current liabilities			
	Financial liabilities	21	493,665	167,791
	Trade payables	22	1,844,054	2,189,431
	Other current provisions	19	140,485	151,051
	Income tax liabilities		125,277	142,214
	Other liabilities	22	455,755	466,972
			3,059,236	**3,117,459**
	Total equity and liabilities		**6,531,131**	**7,511,676**

Cash flow statement of the Celesio Group

	2004 € '000	**2005** **€ '000**
Net profit	339,211	424,894
Depreciation and amortisation/write-up of property, plant and equipment and intangible assets	93,226	97,623
Net result from disposals of non-current assets	(3,913)	(19,340)
Non-cash changes in net working capital	9,213	29,572
Other non-cash income and expenses	(4,486)	(1,978)
Cash flow	**433,251**	**530,771**
Change in operating assets	(48,237)	(243,242)
Change in operating liabilities	43,773	173,220
Net cash flow from operating activities	**428,787**	**460,749**
Proceeds from the disposal of non-current assets	23,411	31,690
Investment in non-current assets	(128,344)	(127,629)
Proceeds from the disposals of subsidiaries	2,051	11,181
Cash paid for acquisitions of subsidiaries	(58,684)	(414,788)
Net cash flow from investing activities	**(161,566)**	**(499,546)**
Dividends paid to shareholders	(77,381)	(103,319)
Proceeds from borrowings	363,936	1,284,177
Repayment of borrowings	(553,997)	(1,149,329)
Net cash flow from financing activities	**(267,442)**	**31,529**
Net change in cash and cash equivalents	**(221)**	**(7,268)**
Net foreign exchange difference	(4)	127
Cash and cash equivalents at the beginning of the period	15,445	15,220
Cash and cash equivalents at the end of the period	**15,220**	**8,079**

Statement of shareholders' equity of the Celesio Group

	Issued capital	Capital reserves	Revenue reserves	Revaluation reserves		**Share-holders of Celesio AG**	**Minority interests**	**Share-holders' equity**
				Translation reserve	Other com-prehensive income			
	€ '000	€ '000	€ '000	€ '000	€ '000	**€ '000**	**€ '000**	**€ '000**
01/01/2005	**217,728**	**1,113,030**	**525,748**	**73,207**	**16,506**	**1,946,219**	**5,649**	**1,951,868**
Dividends	0	0	(102,060)	0	0	(102,060)	(1,259)	(103,319)
Currency adjustments	0	0	0	15,335	464	15,799	0	15,799
Net profit	0	0	420,778	0	0	420,778	4,116	424,894
Revaluation of financial instruments	0	0	0	0	(5,624)	(5,624)	0	(5,624)
Changes to consolidated group/others	0	0	1,013	0	0	1,013	(450)	563
31/12/2005	**217,728**	**1,113,030**	**845,479**	**88,542**	**11,346**	**2,276,125**	**8,056**	**2,284,181**
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	9,925	9,925	0	9,925
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**

Segment reporting of the Celesio Group by business division

Segmentation by business division	Wholesale 2004 € '000	Wholesale **2005 € '000**	Pharmacies 2004 € '000	Pharmacies **2005 € '000**
Income statement				
Revenue	**15,837,939**	**16,951,907**	**2,854,479**	**2,949,652**
External revenue	15,837,700	16,946,455	2,854,479	2,949,652
Inter-segment revenue	239	5,452	0	0
Gross profit	**1,057,434**	**1,094,743**	**933,173**	**1,009,495**
Segment profit from operations	**357,835**	**381,051**	**261,178**	**297,292**
Assets, liabilities and capital expenditures				
Segment assets	4,022,563	4,391,646	2,132,333	2,570,732
of which goodwill	[436,121]	[484,857]	[1,460,343]	[1,763,806]
Segment liabilities	2,094,753	2,299,911	318,163	382,276
Capital expenditures	64,658	110,470	80,926	344,657
Employees				
Average for the year	14,004	14,189	17,367	18,205
at 31/12/	13,911	14,392	17,604	19,386
Reconciliation to net profit				
EBITDA	**410,907**	**432,748**	**297,839**	**335,944**
Amortisation of intangible assets and depreciation of property, plant and equipment	52,675	50,982	36,570	38,564
EBIT	**358,233**	**381,766**	**261,269**	**297,380**
Interest result	(28,134)	(25,501)	(56,499)	(62,272)
Profit before tax	**330,101**	**356,265**	**204,769**	**235,108**
Income taxes	108,285	115,921	63,128	67,644
Net profit	**221,816**	**240,344**	**141,641**	**167,464**

	Solutions		Others		Consolidation		Group	
	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**
	€ '000	**€ '000**	€ '000	**€ '000**	€ '000	**€ '000**	€ '000	**€ '000**
	625,519	**791,577**	**0**	**0**	**(165,311)**	**(202,021)**	**19,152,626**	**20,491,115**
	460,447	595,008	0	0	0	0	19,152,626	20,491,115
	165,072	196,569	0	0	(165,311)	(202,021)	0	0
	66,080	**131,246**	**0**	**0**	**0**	**0**	**2,056,687**	**2,235,484**
	16,498	**21,225**	**(45,717)**	**(52,219)**	**0**	**0**	**589,794**	**647,349**
	184,860	359,769	99,921	90,915	(34,444)	(39,721)	6,405,233	7,373,341
	[18,813]	[107,186]	[659]	[651]	[0]	[0]	[1,915,936]	[2,356,500]
	219,019	238,839	48,716	47,293	(10,528)	(55,222)	2,670,123	2,913,097
	12,677	117,999	20,113	6,379	0	0	178,374	579,505
	491	1,080	174	200	0	0	32,036	33,674
	552	1,410	179	219	0	0	32,246	35,407
	18,306	**26,839**	**(43,299)**	**(49,673)**	**0**	**0**	**683,753**	**745,858**
	1,808	5,614	2,417	2,546	0	0	93,470	97,706
	16,498	**21,225**	**(45,717)**	**(52,219)**	**0**	**0**	**590,283**	**648,152**
	2,398	(1,499)	(12,942)	(4,356)	0	0	(95,177)	(93,628)
	18,897	**19,726**	**(58,661)**	**(56,575)**	**0**	**0**	**495,106**	**554,524**
	5,753	4,950	(21,271)	(58,885)	0	0	155,895	129,630
	13,144	**14,776**	**(37,390)**	**2,310**	**0**	**0**	**339,211**	**424,894**

Segment reporting of the Celesio Group by geographical region

Segmentation by region	Germany		France		United Kingdom		Other countries		Group	
	2004 € '000	**2005 € '000**	2004 € '000	**2005 € '000**	2004 € '000	**2005 € '000**	2004 € '000	**2005 € '000**	2004 € '000	**2005 € '000**
Segment revenue	3,421,629	**3,648,797**	6,966,551	**7,172,852**	5,177,534	**5,403,266**	3,586,912	**4,266,200**	19,152,626	**20,491,115**
Segment assets	849,268	**984,880**	1,364,115	**1,393,481**	2,372,968	**2,879,370**	1,818,882	**2,115,610**	6,405,233	**7,373,341**
Segment capital expenditures	28,252	**38,519**	21,427	**20,397**	62,408	**378,289**	66,287	**142,300**	178,374	**579,505**

Notes to the consolidated financial statements

General

Basis of presentation

The consolidated financial statements for the year ended 31/12/2005 of Celesio AG, based in Stuttgart, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, and approved for adoption in the European Union as of the balance sheet date. The revised Standards IAS 16, 28, 32 and 39 as well as IFRS 2, 4 and 5 have been adopted for the first time. In addition, all binding interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) were observed in fiscal year 2005.

