Committed to health

Annual Report 2006

celesio
the healthcare group

History

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

Key financial figures 2006

Revenue	21.6 billion euros
Revenue growth	5.3 percent (5.1 percent*)
EBITDA	803.7 million euros
EBITDA growth	7.8 percent (7.6 percent*)
Profit before tax	590.1 million euros
Growth in profit before tax	6.4 percent (6.3 percent*)
Net profit	425.6 million euros
Growth in net profit**	10.3 percent (10.1 percent*)
Earnings per share	2.49 euros

Employees	36,442
Wholesale branches	135
Pharmacies	2,100

* In local currency

** Adjusted to take account of trade tax refund: In the second quarter of 2005 there had been a refund totalling 38.9 million euros net (52.9 million euros gross) for the years 1996 to 2001

Front page:
The ginkgo is symbolic for Celesio. It symbolises durability, health and a long life. Celesio has planted three ginkgo trees at the entrance to the group head office in Stuttgart to represent the three business divisions Wholesale, Pharmacies and Solutions.

Group Structure

Celesio Group

Celesio Wholesale

Revenue: 17,464.6 million euros
Gross profit: 1,102.5 million euros
Profit before tax: 333.8 million euros
Employees: 14,325
Branches: 135

Celesio Wholesale

Austria	Herba Chemosan Apotheker-AG, Vienna
Belgium	PHARMA BELGIUM S.A., Brussels
Czech Republic	GEHE Pharma Praha, spol. s.r.o., Prague
Denmark	A/S Max Jenne Medicinalvarer En Gros, Aabenraa
	K.V. Tjellesen A/S, Rødovre
France	OCP S.A., Saint-Ouen
Germany	GEHE Pharma Handel GmbH, Stuttgart
Ireland	CAHILL MAY ROBERTS GROUP LIMITED, Dublin
Italy	AFM – S.P.A., Bologna
Norway	NMD Grossisthandel AS, Oslo
Portugal	OCP PORTUGAL, PRODUTOS FARMACÊUTICOS, S.A., Maia
Slovenia*	Kemofarmacija d.d., Ljubljana
United Kingdom	AAH PHARMACEUTICALS LIMITED, Coventry

* Including the subsidiaries in Croatia and Romania

Celesio Pharmacies

Revenue: 3,270.3 million euros
Gross profit: 1,179.1 million euros
Profit before tax: 276.6 million euros
Employees: 20,335
Pharmacies: 2,100

Celesio Solutions

Gross profit: 150.0 million euros
Profit before tax: 15.5 million euros
Employees: 1,550

Celesio Pharmacies

Belgium	Lloydspharma S.A., Wavre
Czech Republic	Lékárny Lloyds s.r.o., Prague
Ireland	UNICARE PHARMACY LIMITED, Dublin
Italy	ADMENTA ITALIA S.P.A., Bologna
Netherlands	Lloyds Apotheken B.V., Baarn
Norway	Vitusapotek AS, Oslo
United Kingdom	LLOYDS PHARMACY LIMITED, Coventry

Movianto*

Austria	SANOVA Pharma GesmbH, Vienna
Czech Republic	Movianto Česká republika, a.s., Brno
Denmark	K.V. Tjellesen A/S, Rødovre
France	DEPOTS GENERAUX PHARMA S.A.S., Gonesse
Germany	Movianto Deutschland GmbH, Kist
Ireland	CAHILL MAY ROBERTS GROUP LIMITED, Dublin
Norway	NMD Grossisthandel AS, Oslo
Spain	SEUR PHARMA, S.A., Getafe
United Kingdom	Healthcare Logistics Limited, Bedford
	Castlereagh Pharmaceuticals, Belfast

pharmexx

Strategic alliance with a 30 percent share in pharmexx GmbH, Hirschberg (Germany)

* Until March 2006 AVS Health Distribution

Contents

How does a company create value for its shareholders?

By Prof Dr Dr h.c. Christian Homburg, Director of the Institute for Market-Oriented Management and holder of the chair for General Business Administration and Marketing I at the University of Mannheim/ Germany

In addition to key financial figures such as revenue and profit, the increase in the market value of a company is increasingly used to assess its success. The idea behind this is to measure the company's success from the perspective of the shareholders as their interest is in obtaining adequate returns on the capital invested.

Reliable dividend policy and rising market value

A certain degree of risk is of course inherent in income from shareholdings. To compensate for this risk, shareholders expect a return from their shares which is at least equivalent to the returns from a risk-free investment plus a premium for the particular corporate risk. Shareholders' expectations regarding returns determine the target returns for investments in the company. Investments should only be made in areas of business which in the long-term promise returns that are at least equivalent to those of the shareholders' expectations.

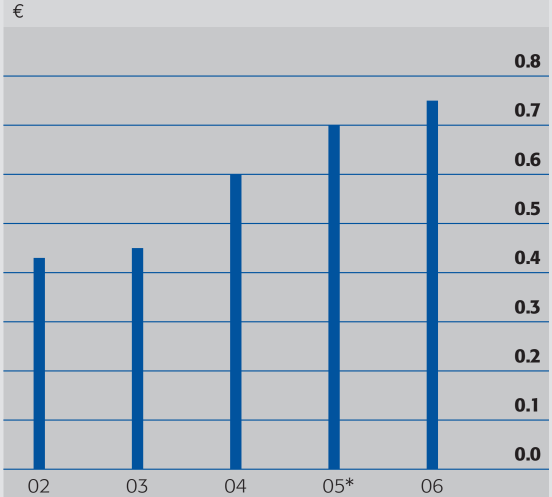
The return is made up of the share in profit, based on accruing dividends, and the increasing value of the shares in the company hence the increase in market value of the company. Celesio has committed itself to both a reliable dividend policy and also an increase in the market value. The company has always payed out around 30 percent of net operating profit to its shareholders.

The value of the Celesio share has increased almost six-fold since 1991

Performance of Celesio shares
€

* Index-linked to Celesio shares

Cash dividend per share
€

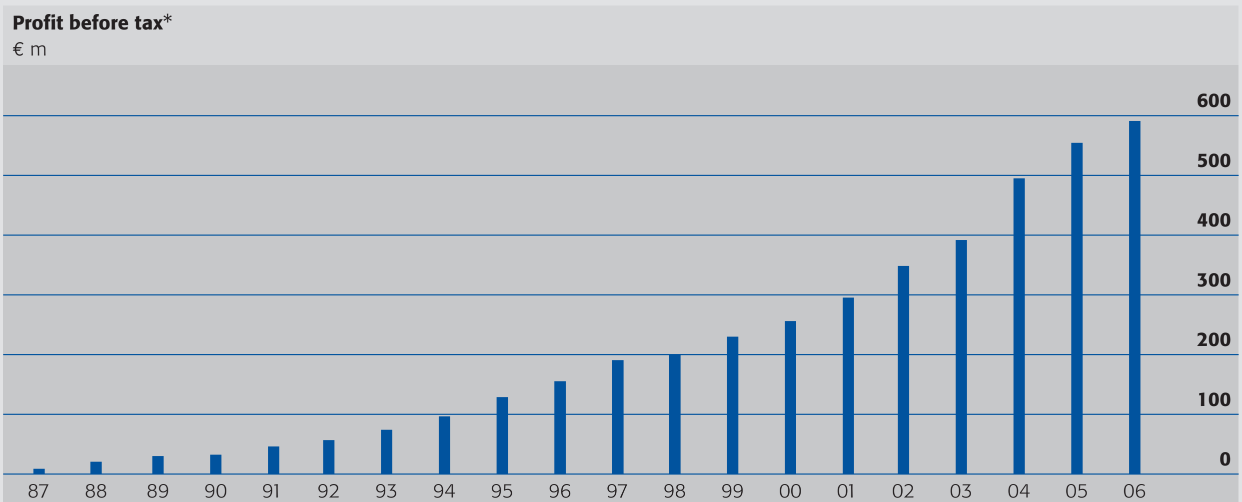


* Including special dividend due to trade tax refund

In 2006 this resulted in the company paying out a total dividend of 120.3 million euros to its shareholders. Celesio has also succeeded in consistently increasing its market value.

But what determines the market value of a company and how can a company increase it? For a listed company like Celesio AG the market value can be established from the share price. Share prices reflect the expectations of the stock market with regard to the future income and profit opportunities of the company. The expectation as regards future earnings is characterised by two factors in particular: firstly by the estimated earning prospects and secondly by the long-term growth opportunities of the company.

20 years of constant profit growth



* Total group without office mail order, healthcare services and pharmaceutical production; since 2003 IFRS regulations

Stock exchange rewards profitable growth

From these considerations, the management of a company can derive two central levers for increasing the market value: profitability and company growth. These correlations have been confirmed in many empirical studies. In the last few years the stock exchange has in particular rewarded companies that have succeeded in achieving profitable growth over a number of years, of which Celesio is an example. In the last 20 years the company has consistently increased revenue and profit in core business with revenue having risen on average by about 17 percent and pre-tax profit by about 33 percent. The capital markets recognise this development: Since the year 2000 market capitalisation has doubled to over 7 billion euros*.

* As at October 2006

A whole range of individual entrepreneurial decisions and measures are required in order to achieve sustained above-average growth in profit and revenue. Although there is no clear-cut recipe for success, the following four areas are of central significance:

Consistent growth

The driving force behind market value is sustained profitable growth. Growth not only increases profits but is also a crucial influencing factor in the formation of long-term expectations of the stock exchange. Experience of growth companies shows that a clear strategy is a pre-requisite for sustained growth. Successful companies shape the future through forward-looking initiatives, anticipating opportunities and risks, gearing their company clearly towards growth markets and using their existing knowledge to set the course for the future. Celesio has adhered to these principles consistently in past years and, by concentrating on the pharmaceutical market, has laid the foundations

for future growth. The pharmaceutical market offers considerable growth opportunities in the long-term thanks to demographic development. Celesio compensates for market risks, which may arise from government measures in individual markets for example, by means of geographical diversification and by extending its field of business. Since 2004 Celesio is building up with its Solutions division, in addition to the two established divisions Wholesale and Pharmacies, a pharmaceutical-specific service business for pharmaceutical manufacturers and other market participants, thus opening up a market which is still immature and fragmented. Due to the increasing outsourcing trend in the pharmaceutical market, it offers good additional medium and long-term growth potential.

Continuous improvement of operational business

Growth only leads to an increase in market value if it succeeds in converting increases in revenue into increases in profit in the same measure. Operational excellence is therefore an important prerequisite for increasing the market value. For Celesio this means continually improving the input-output ratio, but also the quality of distribution, sales, and services using sophisticated logistics and efficient operational processes. In addition to long-term, stringent cost management, Celesio therefore also continuously invests in its business. For instance, operational processes are continually being improved, wholesale branches and pharmacies modernised, new services developed, and employees undergo further training. In this way Celesio has been and will be able to consistently increase returns.

Creating competitive advantages

Growth in revenue and profit ultimately occurs in the market – through transaction with customers and in competition with competitors. Advantages over competitors through innovation and special service form a foundation for increasing market value. In pharmaceutical wholesale it is important to offer pharmacy customers additional benefits over and above the fast, safe and reliable supply of medicines. Celesio Wholesale sets the standard in this regard. With customer loyalty programmes like those employed in France, Germany and the United Kingdom, Celesio is supporting its customers and making them fit for the future. In the pharmacy business, Celesio's pharmacies differentiate themselves from competition thanks to their market-leading range of services and locations in close proximity to doctors. In the Solutions division, a wide spectrum of flexible logistics and distribution services for everything concerning medicines at national and international level create added value for customers. In this way Celesio secures competitive advantages on the market and strengthens customer loyalty – a prerequisite for stable earnings.

Efficient organisation as foundation

Sustained increases in value need a solid foundation – an efficient organisation encompassing, among other things, the structure, processes and culture of a company. Above all, a motivated and qualified workforce is increasingly considered a requisite for sustained success. It is estimated that up to 50 percent of the market value of a company is attributable to the workforce. This factor also plays a central role in Celesio's business strategies. Vocational training and further education programmes, flat hierarchies, remuneration and incentive structures, international prospects, and an extensive internal communication system motivate and encourage employees. These investments are paying off and forming a solid foundation for long-term success.

Social responsibility is only possible for a profitable company

It is not only Celesio's shareholders who benefit from its long-term corporate strategy being geared to sustained added value, but also society in general. For example the company supports the aid organisation Doctors for Developing Countries with specialist knowledge, financial and human resources – evidence of Celesio's sense of responsibility. In the long-term a company can only do justice to its responsibility towards society, however, if it is successful in achieving sustained profitable growth.