The consolidated financial statements have been prepared from the individual financial statements of consolidated group companies as of 31/12/2005. These have been prepared in compliance with the group's uniform recognition and measurement principles, based on IFRS. All consolidated companies have 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 financial assets categorised as available for sale and at fair value through profit and loss which have generally been recognised at fair value.

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

The income statement has been prepared using the nature of expense 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. To improve the informative value of the reporting, other operating income and expenses were combined in one position in the income statement for the first time in the reporting year.

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

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 at the date when control is transferred. 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. Purchase price payments that are contingent on future events were considered in the purchase accounting to the extent that they are probable and can be reliably estimated. 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 recognised as income immediately.

Pursuant to IAS 28, associates are included in the consolidated financial statements 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 and inventories are eliminated. Pursuant to IAS 12, deferred taxes are recognised on any differences arising from consolidation.

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, eight special purpose entities (prior year: nine) 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 in the prior year, for asset backed securities.

The consolidated group comprises 556 German and foreign companies (prior year: 483). As compared to 31/12/2004 the group of consolidated companies has developed as follows:

01/01/2005	**483**
Changes in fiscal year 2005	
of which due to acquisitions of shares	78
of which due to formation of new companies	2
of which due to mergers with other group companies	(5)
of which due to liquidations	(2)
31/12/2005	**556**
of which domestic companies	24
of which foreign companies	532

17 (prior year: 19) associates have been consolidated using the equity method.

General

In the fiscal year the companies Soquifa-Medicamentos/Portugal and Kemofarmacija/Slovenia and their subsidiaries in Croatia and Romania, allocated to the Celesio Wholesale division were included in the consolidated financial statements for the first time as of 01/01/2005. In the Celesio Solutions business division, Sanalog/Germany and Healthcare Logistics/United Kingdom were consolidated for the first time as of 01/01/2005 and 01/04/2005 respectively. In the Celesio Pharmacies division a total of 163 pharmacies were purchased in 2005, mainly in the United Kingdom. Full shareholdings were acquired, with the exception of the share purchase in Kernofarmacija (shareholding as of 31/12/2005: 94.7%).

The acquisition cost, including purchase price payments contingent on future events, amounts to € 444,491,000 (prior year: € 61,066,000) of which € 5,155,000 (prior year: € 2,382,000) are cash and cash equivalents. In accordance with IFRS 3 this does not include additional share purchases in companies that have already been fully consolidated. The purchase price obligations were settled in full by cash payments, i.e. no share transfers involved.

Revenue of € 561,552,000 (prior year: € 29,448,000) and net profit of € 10,606,000 (prior year: € 2,621,000) was attributable to the companies acquired during the fiscal year. Had these companies been consolidated from the beginning of the fiscal year, they would have contributed € 735,038,000 (prior year: € 49,175,000) to revenue and € 23,888,000 (prior year: € 3,067,000) to the net profit for the year of the group. The first-time inclusion of the companies in the consolidation does not affect the comparability with the prior year.

Based on the opening balance sheet, the following assets (including goodwill) and liabilities pertain to assets acquired in the reporting year:

	€ ’000
Non-current assets	470,698
Current assets	209,407
	680,105
Non-current liabilities	5,994
Current liabilities	216,998
	222,992

Their carrying amounts generally approximate their fair values.

A summary of all investment holdings (list of shareholdings) pursuant to Sec. 313 (4) Handelsgesetzbuch [German Commercial Code] has been submitted to the commercial register in Stuttgart.

General

Currency translation

All financial statements included in the consolidated financial statements that have been prepared in foreign currency are translated into € using the functional concept. Since the companies of the Celesio Group operate their businesses independently, the assets and liabilities have been translated at the mean rate in accordance with IAS 21. 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 recorded in the currency of the acquiree and thus translated at the balance sheet date using the mean closing rate. 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	
		31/12/2004	**31/12/2005**	2004	**2005**
United Kingdom	**GBP**	0.7051	0.6853	0.6784	0.6837
Norway	**NOK**	8.2365	7.9850	8.3656	8.0056
Czech Republic	**CZK**	30.4640	29.0000	31.8748	29.7755
Slovenia	**SIT**	–	239.5000	–	239.5680
Romania	**RON**	–	3.6802	–	3.6189
Croatia	**HRK**	–	7.3648	–	7.4154

Foreign currency positions in the individual balance sheets of the consolidated companies are valued at the closing rate pursuant to IAS 21. Any unrealised gains or losses are summarised in the income statement at fair value which is assessed by reference to current market prices for derivatives. Non-monetary items denominated in foreign currency are translated using the historical rate.

In the reporting year, exchange rate gains amounted to € 3,227,000 (prior year: € 2,372,000) and exchange rate losses to € 1,890,000 (prior year: € 4,250,000) prior to being offset against the effects from valuing hedging instruments at fair value. Depending on their origin, these are disclosed in other expenses and income or other financial result respectively.

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 mainly originates from the sale of merchandise and, to a lesser extent, from the provision of services. In the Solutions division revenue is also generated from services related to pharmaceuticals. Merchandise sales are not recognised until the risks and rewards of ownership have been transferred to the customer concerned. Revenue from services is recognised upon performance of the services concerned.

(2) Other expenses and income

	2004 € '000	**2005** **€ '000**
Advertising subsidies	50,119	52,578
Income from data sales	15,385	15,954
Income from rent and lease	5,066	5,374
Net income/expense from disposals of non-current assets	3,689	19,043
Income/expense from the write-off of bad debt allowances	(2,863)	(2,241)
Exchange rate gains/losses	2,192	937
Building expenses	(141,123)	(153,267)
Transportation expenses	(122,731)	(149,629)
IT and communication expenses	(59,243)	(65,057)
Promotion and advertising expenses	(42,232)	(43,280)
Legal and consulting fees	(30,746)	(28,000)
Third-party personnel services	(21,747)	(22,754)
Other expenses and income	(63,480)	(62,740)
Total expenses	**(407,714)**	**(433,082)**

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 contains government grants related to income that can no longer be matched with future expenses of € 629,000 (prior year: € 574,000). The personnel-related third-party services mainly contain expenses for recruiting and basic and advanced staff training.