Employees are a requisite for sustained success

From a German wholesaler to a European group

Year	Milestone	Annual group revenue € bn
Since 1835	Building up wholesale in Germany	
1991	Entry into Czech wholesale market	2.6
1993	Entry into Belgian, French and Portuguese wholesale markets	5.2
1995	Entry into British and Irish wholesale markets Entry into British pharmacy market	9.8
1999	Entry into Italian wholesale market Entry into Czech and Italian pharmacy markets	13.9
2000	Entry into Austrian wholesale market	15.3
2001	Entry into Norwegian wholesale market Entry into Belgian, Dutch, Irish and Norwegian pharmacy markets	17.0
2002	Reorganisation of group structure into Wholesale and Pharmacies business divisions	18.4
2003	New name for group holding: GEHE AG is renamed Celesio AG	18.6
2004	Building up the third business division Solutions with acquisitions in the Czech Republic, Germany, Spain and United Kingdom Entry into Slovenian wholesale market	19.2
2006	Entry into Danish wholesale market Service offering for pharmaceutical manufacturers extended due to strategic co-operation with pharmexx Introduction of a regional organisation and integration into the extended management board (Group Executive Committee)	21.6

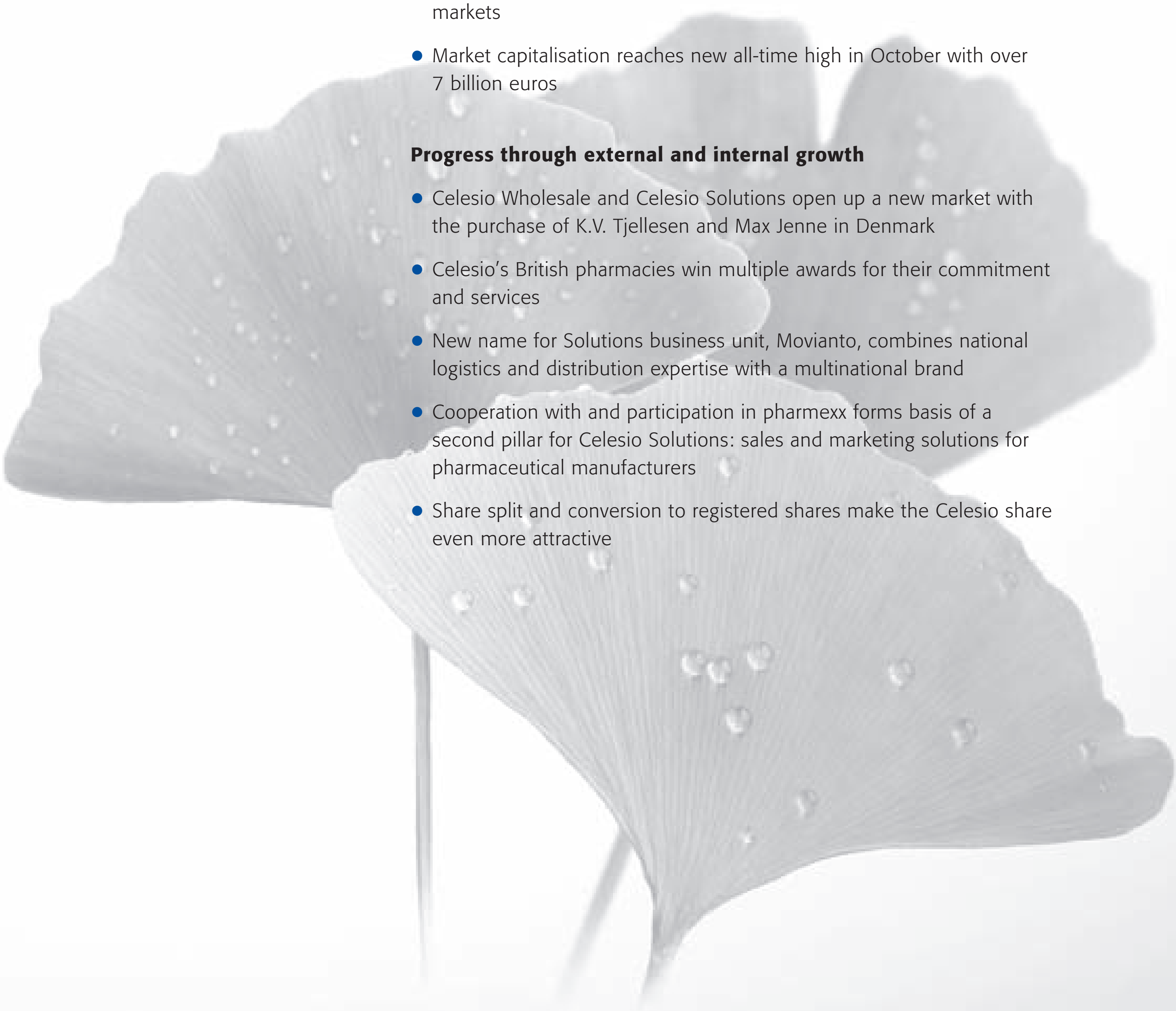
Highlights 2006

Convincing figures

- Revenue and profit in core business have increased for twenty consecutive years
- Group revenue increased by 5.3 percent, pre-tax profit by 6.4 percent compared with the prior year, despite poor market growth in large markets
- Market capitalisation reaches new all-time high in October with over 7 billion euros

Progress through external and internal growth

- Celesio Wholesale and Celesio Solutions open up a new market with the purchase of K.V. Tjellesen and Max Jenne in Denmark
- Celesio’s British pharmacies win multiple awards for their commitment and services
- New name for Solutions business unit, Movianto, combines national logistics and distribution expertise with a multinational brand
- Cooperation with and participation in pharmexx forms basis of a second pillar for Celesio Solutions: sales and marketing solutions for pharmaceutical manufacturers
- Share split and conversion to registered shares make the Celesio share even more attractive



Letter to Shareholders

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

Dear Shareholders

This year we increased revenue and profit in our core business for the 20th time in succession. An exceptional achievement, in my opinion. The figures for 2006 confirm yet again that Celesio is excellently positioned in the growing pharmaceutical market. We are continually generating added value for our customers – from the pharmaceutical manufacturers and pharmacies right through to the patients. Our maxim that the customer is the focus of our activities also applies to the future. The added value which we generate continuously for our customers forms the basis for our profit growth in the future and therefore for Celesio's further increase in value.

20 years of profitable growth

2006 marked an outstanding achievement in which we take great pride: in each of the last 20 years we have increased revenue and profit in our core operations. Last year we reached new all-time highs. With 21.6 billion euros we achieved more revenue than ever before. Our pre-tax profit increased by 6.4 percent over the prior year. The intended dividend payout for 2006 is to be higher than ever before. We are proposing a dividend distribution of 0.75 euros per share to the annual general meeting.

"With 21.6 billion euros we achieved more revenue than ever before. Our pre-tax profit increased by 6.4 percent over the prior year. The intended dividend payout for 2006 is to be higher than ever before."

The capital market recognises our development. We have more than doubled our market capitalisation since the year 2000. On 13 October 2006 the value of the Celesio share, adjusted to take account of the share split, reached a new all-time high. Market capitalisation stood at more than 7 billion euros. Since the share split and the conversion to registered shares in 2006, Celesio has become even more attractive to shareholders. The positive development of the share shows that our shareholders expect us to continue the positive business development.

"The capital market recognises our development. We have more than doubled our market capitalisation since the year 2000."

Letter to Shareholders

"The last 20 years have illustrated: Our success is built on a solid foundation and we are not resting on our laurels. In past years we have continued to develop our business model."

"In Denmark we acquired 100 percent of the pharmaceutical wholesaler Max Jenne and the controlling majority of pharmaceutical wholesaler and services provider K.V. Tjellesen. This means that Celesio is operating in a total 16 European countries groupwide."

Solid foundation

We shall do our utmost to fulfil the expectations of our shareholders. The last 20 years have illustrated: Our success is built on a solid foundation and we are not resting on our laurels. In past years we have continued to develop our business model. We have successfully opened up new business areas and markets. We have continued to grow but in so doing have never forgotten that revenue growth without growth in profit does not add to value. This is why we focus on the earnings side. Continuous operational improvements and tight cost discipline are therefore basic virtues in all our divisions.

In this past fiscal year we again made good progress in terms of our development. In 2006 we strengthened our wholesale business with two acquisitions: In Denmark we acquired 100 percent of the pharmaceutical wholesaler Max Jenne and the controlling majority of pharmaceutical wholesaler and services provider K.V. Tjellesen. This means that Celesio is operating in a total 16 European countries groupwide. In France we have started to restructure our wholesale branch network: We shall pool existing branches by building new, more modern and future-oriented wholesale warehouses in easily accessible locations. Following this reconstruction, our warehouse capacity will be even better utilised and Celesio will make considerable cost savings in the medium-term.

In the Celesio Pharmacies business division we have further extended our range of services and expanded our pharmacies network to 2,100 pharmacies. Our new acquisitions, including the 110 British Cohens and Scholes pharmacies acquired in the fourth quarter of 2005, have been integrated into our portfolio. Our particular strength in the pharmacy business is the high level of service competence. Celesio pharmacists are highly competent in providing comprehensive advice and information on all matters concerning health. With numerous campaigns – such as free diabetes tests and advice on reliable sun protection – our pharmacists are committed to the health of their patients and customers. Independent customer surveys and awards last year were ample proof: Our patients and customers appreciate the services of Celesio's pharmacies.

Solutions on growth course

Our Celesio Solutions business division, offering services relating to medicines, also developed well in this past fiscal year. In March 2006 we gave our first Solutions business unit a new name: Movianto. This is an important step towards a common brand identity for our national companies. The brand name shows our customers that Movianto offers comparable services and quality beyond national boundaries. The new orders and renewed contracts are evidence that our multinational business model and our range of transportation and logistics services for pharmaceuticals are well received.

"In March 2006 we gave our first Solutions business unit a new name: Movianto."

We had announced in the past that it is not envisaged that Movianto should remain the only Celesio Solutions business unit. In 2006 we put our words into action: Solutions is building up a second business unit. The foundation for this is a strategic alliance with pharmexx GmbH which we underpinned with a 30 percent holding. pharmexx is one of the world's leading providers of sales and marketing solutions for pharmaceutical manufacturers. At the end of 2006 pharmexx had about 4,500 employees in 24 countries. A trend that is rapidly increasing.

"Solutions is building up a second business unit. The foundation for this is a strategic alliance with pharmexx GmbH which we underpinned with a 30 percent holding."

The European market for services in the pharmaceutical industry is very fragmented and immature. It is precisely this which makes this field of activity interesting to us. Pharmaceutical manufacturers are increasingly outsourcing activities which are not part of their core business. In particular they are looking for service partners who can offer global or at least multinational solutions. This, for example, is precisely what Movianto offers, this is what makes its services so valuable. I can assure you: We shall utilise the growth opportunities in the Solutions division and open up further attractive markets.

Letter to Shareholders

"Growth in the pharmaceutical market in the past has been stronger than other markets. Experts agree that it will also grow in the future. Demographic development makes it abundantly clear."

Firmly established in the growing pharmaceutical market

Celesio Wholesale, Celesio Pharmacies or Celesio Solutions: All our business divisions are equipped for future challenges. Twenty years of uninterrupted success represent a commitment to the future. A future in which we shall continue our profitable growth. We have every reason to be confident of success, being firmly established in the growing pharmaceutical market as a pharmaceutical wholesaler, pharmacy operator and service provider for the pharmaceutical industry. Growth in the pharmaceutical market in the past has been stronger than other markets. Experts agree that it will also grow in the future. Demographic development makes it abundantly clear: Life expectancy in Western Europe has increased considerably over the last 100 years. The number of elderly people is constantly rising and hence so is the demand for medicines. People over 60 years of age require around three times as many medicines as younger people. Medical and pharmacological innovations for their part enable us to live longer.

However, this development also has a downside, namely that rising health expenditure represents a burden on public health systems. In many countries politicians are attempting to counteract this with a variety of government measures: price cuts, reduced margins, or reductions in reimbursable medicines. The political motives may be understandable, but sometimes the means and consequences are dubious and inappropriate. This however does not change the good growth prospects of the pharmaceutical market, as in the medium- and long-term the growing demand of individuals will more and more be independently financed and hence increasingly be less reactive to governmental influence.

Bringing our expertise to the health debate

As a company operating at international level, we see and experience on a daily basis the effects different government measures have in different countries. We are happy to bring our many years' experience and expertise to the discussion. Last year we intensified communication and cooperation with decision-makers from politics and society. We are working intensively in the European Association of Pharmaceutical Full-line Wholesalers, GIRP. Our voice is heard by the authorities in Brussels and European parliamentarians. Our advice and expertise are also in demand at national level. We contribute to the fact that decision-makers learn from the experience of others and that reliable and prudent conditions are created.

"Last year we intensified communication and cooperation with decision-makers from politics and society."

Letter to Shareholders

Employees committed socially

Our social commitment enjoys respect. We earn our money from people's healthcare needs. So it is right for us to pass on part of our success, in particular for projects in the field of healthcare. This is what we know most about and we can help both financially and through our expertise. Therefore in 2006 we expanded our work with the aid organisation Doctors for Developing Countries. Celesio pharmacists worked free of charge in India, the Philippines and in Kenya testing medicines for content and dosage – an important contribution to counter fake drugs and towards greater safety of medicines. In 2007 the Puspa Celesio Children's Tuberculosis Clinic will be opened in Calcutta, India. We provided all the medical equipment. Our employees collected donations for this. I am pleased that our employees are so committed to this cause.

Continuing growth course with entrepreneurial commitment

I would like to thank all our employees for the high degree of professionalism, their commitment and valuable contribution to Celesio's success. My thanks, too, to Jacques Ambonville, who left the management board on 30 September 2006, for all he has done for our Wholesale business division. Wolfgang Mähr, hitherto managing director of the German wholesaler GEHE Pharma Handel, has taken on this area of responsibility in the management board. As management board member, Wolfgang Mähr is also responsible for the Movianto business unit.

I would also like to express my gratitude to our customers and business partners for their open, reliable and faithful cooperation. Without them Celesio would not be so successful and we would not look to the future with such optimism. Equally, at this point I also wish to thank you, dear shareholders, for having confidence in us again in 2006, for your support and interest in Celesio.

Together let us look forward to a dynamic and successful new fiscal year for Celesio. We shall continue to pursue our growth course again in 2007 with entrepreneurial commitment and vision in both old and new markets.

Stuttgart, February 2007
On behalf of the Management Board

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

Management Board

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



Stefan Meister
Deputy Chairman of the Management Board
Personnel Relations Officer
Celesio Pharmacies

Wolfgang Mähr
Celesio Wholesale
Movianto
(from 1 October 2006)

Jacques Ambonville
Celesio Wholesale
Movianto
(until 30 September 2006)

Dr Felix A Zimmermann
Chief Financial Officer

Committed to health

Supervisory Board

Members

Dr Eckhard Cordes
Chairman
(from 27 April 2006)

Prof Theo Siegert
Chairman
(until 27 April 2006)

Ihno Goldenstein
Deputy Chairman

Klaus Borowicz

Prof med Julius Michael Curtius

Dr Hubertus Erlen

Dirk-Uwe Kerrmann

Jörg Lauenroth-Mago

Ulrich Neumeister

Hans-Martin Poschmann

Dr Ihno Schneevoigt

Dr Klaus Trützschler

Prof Erich Zahn

Committees

Arbitration committee
Dr Eckhard Cordes (Chairman)
Ihno Goldenstein
Jörg Lauenroth-Mago
Dr Ihno Schneevoigt

Personnel committee
Dr Eckhard Cordes (Chairman)
Hans-Martin Poschmann
Dr Ihno Schneevoigt

Audit committee
Dr Klaus Trützschler (Chairman)
Jörg Lauenroth-Mago
Ulrich Neumeister
Prof Erich Zahn

Dr Eckhard Cordes
Chairman of the
Supervisory Board

Report from the Supervisory Board

Dear Shareholders

Celesio continued its success story in the 2006 fiscal year. For the 20th time in succession the company increased revenue and profit in core operations. The supervisory board monitored business development constructively in 2006, discussed all relevant topics such as acquisitions or personnel issues intensively with the management board, and has been constantly kept informed of the current situation and prospects of Celesio.