The net result of disposals of non-current assets pertains to both property, plant and equipment and intangible assets and contains income of € 19,780,000 (prior year: € 5,993,000) and expenses of € 737,000 (prior year: € 2,304,000). The net result of doubtful debt allowances contains income from the reversal of € 19,813,000 (prior year: € 16,193,000) and expenses from the recognition of valuation allowances of € 22,054,000 (prior year: € 19,056,000). The net currency result from operations contains exchange gains of € 1,566,000 (prior year: € 2,385,000) and offsetting exchange rate losses of € 629,000 (prior year: € 193,000), in both cases including the effect on income from the revaluation of related derivatives.

Other expenses and income comprises expenses of € 111,591,000 (prior year: € 114,147,000). These expenses are mainly general costs for general administrative and selling expenses, such as travel expenses, expenditures on customer seminars and conferences, literature and office supplies. Income from the reversal of provisions related to other expenses has been deducted from other expenses. In total, other expenses amount to € 596,370,000 (prior year: € 553,329,000) while other income amounts to € 163,288,000 (prior year: € 145,615,000).

Notes to the income statement

(3) Personnel expenses/Employees

	2004 € '000	**2005** **€ '000**
Wages and salaries	751,599	824,750
Social security costs	138,215	148,290
Pension costs	21,522	24,059
Personnel services	53,255	58,418
Other personnel expenses	5,024	6,666
Total	**969,615**	**1,062,183**

The item Personnel services essentially includes 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.

(4) Net income from investments

	2004 € '000	**2005** **€ '000**
Income from associates accounted for using the equity method	489	802
Income from other investments	3,906	4,837
Total	**4,395**	**5,639**

Income from other investments contains impairment losses of € 13,000 (prior year: € 74,000).

(5) Depreciation and amortisation

	2004 € '000	**2005** **€ '000**
Depreciation of property, plant and equipment	85,576	89,078
Amortisation of intangible assets	7,894	8,628
Total	**93,470**	**97,706**

Depreciation and amortisation includes impairment losses of € 537,000 (prior year: € 731,000). These largely pertain to the Solutions segment.

(6) Interest result

	2004 € '000	**2005** **€ '000**
Interest and similar income	**15,192**	**11,530**
of which from affiliated companies	465	16
Interest and similar expenses	**(114,578)**	**(106,734)**
of which to affiliated companies	(104)	(65)
of which for finance leases	(1,865)	(1,755)
of which for pensions	(4,608)	(3,875)
Other financial result	**4,209**	**1,576**
Total	**(95,177)**	**(93,628)**

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, the item also contains exchange rate fluctuations related to non-operating receivables and liabilities denominated in foreign currency.

Notes to the income statement

(7) 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 income.

Deferred taxes have been recognised using 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 by 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 € 11,255,000 (prior year: € 5,463,000).

Unused tax losses that are likely to be realised in future are recognised at the amount of the deferred tax claim. In the fiscal year, deferred taxes of € 2,520,000 (prior year: € 49,000) from prior years were recognised on unused tax losses. In the prior year deferred tax assets of € 399,000 recognised on unused tax losses were written off as these could no longer be utilised as a consequence of mergers. The utilisation of these unused tax losses, which in past periods was considered unlikely, plus tax claims resulted in a reduction of taxes on income of € 910,000 in 2005 (prior year: € 930,000). In addition, the group carries unused tax losses of € 102,293,000 (prior year: € 114,664,000) 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. Of the existing unused tax losses a total of € 100,520,000 can be carried forward for an unlimited period of time; an amount of € 1,773,000 lapses within five years.

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 unchanged compared with the prior year at 38.9%.

	2004 € '000	**2005** **€ '000**
Current taxes	156,317	127,380
Deferred taxes	(422)	2,250
Income taxes	**155,895**	**129,630**

The current tax burden includes tax income from other periods of € 45,515,000 (prior year: € 6,826,000). This includes a net trade tax refund in Germany of € 38,934,000 for the years 1996 to 2001.

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:

	31/12/2004		**31/12/2005**	
	€ '000	%	**€ '000**	**%**
Profit before tax	495,106	100.0	554,524	100.0
Expected income tax expenses	**192,596**	**38.9**	**215,710**	**38.9**
Effect of differing national tax rates	(36,298)	(7.3)	(46,426)	(8.4)
Tax from previous periods	(6,826)	(1.4)	(45,515)	(8.2)
Tax effect of non deductible expenses and tax-free income	6,268	1.3	2,189	0.4
Tax rate changes	(377)	(0.1)	194	0.0
Non recognition, adjustment or utilisation of unused tax losses	(580)	(0.1)	(251)	0.0
Other tax effects	1,112	0.2	3,729	0.7
Income taxes	**155,895**	**31.5**	**129,630**	**23.4**

Adjusted to eliminate the trade tax refund, the tax rate was 30.4% in the year 2005.

Notes to the income statement

(8) Earnings per share

	2004	**2005**
Consolidated net profit (€ '000)	335,941	420,778
Weighted number of no-par shares outstanding	85,050,000	85,050,000
Earnings per share (€)	**3,95**	**4,95**

Pursuant to IAS 33, earnings per share are calculated by dividing the profit allocable to the shareholders of Celesio AG 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.

(9) Research and development expenses

In the reporting year, expenses for the development of software of € 13,282,000 have been recorded as an expense as the recognition criteria pursuant to IAS 38 were not satisfied.

Notes to the balance sheet

Non-current assets

	2004				2005			
	Intangible assets € '000	Property, plant and equipment € '000	Financial assets € '000	**Total € '000**	Intangible assets € '000	Property, plant and equipment € '000	Financial assets € '000	**Total € '000**
Accumulated historical cost 01/01/	**1,931,586**	**1,188,397**	**112,846**	**3,232,829**	**1,997,867**	**1,231,794**	**134,863**	**3,364,524**
Currency translation differences	1,544	2,159	42	3,745	30,691	13,082	44	43,817
Changes to consolidated group	45,198	3,627	(45)	48,780	401,729	77,022	2,273	481,024
Changes in fair market value	0	0	7,534	7,534	0	0	1,570	1,570
Additions	16,673	85,073	34,190	135,936	31,090	87,595	28,737	147,422
Reclassifications	4,773	(1,799)	(4,568)	(1,594)	18,088	(2,715)	(16,111)	(738)
Disposals	(1,907)	(45,663)	(15,136)	(62,706)	(4,269)	(52,586)	(12,563)	(69,418)
31/12/	**1,997,867**	**1,231,794**	**134,863**	**3,364,524**	**2,475,196**	**1,354,192**	**138,813**	**3,968,201**
Accumulated valuation adjustments 01/01/	**47,247**	**621,449**	**6,358**	**675,054**	**55,270**	**671,509**	**5,599**	**732,378**
Currency translation differences	(17)	48	0	31	261	7,481	0	7,742
Changes to consolidated group	447	1,016	0	1,463	6,628	26,371	0	32,999
Additions	7,894	85,576	74	93,544	8,628	89,078	13	97,719
Reclassifications	726	1,199	0	1,925	304	(1)	0	303
Disposals	(1,018)	(37,544)	(9)	(38,571)	(3,545)	(38,464)	(700)	(42,709)
Reversals	(9)	(235)	(824)	(1,068)	0	0	(31)	(31)
31/12/	**55,270**	**671,509**	**5,599**	**732,378**	**67,546**	**755,974**	**4,881**	**828,401**
Carrying amount at 31/12/	**1,942,597**	**560,285**	**129,264**	**2,632,146**	**2,407,650**	**598,218**	**133,932**	**3,139,800**