Comprehensive information on development

The task of the supervisory board is to advise the management board and to examine and discuss decisions with them. That is why the supervisory board worked closely with the management board and obtained detailed information quickly. This allowed decisions to be implemented quickly. The supervisory board discussed planning, development in the business divisions, the risk situation and risk management of Celesio together with the management board and has carefully monitored all the relevant projects throughout the entire process.

The supervisory board performed its monitoring and advisory responsibilities to the full extent in 2006 and made all necessary decisions. Celesio has achieved the objectives and is well positioned for continued, successful development in future.

Report from the Supervisory Board

Short communication channels for quick decisions

Not only the entire management board and supervisory board, but also the respecitve chairmen themselves regularly discussed Celesio's strategy, business development and risk management. The supervisory board chairman was informed of any significant events within the group. He was at all times in possession of necessary information to assess the management, situation and development of the group. The chairman informed the committee in detail at the latest at the next supervisory board meeting.

Key aspects of the supervisory board meetings

In the 2006 fiscal year the supervisory board met at four ordinary meetings and one extraordinary meeting. The agenda of the meeting on 15 March included inter alia the international brand identity of Movianto, the envisaged holding in pharmexx, the agenda of the annual general meeting on 27 April and the effects of government measures on the Wholesale division, especially in Germany and France. The members of the supervisory board agreed to the holding in pharmexx outside the meeting by means of written votes.

The planned acquisitions in Denmark, the further development of the Commitment Model of GEHE Pharma Handel and the election of the new supervisory board chairman among other things were discussed at the ordinary and the subsequent extraordinary meeting on 27 April 2006.

The topics of discussion at the meeting on 11 September were the changes in the Celesio management board and the resolutions associated with this, government measures in the field of healthcare, the development of the pharmacy markets and the revision of the German Corporate Governance Code. At the last meeting of the year on 12 December the supervisory board dealt with the expansion of the pharmacy business in Europe, extending the audit committee by two further members and corporate governance topics, such as an efficiency review of the supervisory board and the declaration of compliance pursuant to § 161 Aktiengesetz [German Stock Corporation Act].

Intensive committee work

In so far as permitted by law, several decision-making powers were delegated to committees. This allowed the committees to prepare thoroughly for topics to be discussed and voted on in supervisory board's meetings. The Celesio supervisory board formed an audit committee, a personnel committee and an arbitration committee. This structure has proved to be very advantageous in practice. The committees regularly keep the supervisory board informed of their work in detail.

The duties of the audit committee include an ex ante check of the financial statements for Celesio AG and the group as well as the management report and the proposal for appropriation of profit. The audit committee, which met twice in 2006, is led by Dr Klaus Trützschler as chairman. Important topics last year included the contents and results of the audit, the current situation as to accounting and risk management as well as the checking of the declaration of independence by the auditor.

The personnel committee prepares personnel decisions made by the supervisory board. It makes decisions in the supervisory board's stead, in particular as regards employment contracts and pension agreements of the management board members. Above all, the personnel changes on the management board and the allocation of duties were on the agenda at the three meetings in 2006.

It is the sole duty of the arbitration committee (formed pursuant to § 27 para. 3 of the Mitbestimmungsgesetz [Co-determination Act]) to make a proposal for the appointment of a management board member in the event that the required two-thirds majority is not reached in the first round in the supervisory board. As in previous years, the arbitration committee had no occasion to meet in 2006. Dr Eckhard Cordes, chairman of the supervisory board, is also chairman of the arbitration committee and the personnel committee.

Report from the Supervisory Board

Financial statements unreservedly approved

The financial statements for Celesio AG and the consolidated financial statements for the year ended 31 December 2006 as well as 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 were discussed extensively at the supervisory board's balance sheet meeting held following the auditor's report. The supervisory board raised no objections to the final result of this audit. At the recommendation of the audit committee, it 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 management board's proposal for the appropriation of the profit available for distribution.

The supervisory board has examined the mandatory information pursuant to §§ 289 para. 4, 315 para. 4 Handelsgesetzbuch [German Commercial Code] and § 120 para. 3 Aktiengesetz [German Stock Corporation Act]. The information is complete and accurate. The supervisory board adopts the statements of the management board in its explanatory report. The above-mentioned mandatory information and explanatory reports by the management board can be found on pages 88 to 91 of the annual report.

With regard to the majority shareholding of Franz Haniel & Cie. GmbH, Duisburg in the year under review, the management board presented the supervisory board the report on the relations with affiliated companies for the 2006 fiscal year pursuant to § 312 Aktiengesetz [German Stock Corporation Act] together with the audit report pertaining to it drawn up by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, as auditor pursuant to § 313 Aktiengesetz [German Stock Corporation Act]. 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 relations 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.

There were no conflicts of interest of members of the supervisory board or management board.

All supervisory board members attended at least half of the supervisory board meetings in the 2006 fiscal year.

Report from the Supervisory Board

Prof Theo Siegert resigned from office as member and chairman of the supervisory board with effect from the end of the annual general meeting on 27 April 2006. He has thus left the supervisory board of Celesio AG. The entire supervisory board thanks Prof Siegert for his work as chairman, which he carried out at all times with exceptional circumspection and know-how, great commitment and negotiating expertise.

Dr Eckhard Cordes was appointed by resolution of the annual general meeting on 27 April 2006 as successor to Prof Siegert as member of the supervisory board. Immediately following the annual general meeting the supervisory board elected Dr Cordes as its new chairman at an extraordinary meeting.

In its meeting on 11 September 2006, the supervisory board decided on some personnel and functional changes in the Celesio management board as well as on a new allocation of duties of the Celesio management board. On 30 September 2006 Jacques Ambonville left the Celesio management board. As of 1 October his duties on the Celesio management board were taken over by Wolfgang Mähr. Since 1 January 2002 he had been managing director of GEHE Pharma Handel GmbH, the German pharmaceutical wholesale company of Celesio AG. He is responsible throughout Europe for pharmaceutical wholesale and also for Movianto and purchasing.

Stefan Meister, responsible within the Celesio management board for the Pharmacies business division, was simultaneously appointed deputy chairman of the management board. In this function he was also given the role of personnel relations officer by the supervisory board.

The supervisory board wishes Wolfgang Mähr and Stefan Meister every success in their future roles.

Our thanks go in particular to Jacques Ambonville. He had been a member of the Celesio AG management board since 1 January 1994. Since 2002 he held groupwide responsibility for Celesio's wholesale activities. The supervisory board thanks Jacques Ambonville in particular for his significant contribution to the successful growth and results in the Wholesale division.

The supervisory board is aware that the success of Celesio last year is due in particular to the outstanding commitment of Celesio's employees. The supervisory board would therefore like to express its gratitude to all staff for their performance. The supervisory board wishes to thank the management board for the close, trusting cooperation as well as for the open and reliable communication.

As ever, the supervisory board will also do its utmost in future to ensure sustained success for Celesio.

Stuttgart, March 2007
On behalf of the Supervisory Board

Dr Eckhard Cordes
Chairman of the Supervisory Board

Corporate Governance

Since 2002 the German Code of Corporate Governance stipulates the requirements regarding good management and control. Celesio fulfils almost all of these.

When the German Code of Corporate Governance was introduced in 2002, Celesio already fulfilled most of the requirements regarding the management of companies listed on the German stock exchange. Celesio has usually fulfilled any subsequent additions and modifications to the code in advance. The management board and supervisory board support the code and its associated aims.

Corporate governance at Celesio is not limited to the management body. In the last fiscal year, Celesio introduced a binding code of conduct for all its employees. They commit themselves to being law-abiding, honest and fair.

Celesio's auditors have committed themselves to ensuring good corporate management and must report immediately any concerns regarding impartiality. The board must be immediately informed of any important findings, information and events pertaining to the audit, which are important for the duties of the supervisory board. If the auditor establishes that the declaration of compliance by Celesio is not true to the code, he must also inform the supervisory board of this immediately.

Extensive information on the subject of risk management is provided on pages 76 to 79 of the annual report.

Information regarding the annual general meeting

Corporate governance includes providing shareholders with comprehensive information. The annual report for 2005 and all required documents were laid out on display at the Celesio annual general meeting on 27 April 2006. These documents were also sent out to shareholders on request.

Around 860 shareholders attended the 2006 annual general meeting. Some 74 percent of the share capital was represented, 11.5 percent more than in the prior year. Any shareholder not able to attend the annual general meeting in person was given the opportunity to be represented by Celesio employees as proxies bound by instruction.

Celesio's shareholders are promptly and comprehensively provided with information on the current course of business outside the annual general meeting in quarterly interim reports.

Cooperation between the boards ensures good corporate governance

The German law on stock companies makes a strict division of company management into an executive and a supervisory body. Celesio's management board and supervisory board work closely together within this allocation of responsibilities prescribed by law. The management board also participates in the regular supervisory board meetings to discuss corporate strategy and current company development with the supervisory body. In this way the supervisory board is comprehensively and promptly informed on all the important topics.

Corporate Governance

Remuneration report* – management board remuneration based on company's success

It is the company management's aim to substantially increase the value of the Celesio Group. To that extent it is only logical to base the structure of the management board's remuneration on this. Sustained, entrepreneurial and profit-oriented action is rewarded. For that reason the remuneration is made up of fixed and variable elements and, in addition to personal achievements and responsibilities of the board members, also takes account of Celesio's economic situation.

Total remuneration paid to the management board in 2006 fiscal year amounted to 8,221,000 euros (prior year: 7,145,000 euros). Of this amount 1,513,000 euros (prior year: 1,540,000 euros) was fixed remuneration, 5,278,000 euros (prior year: 4,055,000 euros) performance-related remuneration (profit bonus) and 1,430,000 euros (prior year: 1,550,000 euros) remuneration with long-term incentive (strategy bonus). Besides these short-term benefits, the pension provisions were increased by 246,000 euros (prior year: 789,000 euros). Termination benefits came to 4,149,000 euros. Pension provisions of 3,896,000 euros were released as a result. There is no share-based programme in place at Celesio AG.

At the instigation of the personnel committee, the structure of the remuneration system for the management board is discussed by the supervisory board and checked regularly. 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, Dr Eckhard Cordes, and two other members of the supervisory board, Hans-Martin Poschmann and Dr Ihno Schneevoigt.

* Part of the management report

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 remuneration of management board members comprises a fixed monthly income and a performance-based variable component. The fixed remuneration as a basic salary and installment payments of the performance-related remuneration (2006: 549,000 euros) are paid as a monthly salary. The benefits in kind are limited to the use of the company car and must be taxed by the members of the management board. The variable component is made up of a profit bonus and a strategy bonus. The members of the management board also received direct pension commitments. The amount of the commitment depends on the fixed salary and the possible period of service and is thus not tied to the variable remuneration component. Benefits in the event of termination of service have not been promised to the members of the management board.

Profit bonus

This profit bonus is measured on the cash flow of the Celesio Group. 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 the strategy bonus is the performance indicator, EVA (Economic Value Added*). Thus, the measurement base is the development of the value added to the company in excess of the cost of capital. This fosters value-based management and an entrepreneurial management culture.

* Registered trade mark of Stern Stewart & Co.

Corporate Governance

The former members of the management board of Celesio AG and their surviving dependents received remuneration of 269,000 euros (prior year: 230,000 euros). A pension provision of 3,743,000 euros (prior year: 3,751,000 euros) has been recognised to cover them.

Total remuneration paid to the supervisory board in the 2006 fiscal year amounted to 1,172,000 euros (prior year: 1,006,000 euros). Of this amount, 68,000 euros (prior year: 67,000 euros) was attributable to fixed remuneration paid for membership of the supervisory board, 1,091,000 euros (prior year: 925,000 euros) for variable components pegged to dividend pay-outs for membership in the supervisory board plus 14,000 euros (prior year: 14,000 euros) for committee activities. The remuneration structure of the supervisory board is explained on page 177 in this annual report.

Prof Zahn received a fee of 2,000 euros (prior year: 2,000 euros) for consulting services rendered to GEHE Pharma Handel GmbH.

In the 2006 fiscal year, Celesio AG neither granted credit to management board or supervisory board members nor did it enter into any contingencies in favour of these persons.

Active work by the supervisory board

The supervisory board has set up three committees to enable it to perform its duties thoroughly, promptly and comprehensively: a personnel, an audit and an arbitration committee. The chairman of the supervisory board chairs the personnel and arbitration committee. In December 2006 the number of members of the audit committee was increased and its duties expanded. More information on the content and responsibilities of the personnel, audit and arbitration committees is given on page 21 of this annual report.

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 percent of the total shares outstanding of the company.

Pursuant to Sec. 15a of the Wertpapierhandelsgesetz [German Securities Trading Law] people who hold a management function at a publicly listed German company or any legal or natural person who are related to such a functionary have a duty to report to the company and to the Bundesanstalt für Finanzdienstleistungsaufsicht [Federal Financial Supervisory Authority] if they buy or sell shares or related financial instruments in the company of over 5,000 euros. Celesio AG did not receive any notices in this regard for the reporting year.

Rapid, open communication with the shareholders

The annual general meeting, interim and annual reports are just a few of the channels used by Celesio to inform its shareholders about the development and strategy of the company. With the conversion to registered shares on 24 July 2006 Celesio is now able to inform its shareholders more quickly and more directly.