Notes to the balance sheet

(10) Intangible assets

	2004				
	Franchises, industrial and similar rights € '000	Goodwill € '000	Other intangible assets € '000	Payments on account € '000	**Total € '000**
Accumulated historical cost					
01/01/	**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/	**70,919**	**1,915,936**	**8,748**	**2,264**	**1,997,867**
Accumulated valuation adjustments					
01/01/	**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/	**50,204**	**0**	**5,066**	**0**	**55,270**
Carrying amount at 31/12/	**20,715**	**1,915,936**	**3,682**	**2,264**	**1,942,597**

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.

	2005				
	Franchises, industrial and similar rights € '000	Goodwill € '000	Other intangible assets € '000	Payments on account € '000	**Total € '000**
	70,919	**1,915,936**	**8,748**	**2,264**	**1,997,867**
	402	30,230	59	0	30,691
	5,752	394,335	1,497	145	401,729
	14,492	235	5,970	10,393	31,090
	3,727	15,765	477	(1,881)	18,088
	(2,124)	0	(2,145)	0	(4,269)
	93,168	**2,356,501**	**14,606**	**10,921**	**2,475,196**
	50,204	**0**	**5,066**	**0**	**55,270**
	219	0	42	0	261
	5,450	0	1,178	0	6,628
	8,252	0	376	0	8,628
	304	0	0	0	304
	(1,844)	0	(1,701)	0	(3,545)
	0	0	0	0	0
	62,585	**0**	**4,961**	**0**	**67,546**
	30,583	**2,356,501**	**9,645**	**10,921**	**2,407,650**

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. The position Payments on account contains expenses recognised for software being developed of € 9,049,000 (prior year: € 0). This included own work capitalized of € 2,737,000 (prior year: € 0).

Notes to the balance sheet

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

It is assumed that goodwill has an indefinite useful life. 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 carrying amount 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, the Movianto business unit (until 03/2006 AVS Health Distribution) is deemed to five-year 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. The budgeted figures are based on past developments and expectations of future market developments. Cash flows are discounted using the weighted cost of capital (before taxes). 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. This is below the long-term average market growth rate. In addition, the discount factors used ranged from 7.1% to 8.8% (prior year: 6.9% to 8.5%).

Notes to the balance sheet

(11) Property, plant and equipment

	2004				
	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/	**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/	**569,341**	**252,164**	**405,689**	**4,600**	**1,231,794**
Accumulated valuation adjustments 01/01/	**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/	**237,592**	**166,383**	**267,534**	**0**	**671,509**
Carrying amount at 31/12/	**331,749**	**85,781**	**138,155**	**4,600**	**560,285**
of which **finance leases**					
Carrying amount at 31/12/	**52,438**	**6,194**	**11,087**	**0**	**69,719**

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.

In the reporting year, no material non-current assets were held for sale (as defined by IFRS 5).

2005				
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**
569,341	**252,164**	**405,689**	**4,600**	**1,231,794**
2,982	2,599	7,414	87	13,082
36,144	11,793	24,490	4,595	77,022
15,688	20,754	47,541	3,612	87,595
3,853	(9,466)	13,335	(10,437)	(2,715)
(15,341)	(9,359)	(27,886)	0	(52,586)
612,667	**268,485**	**470,583**	**2,457**	**1,354,192**
237,592	**166,383**	**267,534**	**0**	**671,509**
1,434	1,655	4,392	0	7,481
6,824	3,228	16,319	0	26,371
22,705	23,953	42,420	0	89,078
149	(9,422)	9,272	0	(1)
(7,743)	(9,146)	(21,575)	0	(38,464)
0	0	0	0	0
260,961	**176,651**	**318,362**	**0**	**755,974**
351,706	**91,834**	**152,221**	**2,457**	**598,218**
49,023	**5,152**	**6,173**	**0**	**60,348**

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 2005.

Property, plant and equipment, with the exception of land, are depreciated on a straight-line basis over their useful lives.

Notes to the balance sheet

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 inception date of the lease at the present value of the minimum leases 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 13 years and some contain purchase options. The depreciation methods and useful lives applied correspond to those of comparable assets acquired for a consideration.

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

	31/12/2004 € '000	**31/12/2005 € '000**
Minimum lease payments	63,946	52,610
due within one year	12,588	13,302
due after one year but not more than five years	30,345	22,883
due in more than five years	21,013	16,425
Interest portion	(11,313)	(8,872)
Present value	**52,633**	**43,738**

Notes to the balance sheet

(12) Financial assets

	2004				
	Investments in associates	Available-for-sale financial assets	Loans to associates	Other loans	**Total**
	€ '000	€ '000	€ '000	€ '000	**€ '000**
Accumulated historical cost 01/01/	**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/	**10,163**	**94,362**	**4,296**	**26,042**	**134,863**
Accumulated valuation adjustments 01/01/	**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/	**0**	**3,004**	**110**	**2,485**	**5,599**
Carrying amount at 31/12/	**10,163**	**91,358**	**4,186**	**23,557**	**129,264**

	2005					
	Investments in associates € '000	Available-for-sale financial assets € '000	Financial assets recognised at market value € '000	Loans on associates € '000	Other loans € '000	**Total € '000**
	10,163	**94,362**	**0**	**4,296**	**26,042**	**134,863**
	8	30	0	3	3	44
	0	1,706	0	0	567	2,273
	0	(5,691)	7,261	0	0	1,570
	1,391	4,865	0	377	22,104	28,737
	(304)	(57,097)	41,636	0	(346)	(16,111)
	(1448)	(2,373)	(7)	(626)	(8,109)	(12,563)
	9,810	**35,802**	**48,890**	**4,050**	**40,261**	**138,813**
	0	**3,004**	**0**	**110**	**2,485**	**5,599**
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	13	0	0	0	13
	0	0	0	0	0	0
	0	(305)	0	0	(395)	(700)
	0	0	0	0	(31)	(31)
	0	**2,712**	**0**	**110**	**2,059**	**4,881**
	9,810	**33,090**	**48,890**	**3,940**	**38,202**	**133,932**

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 and at fair value through profit and loss 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. In the available-for-sale category, 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 € 146,000 (prior year: minus € 41,000) being recorded in equity as of balance sheet date. If their fair value falls below their carrying amount for the foreseeable future, an impairment loss is recorded against income. If the reasons no longer apply, they are written up without effect on income. In the "at fair value through profit and loss" category, on the other hand, changes in market value are recognised directly in the income statement. If no active market exists for the assets and their fair value cannot be determined without incurring an unreasonable expense, these financial assets are reported at (amortised) cost. As of 31/12/2005, equity investments totalling € 22,739,000 (prior year: € 22,338,000) were valued at cost for this reason.

Loans to equity investments and other loans are recognised as loans originated by the entity and measured at amortised cost. Carrying amounts generally correspond with fair value.

(13) Deferred taxes

In terms of content, deferred tax assets and liabilities can be allocated to the following balance sheet categories:

	31/12/2004 Assets € '000	31/12/2004 Liabilities € '000	**31/12/2005 Assets € '000**	**31/12/2005 Liabilities € '000**
Non-current assets	5,328	62,398	6,720	72,823
Current assets	27,379	2,744	17,710	4,403
Non-current liabilities	41,700	2,142	40,608	240
Current liabilities	51,480	8,920	60,710	10,765
Sum of deferred taxes on temporary differences	125,887	76,204	125,748	88,231
Deferred taxes on tax loss carryforwards	13,459	0	13,279	0
less offsetting	(58,353)	(58,353)	(53,734)	(53,734)
	80,993	**17,851**	**85,293**	**34,497**

These include deferred tax assets set up without effect on income of € 313,000 (prior year: € 483,000) and deferred tax assets of € 5,421,000 (prior year: € 7,263,000). These 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 7.

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 also, 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 into any long-term construction contracts pursuant to IAS 11. The Celesio Group has not made any collateral assignment of its inventories.

	31/12/2004 € '000	**31/12/2005 € '000**
Raw materials, consumables and supplies	1,715	2,070
Finished goods and merchandise	1,443,426	1,635,126
Payments on account	2,176	2,181
Total	**1,447,317**	**1,639,377**

In the reporting year inventories were written down by € 4,413,000 (prior year: € 6,276,000). This was counteracted by revaluations from reversing valuation allowances of € 5,460,000 (prior year: € 5,397,000). The carrying amount of inventories valued at net realisable value amounts to € 32,880,000 (prior year: € 29,811,000).

(15) Receivables and other assets

With the exception of financial derivatives (see note 23), receivables and other assets are carried at amortised cost. All discernible specific risks are therefore accounted for by appropriate valuation allowances. The carrying amount is the maximum possible theoretical bad debt risk. Carrying amounts 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:

	31/12/2004 € '000	**31/12/2005 € '000**
Trade receivables	2,133,269	2,382,111
Tax receivables	32,591	45,130
Receivables from affiliated companies	69	405
Receivables from associates	1,042	21
Derivative financial instruments	12,857	9,131
Input tax and other tax receivables	15,160	74,912
Other assets	160,467	127,417
Total	**2,355,455**	**2,639,127**

Among other items, other assets contain supplier bonuses, creditors with debit balances, receivables from employees and other short-term receivables.

In the fiscal year, there was an asset-backed securities programme with a nominal volume of € 250,000,000. This was terminated effective 26/08/2005. The asset-backed securities programme did not lead to the derecognition of any trade receivables.

Notes to the balance sheet

(16) Cash and cash equivalents

	31/12/2004 € '000	**31/12/2005 € '000**
Cash in hand and cheques	3,126	3,669
Bank balances	12,094	4,410
	15,220	**8,079**

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) 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 revenues 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 contains changes to equity arising from measuring financial instruments used for cash flow hedges at fair value. These amounted to € 11,789,000 (prior year: € 16,547,000). In addition, this item also includes changes in the fair value of securities categorised as available-for-sale resulted in a change of € 443,000 in the reporting year (prior year: loss of € 41,000). An amount of € 124,000 was released to income in the fiscal year (prior year: € 1,083,000).

The increase in minority interests is mainly due to the net profit attributable to minority interests.

(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 various different 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:

	2004 %	**2005** **%**
Discount rate by currency region		
– EUR	5.0	4.3
– NOK	4.6	4.5
– GBP	5.3	5.0
Projected wage and salary increases	2.5 – 4.6	1.0 – 4.6
Projected pension increases	1.0 – 4.0	1.0 – 4.0
Expected return on plan assets	3.1 – 6.7	4.0 – 6.0

Notes to the balance sheet

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

	31/12/2004 € '000	**31/12/2005** **€ '000**
Service cost	15,275	16,024
Past service cost	110	743
Amortisation of actuarial profits and losses	(17)	30
Interest expense	22,304	25,270
Expected return on plan assets	(17,696)	(21,395)
Total	**19,976**	**20,672**

The interest portion contained in the additions to pension provisions is recognised under net interest expense after deducting the expected return on plan assets. The actual return on plan assets in the reporting year amounted to € 48,669,000 (prior year: € 23,109,000).

Pension provisions developed as follows in the reporting year:

	2004 € '000	**2005** **€ '000**
Provisions for pension liabilities at 01/01/	154,609	132,663
Pension expenses	19,976	20,672
Pension payments	(42,155)	(17,291)
Currency, consolidated group and other changes	233	4,192
Provisions for pension liabilities at 31/12/	**132,663**	**140,236**

The pension payments contain both payments to external pension funds and also benefits paid to pensioners.

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

	2004 € '000	**2005** **€ '000**
Defined benefit obligation-funded	410,009	463,873
Defined benefit obligation-unfunded	88,650	106,003
Fair market value of plan assets	(360,610)	(401,862)
Unrecognised actuarial gains/losses	(5,386)	(27,778)
Pension provisions at 31/12/	**132,663**	**140,236**

The defined contribution pension plan installed for companies of the Celesio Group involves no other commitment for the group on balance sheet date than payment of the defined contribution to the external fund. Expenses from current contributions to these plans amounted to € 7,124,000 in the reporting period (prior year: € 6,154,000).

Notes to the balance sheet

(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 all discernible risks. The most likely amount is taken. Any 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 onerous contracts 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 2.9% and 4.7% are used for this purpose, depending on the term and local currency.