The internet is becoming increasingly important for fast, comprehensive communication. The homepage www.celesio.com informs Celesio shareholders and other interested parties about current company developments. Ad-hoc reports pertaining to the share price are published immediately on the internet. On the homepage Celesio announces important events and publication dates. Anyone interested in the business development of the previous year was able to obtain information from 16 March 2006 ahead of the annual general meeting. Important elements of the annual general meeting such as the introduction by the chairman of the supervisory board and the speech by the chairman of the management board and chief executive officer were transmitted live on the internet. All reports concerning the law affecting stock market transactions and the trading of securities which have been published by Celesio AG in the last fiscal year can be seen on the internet.

Corporate Governance

Declaration of compliance

Celesio fully complies with the Corporate Governance Code in the version dated 12 June 2006 with two exceptions: The remuneration of the management board and supervisory board are not disclosed per individual. On 27 April 2006 the annual general meeting resolved that the management board is exempt from disclosure of remuneration per individual (Opt-Out rule). The supervisory board's remuneration is not disclosed individually as in view of the level of remuneration and also the stipulations contained in the articles of association, no additional benefit could be seen for investors. Celesio, of course, continues to show the total remuneration of the management board and supervisory board.

Further information on the subject of corporate governance at Celesio is published on www.celesio.com, including the following declaration of compliance, issued by the management board and supervisory board on 12 December 2006 pursuant to § 161 Aktiengesetz [German Stock Corporation Act]:

Celesio AG fully complies with the recommendations of the German Code of Corporate Governance produced by the government commission in the version dated 12 June 2006 with the following exceptions:

Remuneration of the members of the management board is shown in the notes to the consolidated financial statements and in the remuneration report which is part of the corporate governance report, divided into fixed, performance-related and long-term incentive components. The annual general meeting of Celesio AG decided on 27 April 2006 that remuneration of the management board members will not be disclosed individually. (Code sections 4.2.4, 4.2.5)

In the notes to the consolidated financial statements and the remuneration report which is part of the corporate governance report, remuneration of the members of the supervisory board is not disclosed for each individual member but as a total amount. (Code section 5.4.7, paragraph 3)

Since last year's declaration was issued in accordance with § 161 of the Aktiengesetz [German Stock Corporation Act], Celesio AG has complied with the recommendations of the German Code of Corporate Governance produced by the government commission in the version dated 12 June 2006 with the following exceptions:

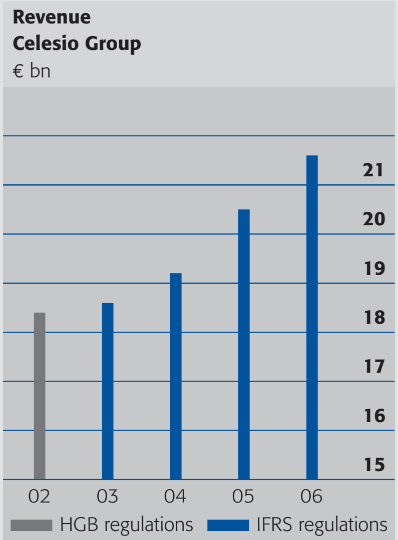
Remuneration of the members of the management board were shown in the notes to the consolidated financial statements and in the remuneration report which is part of the corporate governance report, divided into fixed, performance-related and long-term incentive components. The remuneration was not disclosed individually. (Code sections 4.2.4, 4.2.5)

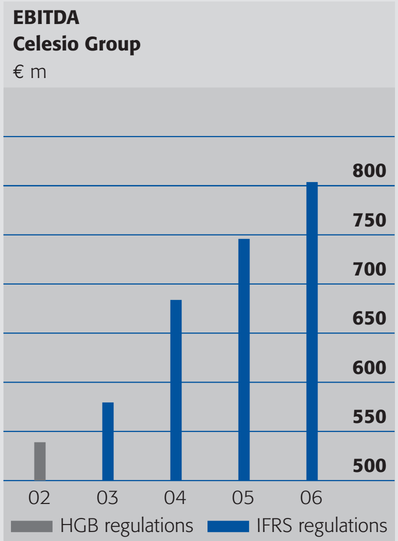
In the notes to the consolidated financial statements and the remuneration report which is part of the corporate governance report, remuneration of the members of the supervisory board was not disclosed for each individual member but as a total amount. (Code section 5.4.7, paragraph 3)

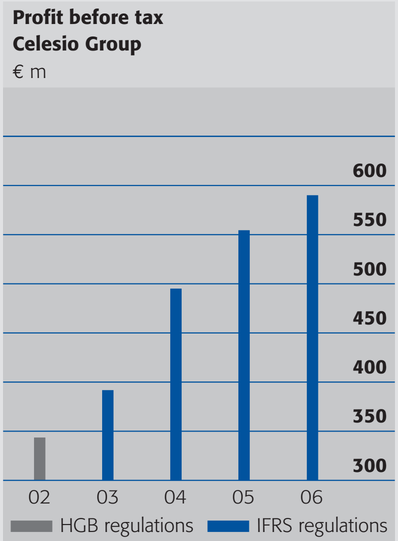
The Management Board

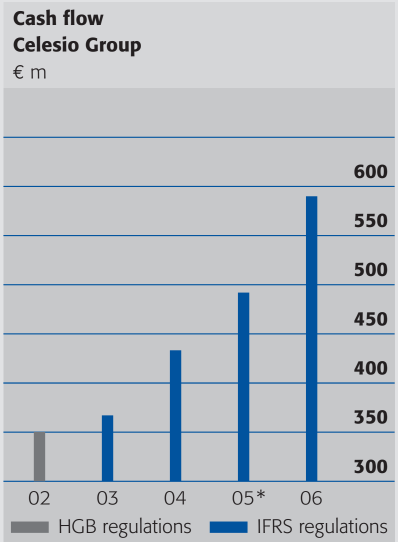
The Supervisory Board

Key Financial Figures: 5-Year Overview









* Adjusted for trade tax refund

		HGB regulations 2002	IFRS regulations 2003	2004	2005	**2006**
Revenue	€ m	18,383.4	18,558.5	19,152.6	20,491.1	**21,569.1**
Change	%	8.3	–	3.2	7.0	**5.3**
EBITDA	€ m	539.1	579.5	683.8	745.9	**803.7**
EBIT	€ m	435.6	486.9	590.3	648.2	**685.8**
Profit before tax	€ m	343.6	391.8	495.1	554.5	**590.1**
Net profit	€ m	239.6	266.7	339.2	*386.0	**425.6**
Earnings per share	€	1.45	1.55	1.97	*2.24	**2.49**
Dividend per share**	€	0.43	0.45	0.60	0.67 + 0.03	**0.75**
Cash flow	€ m	350.2	367.1	433.3	*491.9	**590.0**
Non-current assets***	€ m	2,334.0	2,656.5	2,713.1	3,225.1	**3,446.8**
Shareholders' equity	€ m	1,639.7	1,695.0	1,951.9	2,284.2	**2,628.1**
Long-term capital	€ m	2,590.9	2,436.7	2,990.4	4,359.7	**4,535.2**
Total assets	€ m	5,509.6	6,398.0	6,531.1	7,511.7	**7,926.5**
% of total assets						
Non-current assets***	%	42.4	41.5	41.5	42.9	**43.5**
Shareholders' equity	%	29.8	26.5	29.9	30.4	**33.2**
Long-term capital	%	47.0	38.1	45.9	58.0	**57.2**
Capital expenditure	€ m	392.6	282.4	178.4	579.5	**357.1**
Number of employees		32,007	32,594	32,246	35,407	**36,442**

* Adjusted to take account of trade tax refund: In the second quarter of 2005 there had been a refund totalling 38.9 million euros net (52.9 million euros gross) for the years 1996 to 2001

** Adjusted to take account of share split 1 : 2

*** In accordance with HGB [German Commercial Code]: fixed assets

The advantage of the new registered shares: Shareholders hear quickly and directly from us

Key financial figures*		HGB regulations 2002	IFRS regulations 2003	2004	2005	**2006**
Earnings per share	€	1.45	1.55	1.97	**2.24	**2.49**
Dividend per share	€	0.43	0.45	0.60	0.67 + 0.03	**0.75**
EBITDA per share	€	3.17	3.41	4.02	4.38	**4.72**
EBIT per share	€	2.68	2.86	3.47	3.81	**4.03**
Cash flow per share	€	2.16	2.16	2.55	**2.89	**3.47**
Shareholders' equity per share	€	10.08	9.97	11.48	13.43	**15.45**
Share price (last trading day)	€	18.55	19.23	29.92	36.33	**40.64**
Number of shares outstanding (30/12/)	m	170.1	170.1	170.1	170.1	**170.1**
Market capitalisation (30/12/)	€ m	3,155.4	3,270.2	5,089.4	6,179.7	**6,912.9**

* All figures are adjusted to take account of share split 1:2, carried out on 24 July 2006
** Adjusted to take account of trade tax refund: In the second quarter of 2005 there had been a refund of 38.9 million euros net (52.9 million euros gross) for the years 1996 to 2001

Celesio Shares

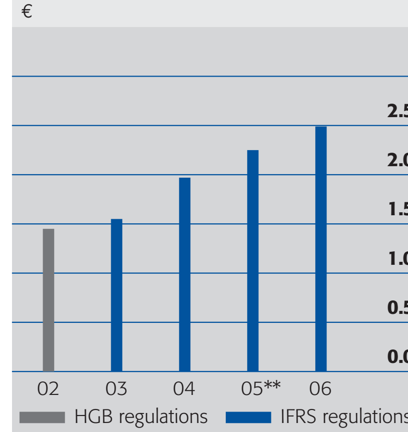
Celesio generates value. The shareholders have seen proof of this again in 2006: The value of the share has increased almost six-fold in the last 15 years and in the last fiscal year reached a new all-time high with 42.77 euros. Never before has Celesio proposed such a high dividend payout as for 2006. A share split and the conversion to registered shares have made the Celesio share even more attractive.

Added value for the shareholder

The value of the Celesio share has more than doubled since 2000 and increased almost six-fold since 1991. Since the year 2000, the increase in the value for the shareholders, taking the dividend into account, was 148 percent.

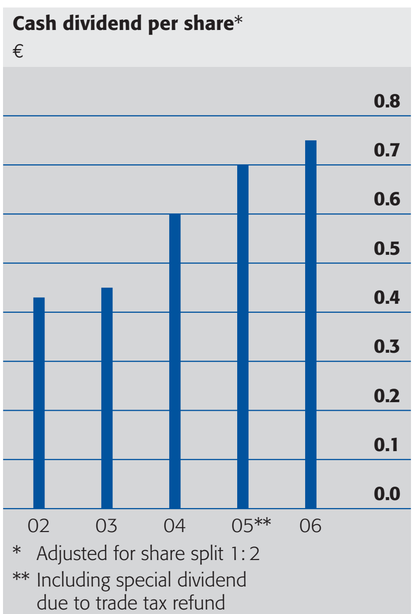
Investing in Celesio has paid off for the investor. Shareholders profit from the positive development in share price and the continual increase in dividends, as Celesio has maintained its profitable growth course consistently for many years.

Earnings per share*
€



* Adjusted for share split 1 : 2
** Adjusted for trade tax refund

Celesio Shares



2006 marked the twentieth year in succession that Celesio increased revenue and profit in its core operations. Earnings per share rose by 10.8 percent compared with 2005 to 2.49 euros*. The shareholder also benefits through a higher dividend: At 0.75 euros per share the dividend, according to the proposal for the annual general meeting by the management board and supervisory board, is 11.1 percent up on the dividend in the prior year**.

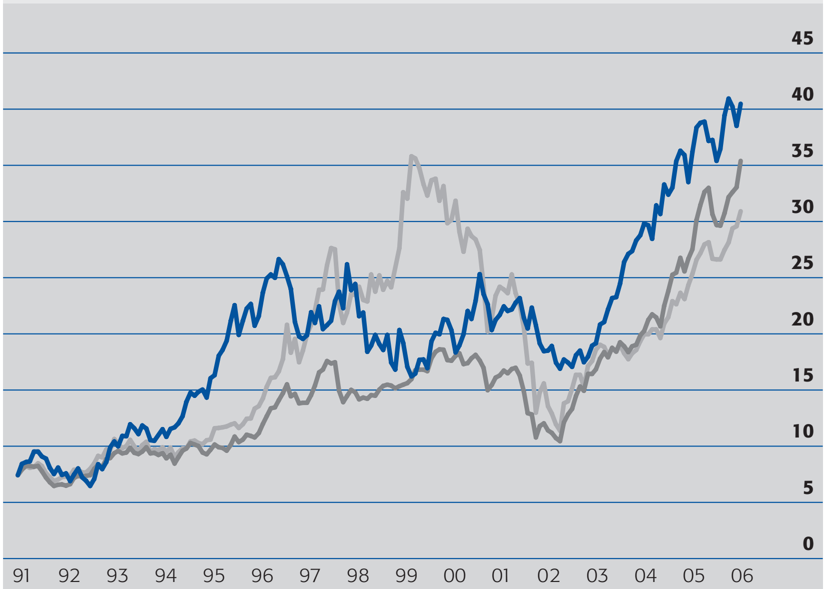
Celesio remains true to its dividend strategy with around 30 percent of the operational net profits due to be paid out. The shareholder shares in the good development of the operating business, allowing Celesio at the same time the necessary scope to invest in future growth.

All-time high for Celesio share

The positive figures are reflected in the share price. The stock markets recognise the consistent positive development of the company with new peak prices for the Celesio share. In October 2006 the Celesio share price reached its all-time peak of 42.77 euros*. The end of year price on 29 December 2006 was 40.64 euros. The share price was 11.9 percent* up on the closing price at the end of 2005.

* Adjusted to take account of share split 1:2
** Adjusted to take account of trade tax refund: In 2005 Celesio received a trade tax refund for the years 1996 to 2001. A special dividend was therefore paid out for the year 2005

Performance of Celesio shares
€



DAX-30* MDAX* Celesio shares
* Index-linked to Celesio shares

In 2006, market capitalisation topped 7 billion euros for the first time. On 29 December 2006, based on market capitalisation of the free-floating stock, Celesio ranked 38 on the DAX index.

Celesio Shares

High MDAX weighting

At the end of the year Celesio had a weighting of 3.41 percent in the MDAX, and is the eighth largest value according to the free-floating of stock. Celesio also increased its weighting in the MSCI Germany (Morgan Stanley Capital International) where it has a weighting of 0.48 percent. Celesio is also listed in the internationally significant sustainability index, the FTSE4Good Europe – evidence of the remarkable corporate social commitment shown by Celesio.

Celesio is attracting the attention of numerous analysts as an important listed security. 28 bank analysts published regular reports on Celesio in the 2006 fiscal year. This is clearly more than in the prior year, and is an unusually high figure for an MDAX value – a clear indication of the important position held by Celesio on the capital market.

Share split and registered share add to attractiveness

With the conversion to registered shares Celesio is able to communicate more quickly and directly with its shareholders. Invitations to the annual general meeting are easier to send, instructions from shareholders are simpler to receive. The conversion to registered shares was free of charge for the shareholders. There are no disadvantages trading with the shares compared with bearer shares.

The share split in the ratio 1:2 made the share more attractive in particular for private investors. Since the share split, the absolute price for a Celesio share is in line with the other MDAX-values. Positive though the rise in share price was last year, the high share price proved to be an initial psychological hurdle for some private investors. The registered shares now totalling 170.1 million are traded under the new ISIN DE000CLS1001 or WKN CLS 100 as previously on the stock exchange.

Broad shareholder structure – international interest in Celesio share increases

The largest shareholder with a majority share of 52.9 percent is Franz Haniel & Cie. GmbH. In addition around 25,000 Celesio shares are held by private investors. In 2006, a total of 81.3 million shares were traded which is 3.5 percent more than in the prior year.

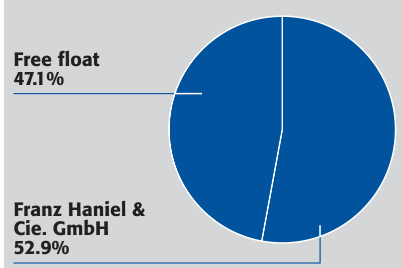
Outside Germany Celesio is also regarded as an attractive, consistently successful investment. British and US-American investors hold the majority of the free-floating stock, followed by German, Swiss and French investors.

This trend is supported and promoted at Celesio by the Investor Relations department (IR) with their extensive and open communications work. The aim is to improve appreciation of Celesio at international level. Liaising with existing contacts and building up new ones characterised therefore the principal activities of IR in 2006.

Celesio approached existing and potential investors across the globe last year. At 13 road shows in ten countries, including Austria and Luxembourg for the first time, and several conferences, management board and IR-employees conducted about 200 intensive individual talks and group discussions. On more than 30 occasions company management and IR experts travelled to meet current and potential investors. More than 30 international participants attended Celesio's annual analysts' and investors' conference in Amsterdam on 20 March 2006. At all the events there were informative discussions and explanations on business development, corporate strategy and future prospects.

This level of commitment is worthy of reward and in 2006 Celesio's IR work attained third place in the MDAX segment for the renowned IR-prize of the economics journal Capital. This marked the third time that Capital has acknowledged Celesio for its excellent IR work.

Shareholder structure



Celesio Shares

Direct channel to private investors

Direct exchange with private investors was also the focus of the communication work. Celesio introduced itself to several hundreds of interested private investors at events in Baden-Baden, Stuttgart and Munich together with associations for the protection of small shareholders and local banks.

Together with the share split and the conversion to registered shares, this information strategy underlines the fact that being attractive to private shareholders is important to Celesio, as long-term oriented private investors increase the stability of the share price.

Information at the click of a button

By visiting www.celesio.com any interested party or shareholder is given an extensive impression of the company. The detailed information provided ranges from recordings of telephone conferences and company presentations, reports and announcements of coming events to video recordings of the most important management board speeches. The website which has achieved excellent results in severals rankings, such as of IR Web Report, is very well received. In 2006 interested parties visited Celesio on the internet more than 2.3 million times. This corresponds to over 6,300 visits a day.

Celesio has set up an e-mail service for its shareholders, enabling Celesio to provide information more quickly and efficiently. Shareholders who register for the service will in future receive Celesio publications and information regarding the annual general meeting by e-mail. This service was very well received by shareholders.

Communication with outside lenders

Communication does not end on the shareholders' equity side. Celesio again provided the lending banks with comprehensive and up-to-date information in 2006. The International Bankers' Day, now in its fourth year, in Amsterdam was attended by about 60 bank representatives. The successful loan syndication this year demonstrates that Celesio enjoys the full confidence of the lenders, also on the part of the banks.

We have our sights set firmly on success: 20 record years in succession for revenue and pre-tax profit

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

Management Report for the Celesio Group and Celesio AG 2006

Pharmaceutical growth market

Corporate Strategy

Sustained success is only possible with a clear, convincing corporate strategy. Celesio focuses on the pharmaceutical market as a growth market, geographical and business diversification, external and internal growth, a forward-looking approach, and an efficient, motivated organisation.

Success through concentrating on the pharmaceutical market

The reason for growth lies in the nature of the pharmaceutical market: Very few markets have shown such persistent growth in recent years as the pharmaceutical market. Newly developed medicines improve the treatment of many diseases and people are living longer as a result. Elderly people need considerably more medicines than the young. Therefore, in the medium- and long-term the pharmaceutical market is likely to show stronger growth than the European economy as a whole.

Celesio is concentrating entirely on the pharmaceutical market. In this way Celesio is participating in the sustained growth of the market with its three business divisions. This focus has a further advantage in that Celesio operates in the market which it understands best. Celesio delivers medicines about 100,000 times each day to over 40,000 pharmacies. Every day over 500,000 customers are served in Celesio's own 2,100 pharmacies. Celesio Solutions, provider of services relating to medicines, has the world's ten largest pharmaceutical companies as its customers. The success of Celesio is based on its experience and expertise in the pharmaceutical market, acquired over many decades.

Corporate Strategy

Success through diversification

By concentrating on the pharmaceutical growth market, Celesio avoids dependencies and minimises individual risks. With three business divisions in 16 European countries Celesio has a broad foundation. The business divisions cover different stages in the value creation chain. The customer base ranges from pharmaceutical manufacturers, authorities and pharmacies to individual patients. Celesio operates in established markets such as Germany, France and the United Kingdom in addition to the growth markets in south-east Europe, and in areas and countries which are heavily regulated just as in liberalised markets.

Just how successful this group matrix of value creation chain and geographical presence is was evident in the last fiscal year. Celesio increased revenue and profit despite the fact that the two largest wholesale markets Germany and France were marked by massive government measures. In addition strong discount pressure also determined the competitive environment in Germany.

Success through acquisitions and integration

Celesio also grows as the result of acquisitions. They close geographical loopholes, give access to new markets and enable synergies. As a company experienced in acquisitions, Celesio is aware of the crucial points in the assessment, purchase and subsequent integration processes. Successful external expansion is the result of the correct choice, right approach, the convincing prospects and the proper integration of a company. If a market has a stable economy and political climate, it offers potential for a strong market position and the target company is transparent and convincing, Celesio takes every opportunity to strengthen the group through acquisitions and hence expand the foundation on which the financial success of Celesio is rooted.

This consistency pays off. The 110 Cohens and Scholes pharmacies acquired in the fourth quarter of 2005 have considerably strengthened Celesio Pharmacies. The new acquisitions of Celesio Wholesale are real assets: The Danish companies Max Jenne and K.V. Tjellesen have not only expanded the Wholesale business, but with the services division of K.V. Tjellesen, Movianto can now offer pharmaceutical manufacturers solutions for northern Europe.

Rapid, smooth integration is the key to the sustainability of any acquisition. To combine the strengths of the acquired company with those of Celesio, so that the total represents more than the mere sum of the parts, requires flair, experience and respect for the achievement of others. This is why Celesio preserves the cultural identity and the individuality of the new group member in as much as this is possible and practical. Only then will the employees identify with the group and only then will the customers transfer their trust to Celesio as the new owner.

Corporate Strategy

Success through inner strengths

Whether organically or through acquisitions: Celesio continuously develops its range of services. The new activities are not only a gain in themselves. In combination with other parts of the group they also provide new possibilities for established divisions. Projects for which different units work together transcending divisional or national borders are daily practice. What can I learn from my colleagues? How can we put together elements of experience and achievement to make an overall picture from which we can develop new business opportunities? The answers to such questions lead to solutions that make Celesio commercially more flexible and successful.

Expansion is only one way of adding value. Looking at what is available is just as important for Celesio. The company's own structures and processes are meticulously scrutinised. Improvements to cost structure and the internal processes are part of day-to-day business. For example, Celesio counters higher personnel expense by improving efficiency, without negatively affecting the high quality of performance. In this way Celesio is improving operational excellence and its financial result.

In France Celesio is continuing the restructuring programme of its branch network. Following this restructuring, the French Celesio Wholesale business will be more efficient and modern than it is currently. In this way it will be equipped to face the big challenges of the French pharmaceutical market.

Success through forward-looking activity

Markets permanently continue to develop. Celesio therefore asks itself the questions all the time: How can we adapt our positioning, our performance and structures, so that we not only maintain our position, but also improve on it? How can we gain competitive advantages? The answers can be found in particular in the intensive discussion with customers, business partners, authorities and decision-makers. Dialogue with all market participants is therefore a key element of entrepreneurial activity at Celesio.

The liberalisation of pharmaceutical markets as well as the eastern enlargement of the European Union open up new opportunities for growth. However, Celesio always checks very thoroughly that the political framework is right and the target market is likely to continue to be equally attractive economically following liberalisation. In the past, Celesio has quite deliberately not entered the market in many countries in eastern Europe. The markets were too immature, the socio-economic political environment too unstable. This has considerably improved in the meantime and the basic conditions will continue to develop positively. Eastern Europe is therefore becoming increasingly important for Celesio. Experience gained by Celesio in 16 markets allows a rapid analysis of the opportunities and risks.

An ear for the market, close to customers and decision makers, linking individual items of information to an overall strategic picture: this is how Celesio quickly identifies the needs of the market and with this knowledge develops new offers and services. Celesio can only be strengthened long-term by generating added value for customers and by elements that can be integrated into the structure of the group.

Corporate Strategy

Celesio Solutions for instance prepared itself in good time for the trend of pharmaceutical manufacturers to concentrate increasingly on their core areas of competence. Activities which are not part of core business are outsourced to external service providers specialising in these areas. These service providers must meet the high demands of the pharmaceutical industry, know the local markets and at the same time offer multinational solutions. For in this business pharmaceutical manufacturers only rarely recognise national frontiers. Celesio achieves precisely this with the business division Solutions. On the one hand the business unit Movianto offers pharmaceutical-specific transportation and logistics solutions at regional, national and multinational level with uniform quality standards. On the other, through the strategic alliance with pharmexx, Celesio is building a second pillar and supporting pharmaceutical manufacturers in many countries, including some outside Europe, with sales and marketing solutions.

The provision of services over and above the conventional dispensing of medicines is playing an increasingly important role in pharmacies. For example, since 2005 British pharmacies have been encouraged to offer a wider range of billable services. Lloydspharmacy, Celesio's British pharmacy chain, identified this development at an early stage and several years ago began to set up consultation areas in their pharmacies. These are used for confidential discussions on medication, the so-called Medicine Use Reviews, as well as for health tests such as blood pressure and blood sugar tests. With regular training sessions, the Lloydspharmacy pharmacists keep abreast of the most recent developments in the field of medicine. This customer-oriented profile is setting the standard. No other British pharmacy chain carried out more qualified consultations on medication than Lloydspharmacy in 2006.

Success through efficient and motivated organisation

Profitable growth requires the desire to grow, a customer-oriented philosophy and the desire for ongoing improvement of the company's activities. Celesio retains the courage to question its own performance, particularly after any improvements have been implemented.

This is only possible with an efficient, confident and motivated organisation. The group structure of Celesio promotes entrpreneurial flexibility and satisfaction in further development. With flat hierarchies, advanced training and education programmes and reward structures, which reward sustained profitable growth, Celesio creates incentives for future success. Flexibility does not stop with the management structure of the group: In December 2006 Celesio introduced new regional structures and an enlarged management board, the Group Executive committee. In the case of Celesio Wholesale and Celesio Pharmacies, individual countries were grouped into regions. Those responsible for the individual regions report to the relevant competent member of the management board and are members of the Group Executive Committee. This committee deals on a regular basis with business development, transdivisional topics, personnel matters, projects and planned acquisitions. The new structure secures the transfer of knowledge and cooperation transcending national and divisional frontiers.

The Celesio business model is not rigid. Just like the market, Celesio too changes its profile and offers new services for new demands. At heart Celesio remains true to itself: focussed on the pharmaceutical growth market, close to customers, entrepreneurial flexible and innovative, with a broad geographical basis.

Business Review

In 2006 Celesio demonstrated growth for the twentieth time in succession with revenue rising to 21.6 billion euros, 5.3 percent up on 2005. Pre-tax profit surpassed the prior year by 6.4 percent. Government measures particularly in the wholesales markets in Germany and France hampered growth. The figures are proof that Celesio deals with changed market conditions with entrepreneurial flexibility and is optimally positioned in the growing pharmaceutical market.

Acquisitions contribute to growth

In 2006 Celesio grew both organically and through acquisitions and strengthened its presence in Europe. The Danish companies, consolidated for the first time in the third quarter of 2006, contributed to this positive development. Celesio acquired 100 percent of the pharmaceutical wholesaler Max Jenne and the controlling majority in the pharmaceutical wholesaler and logistics service provider K.V. Tjellesen.

Celesio expanded its portfolio in the Pharmacies business division, with 77 pharmacies purchased or opened. The 110 Cohens and Scholes pharmacies acquired in Britain at the end of 2005 have been integrated, considerably strengthening the British pharmacy business. At the end of the 2006 fiscal year, Celesio was operating 2,100 pharmacies in seven European countries.