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

	2004		2005							
	Carrying amount 31/12/ € '000	of which due within 1 year € '000	Changes in currency and in the consolida-tion group € '000	Additions € '000	Utilisations € '000	Reversals € '000	Discount € '000	Reclassifi-cations € '000	Carrying amount 31/12/ € '000	of which due within 1 year € '000
Other personnel obligations	71,808	44,793	655	33,440	(26,583)	(356)	544	1,986	81,494	50,498
Other provisions	98,954	95,692	14,016	19,653	(17,843)	(9,038)	0	(1,986)	103,756	100,553
Total	**170,762**	**140,485**	**14,671**	**53,093**	**(44,426)**	**(9,394)**	**544**	**0**	**185,250**	**151,051**

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

(20) Liabilities

	31/12/2004				**31/12/2005**			
	Due in				Due in			
	up to 1 year € '000	1 to 5 years € '000	more than 5 years € '000	Carrying amount € '000	up to 1 year € '000	1 to 5 years € '000	more than 5 years € '000	**Carrying amount € '000**
Financial liabilities								
Liabilities to banks	232,651	53,691	800,878	1,087,220	125,620	90,386	1,142,385	1,358,391
Promissory notes	0	378,607	46,423	425,030	0	513,478	102,145	615,623
Commercial papers	249,302	0	0	249,302	0	0	0	0
Lease liabilities	10,712	24,652	17,269	52,633	11,602	18,061	14,075	43,738
Other financial liabilites	1,000	6,212	11,504	18,716	30,569	14,764	5,810	51,143
	493,665	**463,162**	**876,074**	**1,832,901**	**167,791**	**636,689**	**1,264,415**	**2,068,895**
Trade payables and other liabilities								
Trade payables	1,844,054	0	0	1,844,054	2,189,431	0	0	2,189,431
Income tax liabilities	125,277	0	0	125,277	142,214	0	0	142,214
Liabilities to affiliated companies	226	0	0	226	1,077	0	0	1,077
Liabilities to associated companies	1,379	0	0	1,379	2,452	0	0	2,452
Other liabilities	454,150	0	0	454,150	463,443	0	0	463,443
	2,425,086	**0**	**0**	**2,425,086**	**2,798,617**	**0**	**0**	**2,798,617**
	2,918,751	**463,162**	**876,074**	**4,257,987**	**2,966,408**	**636,689**	**1,264,415**	**4,867,512**

(21) Financial liabilities

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. A change in market interest rates can impact future interest payments. The risk is mitigated by using derivative interest instruments, based on the existing financial liabilities, mainly in € and £. In the reporting year, the ratio of hedges to variable financial liabilities was over 50% in the reporting year.

Notes to the balance sheet

If the 6-month £ LIBOR increases, which at year-end stood at 4.59%, by one percent, this would change the interest expense to be recognized in relation to the year as a whole by around £ 3.1 million (approx. € 4.5 million). A one-percent increase in the 6-month EURIBOR, which at year end stood at 2.64%, would have resulted in an increased interest expense of approx. € 7.6 m. Other comments on the use of derivative financial instruments are to be found in note 23.

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.

Regular short and long term liquidity planning and the unused lines of credit and bank guarantees in the Celesio Group ensure that sufficient liquidity is available at all times.

a) Liabilities to banks

The Celesio Group generally financed itself with long-term bilateral credit facilities. These are generally availed of on a revolving basis with the interest rate fixed for the short term. Special purpose lease entities have in addition arranged fixed interest loans of € 87,157,000 to finance real estate. The fair value of these fixed-interest loans comes to € 91,595,000. Liabilities to banks are broken down by maturity. They are denominated in the following currencies and at the following interest rates valid on the balance sheet date:

		31/12/2004		**31/12/2005**	
Currency	Due in	Average effective interest rate %	Carrying amount € '000	Average effective interest rate %	Carrying amount € '000
EUR			**554,196**		**795,278**
	1 year	2.9	77,251	2.9	85,134
	1 to 5 years	4.9	25,324	4.4	24,322
	more than 5 years	3.3	451,621	3.1	685,822
GBP			**494,712**		**504,880**
	1 year	4.5	117,088	5.0	23,334
	1 to 5 years	5.6	28,367	5.1	43,776
	more than 5 years	5.6	349,257	5.1	437,770
CZK			**27,420**		**50,935**
	1 year	2.8	27,420	2.5	9,854
	1 to 5 years	–	–	2.4	22,288
	more than 5 years	–	–	2.5	18,793
NOK			**10,892**		**5,163**
	1 year	2.6	10,892	2.9	5,163
Others			**–**		**2,135**
	1 year	–	–	6.2	2,135
			1,087,220		**1,358,391**

Notes to the balance sheet

b) Promissory notes

To ensure its long-term financing, the Celesio Group has taken out several promissory notes on the European private placement market with original terms ranging from four to seven years. These are denominated in € and £ and are generally subject to floating interest rates. A portion of a nominal value of € 157,645,000 (prior year: € 55,500,000) is subject to a fixed interest rate and has a fair value of € 165,580,000 (prior year: € 53,958,000). The effective interest rate range at the balance sheet date lay between 2.89% and 5.40% (prior year: 2.81% – 5.77%). In December a further promissory note was issued with a nominal volume of £ 130 m and a term of five or seven years (15/12/2005 – 15/12/2010 and 17/12/2012 respectively).

c) Commercial papers

A short-term commercial paper denominated in € was issued in connection with the asset backed securities programme in France. The programme was terminated in the fiscal year. The total available volume amounts to € 250 m of which € 249,302,000 was drawn on in the prior year.

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. Fair values generally correspond with carrying values.

e) Other financial liabilities

Other financial liabilities chiefly contain contingent purchase price obligations and notes payable related to business combinations, and other interest-bearing liabilities.

Collateral for financial liabilities has mainly been assigned to special purpose lease companies for long-term leases for real estate. In these cases, collateral equal to the secured loans of € 99,679,000 (prior year: € 104,135,000) has been assigned.

(22) Trade 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:

	31/12/2004 € '000	**31/12/2005 € '000**
Personnel liabilities	102,784	109,202
Other tax liabilities	72,447	71,857
Outstanding invoices	114,928	114,659
Derivative financial instruments	61,112	67,804
Interest liabilities	9,533	9,030
Further liabilities	93,346	90,891
Total	**454,150**	**463,443**

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 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 floating 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 floating 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 forecast 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 € 9,131,000 as of balance sheet date (prior year: € 12,857,000).

Hedges are used to secure both the net realisable value of balance sheet items and future cash flows. This includes exchange rate hedges for intended purchases of merchandise within a 12-month period. Interest caps, collars and swaps were used in the fiscal year to hedge interest risks. An interest collar contains both an upper limit and a lower limit on a floating interest rate. An interest cap puts an upper limit on a floating interest rate. An interest swap involves swapping the fixed or floating interest rate of the underlying transaction for its entire term. Forward exchange contracts, currency swaps and currency options were used in the fiscal year to hedge 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 earnings where it will be released when the underlying future cash flow eventuates. In the reporting year € 124,000 (prior year: € 1,083,000) was therefore withdrawn from the reserves under equity and recorded in the profit and loss of the period.

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 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:

	31/12/2004			**31/12/2005**		
	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	**(52,047)**	1,542	(52,581)	**(58,828)**	1,028	(59,736)
Currency instruments	**9,636**	0	900	**7,417**	0	197
Other derivatives	**(5,844)**	0	0	**(7,261)**	0	0
Total	**(48,255)**	**1,542**	**(51,681)**	**(58,672)**	**1,028**	**(59,539)**

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

	31/12/2004				**31/12/2005**			
	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	**1,383,472**	220,288	690,431	472,753	**1,222,298**	115,000	688,416	418,882
Currency instruments	**503,386**	503,386	0	0	**763,426**	763,426	0	0
Other derivatives	**47,480**	47,480	0	0	**39,243**	39,243	0	0
Total	**1,934,338**	**771,154**	**690,431**	**472,753**	**2,024,967**	**917,669**	**688,416**	**418,882**

(24) Contingent liabilities and other financial commitments

	31/12/2004 € '000	**31/12/2005 € '000**
Contingent liabilities from bills of exchange	11,363	12,354
Guarantee contingencies	193,078	204,791
Total	**204,441**	**217,145**

The warranties and guarantees were primarily issued by the Wholesale divisions in the United Kingdom € 160.6 m (prior year: € 149.1 m) and Austria € 23.0 m (prior year: € 21.8 m) as well as the Pharmacies division in Italy € 18.1 m (prior year: € 17.8 m).

For fiscal year 2005, Celesio AG issued the following guarantees for the benefit of its Irish subsidiaries (Wholesale and Pharmacies divisions): "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 of Celesio AG it is unlikely that a substantial risk will result from this guarantee. Consequently, these subsidiaries were exempted from certain disclosure requirements.

Notes to the balance sheet

Other financial obligations	31/12/2004 € '000	31/12/2005 € '000
Rent agreements and operating leases due within one year	55,508	85,411
due after one year but not more than five years	190,380	320,900
due in more than 5 years	283,159	263,339
	529,047	**669,650**
Purchase price obligations from business combinations	140,718	6,228
Purchase obligations for capital expenditures	4,403	5,234
– Property, plant and equipment	[1,824]	[4,247]
– Intangible assets	[2,579]	[769]
– Other assets	[0]	[218]
	674,168	**681,112**

Commitments related to rental agreements and leases are mainly attributable to the wholesale and pharmacy businesses in the United Kingdom € 430.6 m (prior year: € 405.8 m) and pharmacies in Ireland € 88.2 m (prior year: € 79.3 m). In addition, in future rental income from sub-leases of property of € 40,587,000 (prior year: € 37,096,000) can be expected.

The purchase price commitments from business combinations relate to acquisitions of pharmacies in the Netherlands.

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 € 11,974,000 (prior year: € 14,771,000), and interest payments of € 101,761,000 (prior year: € 81,645,000). Income taxes resulted in cash payments of € 132,138,000 (prior year: € 160,861,000).

The indicator ”cash flow” is shown as an additional sub-total in the cash used from operating activities. This contains that part of the net profit adjusted for certain non-cash items which is used to finance changes in the operating assets and liabilities, long-term investments, dividend payments and the repayment of financial debt.

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. This also contains cash paid for the purchase of additional shares in companies that are already fully consolidated. Non-cash investments in non-current assets amounted to € 428,000 (prior year: € 768,000) 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 on 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. 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 providing logistics services related to pharmaceutical manufacturers. 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 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. financial liabilities and income tax receivables and liabilities have not been included pursuant to IAS 14.

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

Notes on segment reporting by geographical region

The segment titled Other countries contains the Netherlands, Austria, Norway, Spain, Portugal, the Czech Republic, Belgium, Ireland, Italy, Slovenia, Croatia and Romania.
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 associates. 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 the 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. In addition, the German companies of the Celesio Group are included in the fiscal unity for VAT purposes of which Franz Haniel & Cie. GmbH is the parent. At balance sheet date the related liabilities amounted to € 999,000 (prior year: € 214,000) and receivables of € 363,000 (prior year: € 79,000). In the reporting year expenses of € 1,152,000 (prior year: € 1,186,000) were incurred and income of € 16,000 (prior year: € 458,000) received. In addition, Celesio AG received a trade tax refund of € 52,881,000 (net € 38,934,000) for the years 1996 to 2001.

Associates are in general accounted for using the equity method. The receivables and liabilities due from/to these companies are presented in notes 15 and 20.

Statutory audit

The annual financial statements of Celesio AG, the main German subsidiaries and the consolidated financial statements were audited by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC), Stuttgart. In the fiscal year, expenses for services rendered by PwC Deutschland totalled € 439,000 (prior year: € 509,000). Of this amount, € 389,000 (prior year: € 400,000) related to annual audits and € 50,000 (prior year: € 109,000) to other services.

In the course of the audit of the consolidated financial statements, the subsidiaries were also audited by auditors from the Price Waterhouse Coopers network and other audit firms. The audit costs for the group totalled € 2,583,000 (prior year: € 2,414,000).

Exemption pursuant to Sec. 264 (3) HGB

Pursuant to Sec. 264 (3) HGB, GEHE Pharma Handel GmbH is exempted for the fiscal year 2005 from the duty to publish its financial statements.

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 52.9% (prior year: 58.0%) at the end of the reporting year. In December 2004 a convertible bond issued by Franz Haniel & Cie. GmbH involving Celesio shares had matured and, after full conversion of the bond into shares, the shareholding of Franz Haniel & Cie. in Celesio was reduced according to plan.

Other notes

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 08/12/2005 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 fiscal year 2005 amounted to € 7,145,000 (prior year: € 4,769,000). Of this amount € 1,540,000 (prior year: € 1,024,000) was fixed compensation and € 4,055,000 (prior year: € 3,316,000) variable compensation (profit bonus) and € 1,550,000 (prior year: € 429,000) for the strategy bonus. Besides these short-term benefits, the pension provisions were increased by € 789,000. 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 situation 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 measured 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 the performance indicator, EVA (Economic Value Added)*. Thus, the measurement base is the development of the value added to the company. This fosters value-based management and an entrepreneurial management culture.

The former members of the management board of Celesio AG and their surviving dependents received remuneration of € 230,000 (prior year: € 197,000). A provision of € 3,751,000 was made for pensions (prior year: € 3,815,000)

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 association 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.

* Registered trademark of Stern Stewart & Co.

Other notes

Total remuneration paid to the supervisory board in the fiscal year 2005 thus amounted to € 1,006,000 (prior year: € 746,000). Of this amount, € 67,000 (prior year: € 68,000) was attributable to fixed compensation paid for membership of the supervisory board, € 925,000 (prior year: € 670,000) for variable components pegged to dividend pay-outs for membership in the supervisory board plus € 14,000 (prior year: € 9,000) for committee activities.
Prof Zahn received a fee of € 2,000 (prior year: € 4,000) 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 Sec. 15 a WpHG persons who hold a management function at a publicly listed German company or any legal or natural persons who are related to such an official have a duty to report to the company and to the Bundesanstalt für Finanzdienstleistungsaufsicht [The Federal Financial Supervisory Authority] 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 € 119,070,000 (prior year: € 102,060,000).

The management board proposes distributing this amount of € 119,070,000 in full (prior year: € 102,060,000) as a dividend for the fiscal year 2005.

Based on this proposal for the appropriation of profits, the dividend per share amounts to an ordinary dividend of € 1.35 (prior year: € 1.20) plus a special dividend of € 0.05.