Celesio started a strategic co-operation with pharmexx, one of the world's leading provider of sales and marketing solutions for pharmaceutical manufacturers, and has underpinned it through a 30 percent holding. It is the basis for the second pillar of Celesio Solutions.

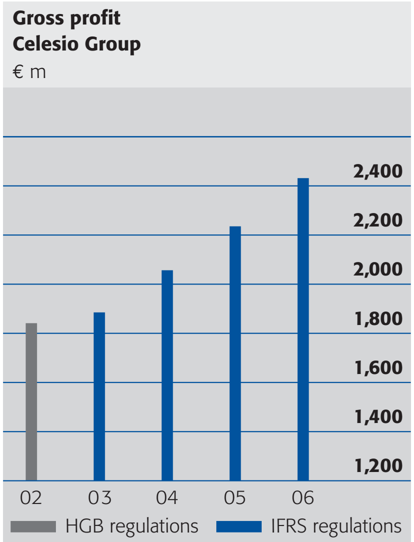
Celesio Group	2005		**2006**		Change in euros	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	20,491.1	100.00	**21,569.1**	**100.00**	5.3	5.1
Gross profit	2,235.5	10.91	**2,431.6**	**11.27**	8.8	8.6
EBITDA	745.9	3.64	**803.7**	**3.73**	7.8	7.6
EBIT	648.2	3.16	**685.8**	**3.18**	5.8	5.6
Profit before tax	554.5	2.71	**590.1**	**2.74**	6.4	6.3
Net profit	*386.0	*1.88	**425.6**	**1.97**	10.3	10.1
Cash flow	*491.9	–	**590.0**	**–**	20.0	19.8

* Adjusted for trade tax refund

Group revenue rose by 5.3 percent (5.1 percent in local currency) to 21,569.1 million euros. Adjusted to take account of acquisitions and disposals, revenue rose by 2.6 percent (2.4 percent in local currency). As a group operating at international level, Celesio predominantly generates its revenue outside Germany. Revenue in other countries in 2006 was 17,919.1 million euros – i.e. 83.1 percent of total revenue.

Government measures, in particular in the wholesale markets Germany, France and, from the fourth quarter, the United Kindom, dampened market and revenue growth. In addition, a one-off special payment of the Contribution Exceptionelle, the special tax for French pharmaceutical distributors, reduced revenue and pre-tax profit by 6.9 million euros.

Business Review



Gross profit margin improved

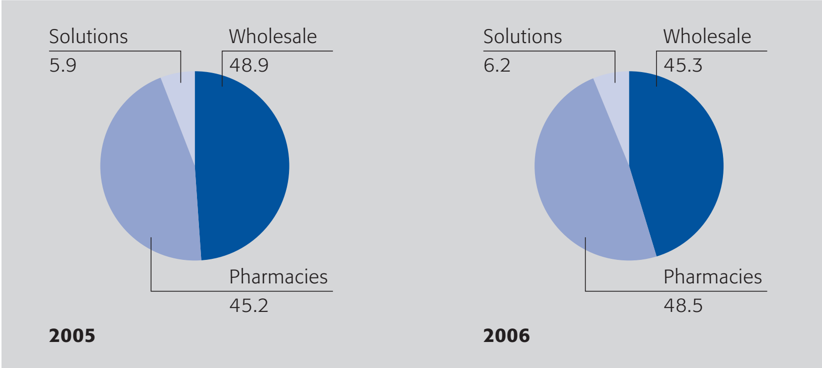
Gross profit rose by 8.8 percent (8.6 percent in local currency), reaching a new high of 2,431.6 million euros. The gross profit margin increased by 36 basis points to 11.27 percent. The pharmacy business in particular, which is more profitable than Wholesale, contributed to the positive development. Wholesale was under the strain of government measures and competition which was becoming increasingly irrational, particularly in Germany. The Celesio Solutions business division is increasing in importance: Its gross profit rose by 14.3 percent (14.1 percent in local currency) to 150.0 million euros, thereby also increasing its contribution to the group's gross profit margin.

Other expenses and income increased in comparison to the prior year. This is chiefly due to the fact that net expenses rose as the result of the inclusion of the expenses of the acquired companies. Healthcare Logistics and the 110 Cohens and Scholes pharmacies had only been consolidated pro rata temporis in 2005. Costs of 8.6 million euros related to the restructuring of the French wholesale branch network, started in 2006, also increased other expenses. Advertising subsidies and also income from data sales showed a slight increase. Building expenses increased as a result of acquisitions and higher rents in the Celesio Pharmacies business division. The rise in transportation expenses was primarily due to the first time consolidation of the Danish companies and the inclusion of Healthcare Logistics for the full year. Transportation expenses are only 0.7 percent of revenue.

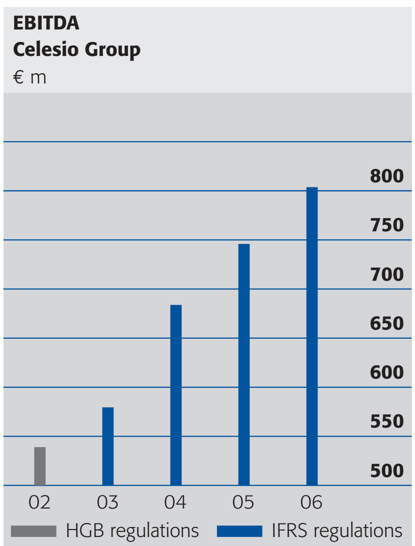
Due to the increased proportion of the personnel-intensive pharmacy business, personnel expenses rose ahead of revenue in 2006. Acquisitions were another reason for the higher personnel expenses.

Net income from investments showed a sharp increase, attributable for the major part to a special item: The vendor was given a purchase option for the holding in Andreae-Noris Zahn AG. This expired at the end of the year. The corresponding liability with a market value of 11.3 million euros was charged to income. In addition, net income from investments includes, in particular, the dividends from the holding in Andreae-Noris Zahn AG. Since the third quarter of 2006 this item has also included the pro rata profit of pharmexx.

Gross profit by business divisions
%



Business Review

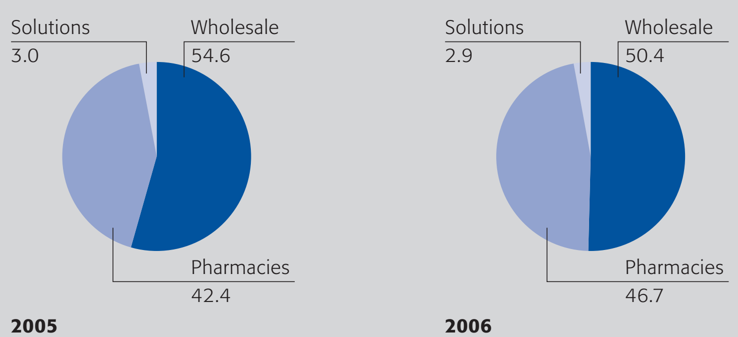


Celesio improved EBITDA, which expresses earnings before interest, taxes, depreciation, and amortisation, by 7.8 percent (7.6 percent in local currency) to 803.7 million euros. Based on EBITDA, return on sales was 3.73 percent, 9 basis points more than the prior year. The higher gross profit of Celesio Pharmacies in particular and also cost optimisation throughout the group have improved EBITDA. The Celesio Pharmacies business division increased its share of EBITDA from 42.4 percent to 46.7 percent without taking account of the Others segment.

The increase in depreciation and amortisation from 97.7 million euros to 117.9 million euros is mainly attributable to an unforeseen impairment loss of 16.2 million euros. This related to a software development project in the Wholesale division which was not continued. The acquisitions also increased depreciation and amortisation, as the accounting standard IFRS 3 requires as part of the first-time consolidation the identification of certain intangible assets and their amortisation in the subsequent periods. This amortisation, however, has no effect on the operational success and the underlying value of the acquired companies. In the operating business depreciation and amortisation, due to investments in the last few years, only increased slightly. Goodwill was shown to be recoverable in the annual impairment test; hence there was no reason to recognise an impairment loss.

EBITDA by business divisions*

%



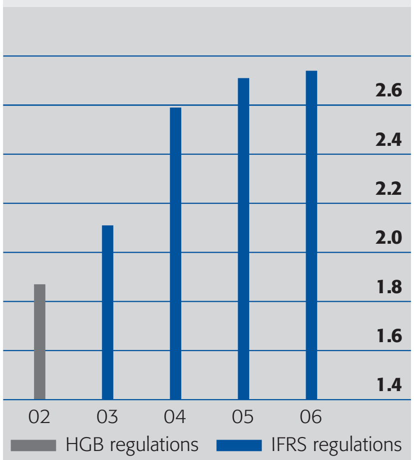
* Without Others segment

The interest result showed a slight fall from 93.7 million euros to 95.7 million euros in 2006. Interest expenses increased last year essentially due to the increase in interest rates. In addition the average level of debt increased slightly in 2006. The contrasting development of the other financial results is primarily due to the expiry of a cash flow hedge. Associated with this is the writing off of the relevant portions of other comprehensive income.

The interest coverage (EBIT compared to interest) rose as a result of the increased EBIT from 6.92 to 7.17. Profit before tax rose by 6.4 percent (6.3 percent in local currency), and hence ahead of revenue. Return on sales increased accordingly by 3 basis points to 2.74 percent. The profit from operations from the first-time consolidation of K.V. Tjellesen and Max Jenne, and from the first-time inclusion in net income from investments of pharmexx as of 1 July 2006, made a positive contribution to overall profit after financing costs.

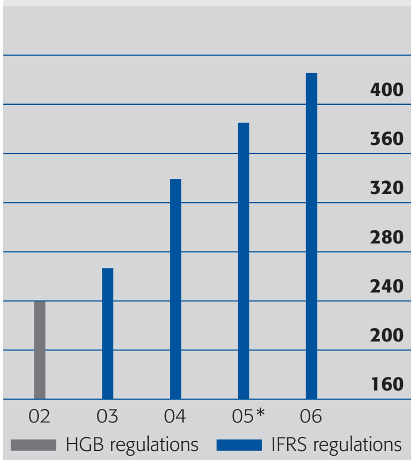
Business Review

Return on sales*
Celesio Group
%



* Based on profit before tax

Net profit
Celesio Group
€ m



* Adjusted for trade tax refund

Tax expense increased in 2006, lying 34.9 million euros (27.0 percent) above the value of the prior year. The tax ratio was 27.9 percent (previous year: 23.4 percent). It should be noted that in 2005 Celesio received a trade tax refund for the years 1996 to 2001. Adjusted to take account of this special item, tax expense decreased by 4.0 million euros to 164.5 million euros, and the tax ratio fell from 30.4 percent to 27.9 percent. This is attributable to the increased share of profit from abroad, tax cuts in several countries, higher tax effects unrelated to the accounting period and tax-free earnings. On the other hand, deferred tax expense increased due to differences in methodology and assessment between tax balance sheets and group balance sheets. The corresponding variations in temporal differences between tax balance sheets and group balance sheets caused the deferred tax assets to fall and the deferred tax liabilities to rise.

Net profit, adjusted to take account of the trade tax refund in 2005, rose over-proportionally in 2006 by 10.3 percent (10.1 percent in local currency) to 425.6 million euros. Earnings per share rose correspondingly by 0.25 euros to 2.49 euros per share*. Taking the trade tax refund into account, net profit for 2006 rose by 0.2 percent (0.0 percent in local currency) and earnings per share* by 0.6 percent (0.4 percent in local currency).

* Adjusted to take share split of 1 : 2 into account

Net profit includes the following special items impacting on profit before tax totalling 20.4 million euros: The one-off special payment of the Contribution Exceptionelle of 6.9 million euros, the expenditure involved in the restructuring of the French wholesale branch network of 8.6 million euros, proceeds from the expiry of the purchase option pertaining to Andreae-Noris Zahn AG of 11.3 million euros and impairment losses on a software development project of 16.2 million euros. Adjusted to take account of these items, profit before tax showed an increase of 10.1 percent (10.0 percent in local currency).

	2006 IFRS	**2006 *Pro forma**	Pro forma growth over 2005	
			in euros	in local currency
	€ m	**€ m**	%	%
EBITDA	803.7	**807.9**	8.3	8.1
EBIT	685.8	**706.2**	9.0	8.8
Profit before tax	590.1	**610.5**	10.1	10.0

* Adjusted for special items

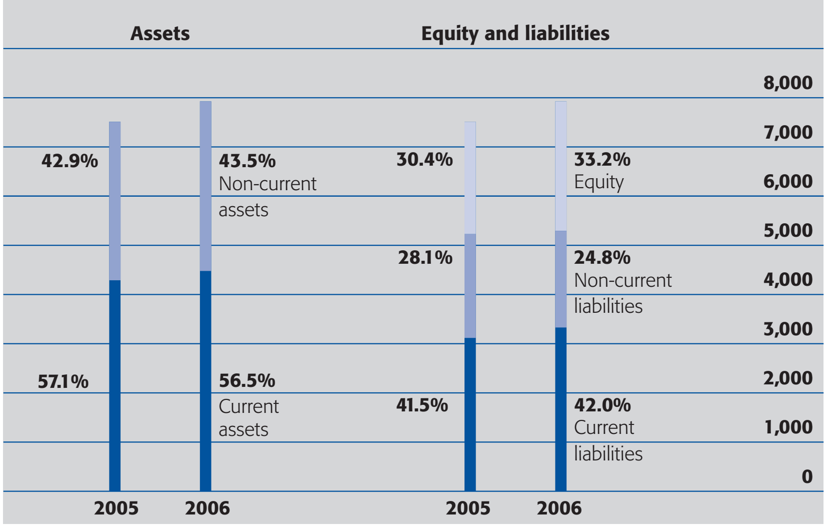
Business Review

Solid balance sheet ratios ensure financial scope

Celesio strengthened its balance sheet structure in 2006. As at 31 December 2006, the equity ratio increased, compared to the end of the prior year, from 30.4 percent to 33.2 percent. Gearing improved from 0.93 to 0.73. The good equity base but also the high stable cash flow guarantee Celesio the ability to finance further growth.

Total assets rose at the end of 2006 by 414.8 million euros. In particular the acquisitions of the last fiscal year contributed to this increase. In terms of the first-time consolidation of the acquired companies, total assets increased by 402.2 million euros. The change in the spot rate caused a rise of 65.4 million euros in total assets.

Structure of balance sheet
Celesio Group
€ m



Non-current assets increased by 221.7 million euros. This is mainly due to the increase of goodwill totalling 147.5 million euros. In addition, associates accounted for using the equity method rose as the result of the acquisition of the holding in pharmexx.

Alongside acquisitions, investment in existing business also contributed to the increase in property, plant and equipment, and this exceeded depreciation and disposals.

Again in 2006, the annual impairment test demonstrated that goodwill from Celesio's acquisitions were all recoverable.

Net current assets (current assets less liabilities excluding financial liabilities) showed a slight fall at the end of the year. The increase from acquisitions was offset by a decline in operating assets in existing business and a reporting date-related rise in trade payables.

At the end of the year current assets were 193.1 million euros up on the prior year. The additions from acquisitions totalling 246.7 million euros were offset by a reduction in inventories and trade receivables in existing business. As regards inventories, a lower increase in inventories at the year end compared to the prior year reduced current assets. Trade receivables were lower than the prior year, corresponding to the revenue development in December in Germany and France. By contrast, higher prepayments of tax and discount receivables from suppliers led to an increase in operating assets.

Business Review

Liabilities without the financial liabilities rose by 243.8 million euros. The first-time consolidations – for example of the Danish companies – led to an increase of 128.0 million euros. In addition to this a partial difference in the time for settling trade payables compared with the prior year caused operating liabilities to rise considerably. Pension provisions remained virtually the same as at the end of the prior year, being 1.8 percent of total assets. The decline in other liabilities is due mainly to a positive trend in the market value of cash flow hedge transactions. The other operating liabilities items remained largely at the level of the prior year.

Liabilities Celesio Group	2005 € m	**2006 € m**
Financial liabilities	2,068.9	**1,896.0**
Pension provisions	140.2	**139.5**
Trade payables	2,189.4	**2,447.4**
Other liabilities and provisions	829.0	**815.5**
Total	**5,227.5**	**5,298.4**

Shareholders' equity demonstrated a rise as at 31 December 2006 of 343.9 million euros to 2,628.1 million euros. The shareholders' equity ratio increased to 33.2 percent, having been 30.4 percent the prior year. Net profit of 425.6 million euros, less the dividend and payments to minority shareholders for the 2005 fiscal year totalling 120.3 million euros, contributed to the increase. The effects of the currency conversion at 16.1 million euros contributed to the increase in shareholders' equity. The increase in other comprehensive income of 13.5 million euros is essentially due to the positive trend in the market value of cash flow hedges. As a cash flow hedge expired, Celesio undertook a corresponding derecognition of reserves. There was a sharp increase in minority interests – minority shareholders of companies not wholly owned by Celesio. This is essentially due to the share in profit for the 2006 fiscal year and larger number of minority interests as the result of the purchase of the Danish company K.V. Tjellesen. Celesio holds the controlling majority in K.V. Tjellesen.

At the end of the year, financial liabilities were 172.9 million euros lower than at the end of the prior year. This was mainly due to the increase in cash flow and the positive development in net working capital. Financial liabilities taken on as part of acquisitions led to an increase. These totalled 117.3 million euros at the point of first-time consolidation.

By placing a syndicated credit line of 600 million euros on the market, Celesio partly replaced existing bilateral credit lines in mid-February 2006. The syndicated credit line was signed by all 20 banks that had been invited to participate. This is a clear illustration of the confidence in Celesio. The credit line can be used when required and enhances Celesio’s financing facilities.

Investing in the future

Celesio invested a total of 357.1 million euros in 2006, 206.1 million euros of which was invested in acquisitions and new openings. Investment in the operating business totalled 151.0 million euros. All in all, 98.2 million euros were invested in Celesio Wholesale, 203.0 million euros in the Pharmacies business division and 54.1 million euros in Solutions. Total investments in 2006 were 222.4 million euros down on the prior year.

In the Wholesale business, investment in the operating business increased slightly as the result of modernisation and construction of branches. By contrast, there was a sharp reduction in investment in acquisitions compared with the prior year. In 2005, Wholesale had entered the Slovenian market and strengthened business in Portugal with the acquisition of Soquifa-Medicamentos. In 2006, Celesio increased its presence in Europe with the acquisition of the Danish companies.

In the Pharmacies division, more was invested in the existing business and less in acquisitions in 2006. The number of pharmacies acquired decreased compared with the prior year from 163 to 63. Most of the acquisitions in the year 2005 are attributable to the 110 pharmacies from the Cohens and Scholes chain. Last year more pharmacies were refurbished and modernised than had been in 2005. Some pharmacies were relocated. Added to this IT systems were up-graded.

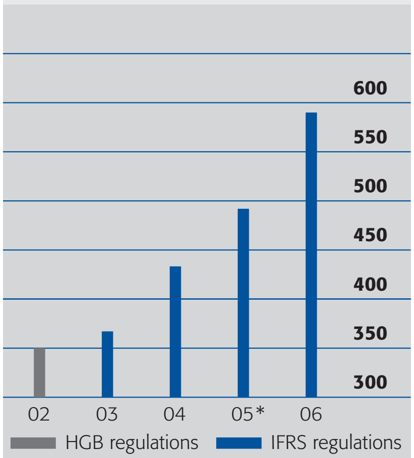
Business Review

As opposed to 2005 when more was invested in acquisitions, investements in Celesio Solutions in 2006 focused on the operating business, predominantly in the expansion of information technology.

Capital expenditures Celesio Group	2005 € m	**2006 € m**
Celesio Wholesale	110.5	**98.2**
Celesio Pharmacies	344.7	**203.0**
Celesio Solutions	118.0	**54.1**
Others	6.3	**1.8**
Total	**579.5**	**357.1**

Cash flow growth disproportionately high

Cash flow
Celesio Group
€ m



* Adjusted for trade tax refund

Celesio increased its cash flow to 590.0 million euros in 2006. Adjusted to take account of the trade tax refund for previous years from the second quarter of 2005, cash flow rose by 20.0 percent.

The disproportionately high increase of the adjusted cash flow is attributable inter alia to lower tax payments. Here the increased share of profit from abroad, tax cuts in several countries as well as higher tax effects unrelated to the accounting period and tax free income had an impact. At the same time in 2006 non-cash deferred tax expense increased due to the different approaches and assessment methods between tax balance sheets and group balance sheets. In addition other non-cash elements, such as depreciation on non-current assets, increased compared with the previous year.

Cash flow Celesio Group	*2005 € m	**2006 € m**
Cash flow	491.9	**590.0**
Dividends paid**	(103.3)	**(120.3)**
Cash flow after dividends paid	**388.6**	**469.7**
Proceeds from the disposal of non-current assets	31.7	**21.7**
Investments in the operating business	(117.7)	**(151.0)**
Free cash flow before acquisitions and change in net working capital	**302.6**	**340.4**
Change in net working capital	(70.0)	**143.1**
Acquisitions and new openings	(461.8)	**(206.1)**
Proceeds from the disposal of subsidiaries	11.2	**7.4**
Others	37.0	**2.7**
Free cash flow	**(181.0)**	**287.5**

* Adjusted for trade tax refund
** The dividend contains payments to minority shareholders of 1.2 million euros (prior year: 1.2 million euros)

The dividends for the 2005 fiscal year, all acquisitions and investments in the operating business were financed from cash flow. The free cash flow including the net cash flow from the reduction in net working capital and the financing of acquisitions totalled 287.5 million euros, having been minus 181.0 million euros* in 2005 due to the increase in net working capital and acquisitions. The portion of acquisitions, which was not yet cash-effective by 31 December 2006 is shown under Others.

* Adjusted to take account of the trade tax refund: In the second quarter of 2005 there had been a trade tax refund for the years 1996 to 2001

Business Review

Net working capital Celesio Group	31/12/2005 € m	**31/12/2006 € m**	**Change € m**
Inventories	1,639.4	1,645.9	6.5
Trade receivables	2,382.1	2,503.3	121.2
Trade payables	2,189.4	2,447.4	258.0
	1,832.1	**1,701.8**	**(130.3)**
Other operating assets	343.0	374.5	31.5
Other operating liabilities	897.8	914.3	16.5
Net working capital	**1,277.3**	**1,162.0**	**(115.3)**
Adjusted for non cash items			
Exchange rate effects			(6.5)
Change in the scope of consolidation			(113.3)
Other non cash items			92.0
Net cash flow from change in net working capital			**143.1**

Celesio AG financial statements

The financial statements of Celesio AG reflect its activity as an executive holding.

As at 31 December 2006 total assets increased by 93.5 million euros to 2,513.7 million euros. Shareholders' equity decreased slightly because the dividend for the 2005 fiscal year of 119.1 million euros exceeded net profit by 15.0 million euros. Shareholders' equity ratio experienced a slight decline to 67.3 percent (prior year: 70.5 percent). Non-current liabilities to banks and hence also total assets increased in particular as the result of financing the acquisitions of Max Jenne and K.V. Tjellesen, and the holding in pharmexx.

Net profit of Celesio AG sank compared with 2005 by 6.1 million euros to 104.1 million euros. Net profit consists essentially of the costs of the holding and investment earnings of subsidiaries and the interest result. The income from investments comprises the transfer of income from domestic and the distribution of dividends from foreign subsidiaries. This increased by 31.8 million euros to 136.4 million euros. The costs of holdings are essentially made up of personnel expenses and other expenses. Personnel expenses increased by 3.3 million euros, in particular as the result of the increase in the number of employees as a yearly average from 181 to 193. The other expenses and interest result did not differ greatly from the level of the prior year. The income tax expense in 2005 included the trade tax refund of 38.9 million euros and increased accordingly to minus 1.6 million euros in the year of reporting. Tax exemption on dividends from foreign subsidiaries also had an impact here.

Net profit and a withdrawal from revenue reserves produced profit available for distribution totalling 127.6 million euros. This profit available for distribution is to be proposed as a dividend and paid out.

Remuneration of the management board

The remuneration of the members of the management board is shown in the remuneration report. This is contained in the Corporate Governance section on pages 28 to 30 and forms a constituent part of the management report.

New record dividend

At this year's annual general meeting the Celesio management board and supervisory board are to propose a dividend of 0.75 euros per share for all full dividend-bearing 170.1 million no par value shares. As a result of the 1:2 share split carried out in 2006 the number of shares has doubled since the last dividend payment. The proposed dividend is 0.75 euros per share – a new record high. In the prior year a dividend, adjusted to take account of the share split 1:2, of 0.67 euros and also a special dividend of 0.03 euros per share due to the trade tax refund was paid. The dividend proposed for the 2006 fiscal year is therefore 11 percent up on the dividend and 7 percent up on the dividend including the special dividend from the prior year. All in all a total of 127.6 million euros are to be distributed. Celesio is therefore maintaining its dividend policy of many years and paying around 30 percent of the net profit of 425.6 million euros to its shareholders.

Events subsequent to the balance sheet date

There were no events to report subsequent to the balance sheet date.

Forecast

The pharmaceutical market will continue to grow throughout Europe in 2007. Celesio will participate in the growth of the entire market, as its three business divisions cover the full spectrum of pharmaceutical trade and pharmaceutical-related services. Government measures agreed upon in 2006 will dampen the development in individual markets. But with its geographical diversification, broad services portfolio and locations in close proximity to customers, Celesio is well positioned for sustained, successful development. Celesio will grow again in 2007 and increase profit.

Pharmaceutical market continues to grow

Demographers agree that the number of elderly people as a proportion of the total population will rise, and that the consumption of medicines will increase over-proportionately, as elderly people need considerably more medicines than younger people. There is no end in sight to this development. Medical and pharmacological innovations will increase life expectancy – and with it also the demand for medicines.

Celesio expects the pharmaceutical market in Europe to grow by some 5 percent in 2007 without taking account of government measures. Market growth will be stronger in Eastern Europe than Western Europe.

Government measures dampen market growth

The government measures earmarked back in 2006, in particular in Germany, France and the United Kingdom, will weaken market growth in 2007. For one thing, the effects of the Arzneimittelversorgungs-Wirtschaftlichkeitsgesetz [German Act on the cost-effectiveness of the supply of medicines], in force since May 2006, will impact on the whole year. On 1 April 2007 a new health reform is also to come into force in Germany. What this involves in concrete terms and how this will affect the market in detail, in particular the pharmaceutical market, remains unclear. The health reform is likely to impede growth in the German pharmaceutical market. In France there are plans for additional savings through price cuts and a reduction in reimbursement tariffs. In the United Kingdom the price cuts introduced in the fourth quarter of 2006 for generic products will take effect.

However, government measures are nothing new and nothing special in the pharmaceutical market. Celesio has a broad base, and counteracts negative effects in individual markets in other countries. With a presence in 16 countries and the activities of its three different business divisions, its strong customer-orientation and high degree of flexibility, Celesio is largely independent of individual products, individual customers and individual markets.

Wholesale grows in line with the market

Celesio Wholesale will face the challenges of government intervention in individual countries and unreasonable intense competition in Germany with interesting purchase conditions and an attractive range of services, as well as through improved operational processes and ongoing cost management. The extensive restructuring of the branch network will strengthen French Wholesale. The acquisitions of 2006 in Denmark have extended the geographical base of Celesio Wholesale and therefore strengthened it as a whole. The management board anticipates that Celesio Wholesale will grow organically in line with the comparable market in 2007.

Growth in Pharmacies ahead of the market

Celesio is well positioned in the Pharmacies division. Locations close to patients and the source of prescriptions as well as a market leading range of services make the Celesio pharmacies stand out. Lloydspharmacy in the United Kingdom has won several awards for its services. Pharmacy acquisitions and new openings will also strengthen the business division. All in all Celesio Pharmacies is expected to grow ahead of the comparable market.