Stuttgart, 14 February 2006

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., Baarn/Netherlands
– Herba Chemosan Apotheker-AG, Vienna/Austria
– Norsk Medisinaldepot AS, Oslo/Norway
– Healthcare Services Group plc, Bedford/Great Britain (since 18/05/2005)
– Untertürkheimer Volksbank e.G., Stuttgart/Germany
– Verwaltungsrat Christophsbad Göppingen Dr. Landerer Söhne GmbH, Göppingen/Germany
– Landesbeirat Baden-Württemberg Allianz Versicherungs-AG, Munich/Germany (until 31/12/2005)

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
– Kemofarmacija, d.d., Ljubljana/Slovenia (since 23/03/2005), Chairman
– Herba Chemosan Apotheker-AG, Vienna/Austria
– NMD Grossisthandel AS, Oslo/Norway
– OCP PORTUGAL, PRODUTOS FARMACÊUTICOS, S.A., Maia/Portugal
– Soquifa-Medicamentos S.A., Braga/Portugal (since 01/03/2005)

Stefan Meister
Stuttgart/Germany

Membership of supervisory boards and other control committees:
– Lloyds Nederland B.V., Baarn/Netherlands
– Herba Chemosan Apotheker-AG, Vienna/Austria (until 12/05/2005)

Dr Felix A Zimmermann
Stuttgart/Germany

Membership of supervisory boards and other control committees:
– Herba Chemosan Apotheker-AG, Vienna/Austria (since 12/05/2005)
– Kemofarmacija, d.d., Ljubljana/Slovenia (since 23/03/2005)

Members of the supervisory board

Prof Theo Siegert Duisburg/Germany Chairman	Member of the Management Board Franz Haniel & Cie. GmbH (until 30/04/2005) Chairman of the Management Board Franz Haniel & Cie. GmbH (01/05/2005 – 31/12/2005)	Membership of supervisory boards and other control committees: – METRO AG, Düsseldorf/Germany, Chairman – ERGO Versicherungsgruppe AG, Düsseldorf/Germany – TAKKT AG, Stuttgart/Germany (since 03/05/2005)
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: – Schering Berlin Inc., Montville/New Jersey, USA – Kuratorium der Bertelsmann Stiftung, Gütersloh/Germany – B. Braun Melsungen AG, Melsungen/Germany (until 15/06/2005) – Partner für Berlin Gesellschaft für Hauptstadt-Marketing mbH, Berlin/Germany (until 22/06/2005)
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.	
Dr Ihno Schneevoigt Munich/Germany	Member of the Management Board (retired) Allianz Versicherungs-AG Allianz Lebensversicherungs-AG	Membership of supervisory boards and other control committees: – ESMT European School of Management and Technology GmbH, Berlin/Germany – Ströer Out-of-Home Media AG, Cologne/Germany – Korn/Ferry International Corp., Los Angeles/USA
Dr Klaus Trützschler Duisburg/Germany	Member of the Management Board Franz Haniel & Cie. GmbH	Membership of supervisory boards and other control committees: – TAKKT AG, Stuttgart/Germany, Chairman – Allianz Versicherungs-AG, Munich/Germany – Bilfinger Berger AG, Mannheim/Germany – CEMEX Deutschland AG, Ratingen/Germany
Prof Erich Zahn Stuttgart/Germany	Professor of Business Studies University of Stuttgart	Membership of supervisory boards and other control committees: – Kuratorium Fraunhofer-Institut für Produktionstechnik und Automatisierung IPA, Stuttgart/Germany

Auditor's Report

We have audited the consolidated financial statements of the Celesio AG, Stuttgart, – consisting of balance sheet, income statement, notes, statement of changes in equity, cash flow statements – and the combined management report of the Company and the Group for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the combined management report of the Company and the Group in accordance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315a Abs.1 HGB are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report of the Company and the Group based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB and German 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 such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the combined management report of the Company and the Group are detected with reasonable assurance. 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 effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315a Abs.1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. The combined management report of the Company and the Group is in accordance with the annual financial statements and provides on the whole a suitable understanding of the Group's position and suitably presents the chances and risks of future development.

Stuttgart, 14 February 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Schwarzhof)	(Wißfeld)
German Public Auditor	German Public 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
Belgium	www.pharmabelgium.be
Norway	www.nmd.no
Slovenia	www.kemfarm.si
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:

Movianto	www.movianto.com

Celesio Wholesale offers 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 (not accessible to the public)
Italy	www.afmpoint.it

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 certain 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 are interest swaps, forward exchange contracts or currency options.
Earnings per share	Pursuant to IAS 33, earnings per share are calculated by dividing the net profit allocable to the shareholders of Celesio AG by the weighted average number of shares outstanding 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.
EURIBOR	European Interbank Offered Rate.
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 net financial debt by equity.
GIRP	Groupement International de la Réparition 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.

* Registered trademark of Stern Stewart & Co.

Interest collar — An upper and lower interest limit arranged with another party, possibly in return for the payment of a premium. If the interest rate rises above the agreed limit as of the cut-off date, the purchaser of the interest collar receives compensation equivalent to the difference between the reference interest rate as of the cut-off date and the agreed interest rate. If the interest rate falls below the agreed limit as of the cut-off date, the purchaser pays compensation equivalent to the difference between the reference interest rate as of the cut-off date and the agreed interest rate.

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.

LIBOR — London Interbank Offered Rate.

Market capitalization — Market capitalization represents the current value of a company on the stock market. This is calculated by multiplying the share price by the number of shares. Market capitalization, measured by the free float, is determined on the basis of the number of shares in the free float. The trading volume and market liquidity of a share frequently rise when market capitalization is high and in particular when the free float is high.

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.

General information

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

The financial statements and management report of Celesio AG for the 2005 fiscal year are published in the *Bundesanzeiger* [German Federal Gazette] and filed at the Commercial Register of the local court of Stuttgart.

The paper on which this report has been printed is made of chlorine free bleached pulp (tcf). It comes 100 percent from sustainable forestry, of which 95 percent comes from certified forests.

Information on Celesio Shares

ISIN Code	DE0005858005
Securities ID No.	585 800
German Stock Exchange Code	CLS
Reuters Code	CLSG
Bloomberg Code	CLS GR

Investors calendar*

Investment conference (DrKW), New York	9 – 11 January 2006
Investment conference (Cheuvreux), Frankfurt	16 – 18 January 2006
Investment conference (Merrill Lynch), New York	7 – 9 February 2006
Investment conference (UBS), New York	13 – 15 February 2006
Balance sheet press conference, Stuttgart	16 March 2006
Celesio analysts and investors conference, Amsterdam	20 March 2006
International bankers day, Amsterdam	21 March 2006
Roadshow Europe	March/April 2006
Annual general meeting, Stuttgart	27 April 2006
Dividend payment	28 April 2006
Interim report, 1st quarter 2006	10 May 2006
Interim report, 1st half-year 2006	9 August 2006
Interim report, 1st – 3rd quarter 2006	13 November 2006

* Subject to change

The latest information on the investors calendar can be found on www.celesio.com.

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the healthcare group

Annual Report 2005

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