Forecast

Positive development in Solutions

The European market for services concerning medicines is immature and fragmented. It therefore offers great medium- and long-term growth potential. Development in the Movianto business unit shows that Celesio Solutions is on track in utilising this potential in the right way. Celesio also sees positive growth opportunities in 2007. The introduction of the umbrella brand Movianto in 2006 was a further step towards a uniform European brand identity. Together with the expansion of the service range and warehousing capacity it creates a solid foundation for further growth. However, it is a characteristic of the Movianto business model that the contribution to profit is considerably more volatile than in the Wholesale and Pharmacies division. In the project and contract business the number of customers is smaller, but the individual volume of orders is considerably larger than in the other two business divisions.

The Celesio management board expects the strategic alliance with pharmexx to develop positively in 2007 by exploiting new business opportunities; pharmexx opens up new markets and the demand from pharmaceutical manufacturers for sales support will increase further. The cooperation between pharmexx and other Celesio divisions will enable pharmexx to offer particularly attractive services for the pharmaceutical industry. The anticipated positive development of pharmexx will also positively impact on the profit of Celesio Solutions.

Investments

In 2007, investment in the operating business is expected to amount to between 150 and 170 million euros. Alongside current replacement investment, the focus will be on the further optimisation of the Celesio Wholesale branch network and the strengthening of Celesio Pharmacies locations. IT investments will represent a further focal point in all business divisions.

Celesio will also continue to expand its Pharmacies business division with acquisitions and new openings in attractive locations. Acquisitions are less easy to plan for Celesio Wholesale and Celesio Solutions: Celesio examines all possibilities for expansion carefully and capitalises on them if the conditions are attractive.

Higher profit growth for the 2007 fiscal year

Celesio anticipates its revenue growth for 2007 to be generally ahead of market growth after government measures. The gross profit margin is to increase in comparison to the prior year. This is attributed in particular to the pharmacy business, where margins are higher than in wholesale, and the absolute contribution of Celesio Solutions. Both business divisions will increase in significance within the group. Operational profit (EBITDA) will rise ahead of profit before tax. This is partly due to the higher interest result and to the absence of the special items from the prior fiscal year.

The growth rates in terms of profit will be considerably lower in the first three quarters of 2007 than the growth rates for the whole of 2007. This is mainly because government measures were introduced in the United Kingdom in the fourth quarter of 2006, and the government measures in Germany did not impact until the second half of 2006. In addition, in the fourth quarter of 2007 the absence of the special items from 2006 will result in a disproportionately rise in profit. Taking the year 2007 as a whole, the increase in profit before tax is likely to exceed the growth rates of the prior year. Taking an average over several years, the Celesio management board confirms that it expects growth in profit before tax to be in double digits.

Participating in the company’s success long-term

Celesio will continue to give shareholders an adequate share of the company’s success. Accordingly, around 30 percent of the group profit will continue to be paid out as dividend in future.

Risk Management

Celesio identifies, analyses and utilises entrepreneurial opportunities. This is how value is created. At the same time Celesio calculates and checks for possible risks. In this way value is maintained.

Pharmaceutical market with opportunities, but also with risks

The pharmaceutical market is in motion. This creates business opportunities which Celesio utilises. Entrepreneurial action is an essential part of the ethos and success of Celesio. But it is also important to keep an eye on the risks at all times. Risk analysis and risk management are therefore an integral component of Celesio's business activities.

The pharmaceutical market has always been subjected to government regulation. Government measures are therefore expected risks especially in the Wholesale and Pharmacies business divisions.

In order to minimise risks from government measures, in recent years Celesio greatly diversified its activities – both in geographical and functional terms: The company operates in 16 countries with three business divisions. Negative changes in an individual country can be compensated for – at least in part – groupwide by positive developments in other markets. Furthermore, the three business divisions Wholesale, Pharmacies and Solutions operate in areas with different degrees of regulation.

Cross-cutting issue Risk Management

Risk management at Celesio is not the responsibility of one individual or isolated department. Risk identification and control are part of the corporate culture. Therefore, risks are monitored and evaluated by those best able to do so: the experts in the individual segments and specialist areas. A risk management manual defines how risks are recorded and classified regularly. The Corporate Audit and Consulting Services department coordinates and assesses this work centrally. With this approach risks are highlighted systematically and can be assessed and addressed by the competent decision-makers.

In order to identify longer-term risks, Celesio carries out a half-yearly risk inventory, where specific individual risks are recorded, evaluated and classified by the respective national companies and departments. Other measures are also taken to minimise risks. All the relevant data for the risk inventory are compiled centrally, checked for plausibility and promptly reported to the management board.

Furthermore the management board is also always informed of any risks outside the regular risk inventories. A multi-stage reporting system ensures communication concerning business development and any risks occurring in the short-term which are identified anywhere in the group.

Binding code of conduct for all employees

Celesio has agreed a code of conduct which embodies the most important values of the company. Celesio demands integrity, honesty and fairness of its employees. It goes without saying that the staff are committed to observe the laws and regulations of the countries in which they work. Celesio reviews the code on a regular basis and adapts it whenever necessary. With the code, Celesio's employees also commit themselves to resist any form of unfair competition, corruption and deception vis-à-vis business partners and investors.

Risk Management

Successful acquisitions thanks to careful audit

Acquisitions are an important element of the internationalisation and diversification strategy of Celesio. In order to exclude unforeseen additional expansion-related risks, all acquisitions and investment projects are critically audited prior to concluding. Even before the due diligence, comprising the legal, financial and technical areas, the market conditions and the target's own investment assumptions are carefully examined and scrutinised. For smaller investments and acquisitions, for instance the takeover of an individual pharmacy, there are clearly defined audit criteria. With these the purchase can be carried out locally. The defined audit process also ensures maximum transparency. More complex acquisition projects are prepared by the group's Mergers & Acquisitions department working closely with the specialist departments. The management board and where necessary the supervisory board make a decision on the project. With this careful auditing and approval procedure Celesio remains commercially flexible, utilising local expertise, but not taking any unnecessary risks.

Derivatives for hedging purposes

The business of an international, growth-oriented company like Celesio is affected by interest and currency risks. As cross-border trade at Celesio is limited, risk arising from cross-currency transactions is low.

Celesio reduces currency and interest risks considerably through the use of derivative financial instruments. Derivative financial instruments are never used for speculation. They are used exclusively for hedging current risks. Uniform guidelines regulate the use of derivatives and trading, administration and accounting are clearly separated from one another. Only a few specially trained and experienced employees are authorised to enter into derivative financial instruments for selected banks with good credit rating. Celesio continually monitors strict observance of the guidelines.

Providing liquidity

Liquidity management is performed by means of rolling liquidity planning and by taking existing credit lines into consideration. The Celesio Group has a considerable amount of long-term, confirmed, unutilised credit lines and bank guarantees which it can make use of at any time. Liquidity is consequently ensured all the time.

Minimising loss of receivables outstanding

For Celesio the risk of loss of receivables outstanding is small, thanks to the structure of its customer base. The respective healthcare system authorities are normally financially very reliable. In addition, there is no significant concentration of risks due to the large number of business relations. The remaining risks of non-payment are minimised by means of strict credit management. This includes credit assessments, the establishing of credit limits and ongoing monitoring of payment behaviour.

Ensuring smooth-running operations

A smooth-running business is crucial to Celesio, which is why the company invests continually in protection against any risks with the potential to interfere with day-to-day business. A team of IT specialists concentrates solely on the security of the information technology, ensuring that the local and group safety regulations are adhered to. Celesio updates the IT and carries out security checks on a regular basis. Celesio guards against emergencies. However, adequate arrangements are in place in the event that problems might arise. Established emergency plans ensure maintenance of business operations and hence also the supply of medicines.

No legal risks

Neither Celesio AG nor any of its subsidiaries are currently involved in, or – to the best of our today's knowledge – facing any legal proceedings which might have any substantial effect on the assets, financial position and results of operation.

Overall risk

The systems for early identification of risks which might pose a threat to survival have been checked by the auditor as part of the audit of the financial statements.

From today's perspective, no risks have been identified which might pose a threat to the survival of the group.

Corporate Social Responsibility

Health is the most valuable commodity. Every day Celesio is concerned with people's health at international, national and regional level. For corporate responsibility also in social matters is part of Celesio's identity. In 2006 Celesio expanded its activities.

Celesio is committed to people's health

People's health is the focus of Celesio's entrepreneurial business activities. Each day Celesio does its utmost to ensure that medicines are delivered quickly and reliably.

Celesio makes its living from the healthcare needs of people. As a company operating in the pharmaceutical market, it is therefore natural for Celesio to get involved in people's health beyond day-to-day business. Whether near or far – Celesio contributes directly or by supporting aid organisations to giving the sick the opportunity to live a healthy or at least a better life.

Celesio and the aid organisation Doctors for Developing Countries

An important element of Celesio's social commitment is the partnership with Doctors for Developing Countries. Since 2004 Celesio has been supporting this aid organisation in its work in the poor regions of the world. Since its foundation in 1983 over 2,100 doctors have worked on a voluntary basis on more than 3,800 assignments in Africa, South America and Asia. Every day the doctors treat over 3,000 people, some seriously ill, who would otherwise have no hope of receiving medical care. In 2006 Celesio supported Doctors for Developing Countries not only financially, but also by bringing its entrepreneurial professionalism to the partnership. Celesio employees have supported the aid organisation with their personal commitment. For example, they developed a new, professional homepage for Doctors for Developing Countries – an important prerequisite for an efficient approach to fundraising in terms of both cost and labour.

Help for children with tuberculosis

Celesio also supports Doctors for Developing Countries with specific aid projects. In 2007 the Puspa Celesio Children's Tuberculosis Clinic is to be opened in Calcutta, India. Tuberculosis is one of the most common diseases in the slums of India's cities. But the facilities for effective in-patient treatment in particular for children are very limited. What is more, children are excluded from the meagre government aid for tuberculosis treatments, often resulting in re-infections within the family.

Celesio finances the medical equipment of the clinic. Celesio employees additionally raised over 17,000 euros in 2006 for this.

Corporate Social Responsibility

Commitment to improved drug safety

Celesio intends to combat counterfeit drugs even more effectively by means of a new industrial standard for the pharmaceutical trade. The aim is to develop an international industrial standard, in collaboration with the pharmaceutical industry, to guarantee maximum security and transparency in the delivery of drugs from the manufacturer to the patient.

Celesio is committed to improving drug safety also beyond normal day-to-day business, in particular in the work of the medical staff working for Doctors for Developing Countries. The doctors working in the slums are responsible locally for obtaining medicines. It is not unusual for medicines obtained locally to be faked and therefore to be partially or totally ineffective. Celesio has provided mini-labs with which Celesio pharmacists test the medicines for efficacy on site. Celesio will continue this important work in 2007.

Commitment to prevention and early detection

In the places where Celesio operates, it is not so much acute emergency provision that is required, but instead preventative healthcare and early detection of disease which are all the more important. Continuity and expansion of numerous activities in this area are what constituted Celesio's commitment in 2006. The successful diabetes tests in recent years in the United Kingdom and Ireland were continued with more than a million tests being completed for diabetes free of charge. Lloydspharmacy, Celesio's British pharmacy chain, received awards for this commitment, amongst them the Corporate Responsibility Award. The outstanding dedication to asthma sufferers was also rewarded with Lloydspharmacy receiving the acclaimed Pharmaceutical Care Award.

Health in-house

Healthy employees are of crucial importance to the success of a company. For this reason Celesio also promotes health within the company. For example Celesio supports its employees in sporting activities. Competitions and prizes have motivated staff to take part in sports and so improve their fitness. Programmes to help people stop smoking and no-smoking cafeterias discourage smoking within the company.

Numerous activities, a single objective: To improve people’s health

However varied the individual facets of Celesio’s social commitment might be, they are all underpinned by a common denominator: Celesio puts people’s health first and foremost, and supports it long term with money, expertise and personal dedication of the employees.

Employees

It is thanks to the crucial contribution of Celesio's staff that profitable growth in the company's core business has been constant for the last twenty years. With education and training programmes, interesting incentive structures and international development opportunities, Celesio continued to be an attractive employer for its highly motivated employees in 2006.

International employee structure

As at 31 December 2006, Celesio employed a total of 36,442 members of staff. This is 2.9 percent more than in the prior year. The increase was in particular the result of acquisitions. In Wholesale the number of employees declined by 0.5 percent and in the Pharmacies business division there were 4.9 percent more employees. The Solutions business division, had 9.9 percent more employees than in 2005. Celesio operates in 16 countries. Consequently, 92 percent of all employees work outside Germany.

Corporate strategy cemented with employees

Celesio's business activity does not end at the national boundary and personnel development is equally international for that reason. Uniform guidelines set out the most important goals for the entire group, but in spite of this standardisation, there is sufficient country-specific freedom to guarantee entrepreneurial commitment and flexibility. This benefits the entire group: international project teams exchange experiences of regional characteristics – learning from the best is daily practice at Celesio. New principles towards which the entire company is geared can originate from the best local solutions. Celesio improves on what it learns constantly through exchange and openness.

Human resources takes the maxim of Celesio into all areas of the company: people's health is the focus of our entrepreneurial business activities. At informative events and in working parties the corporate strategy is conveyed to our employees. Through tailor-made training, they are given the tools to drive Celesio forward.

A motivating working climate

Dialogue-oriented communication, transdivisional transfer of knowledge and the building up and maintenance of networks is all in a day's work at Celesio. For this our employees use, amongst other things, electronic and printed media, such as the intranet as well as group and regional staff magazines. New employees at Celesio are integrated into the Celesio Group from the first day. The so-called Newcomers Day not only helps them learn about all the essentials concerning Celesio but also provides an initial opportunity to make contacts across the whole group.

Individual development at the forefront

Competent employees want to develop. With training and incentives, international career opportunities and team training sessions, Celesio offers its employees a wealth of prospects. Employees with management potential are encouraged through staff development programmes, including the General Management Programme and the Executive Management Programme, preparing them in good time for the demands of Celesio. These programmes underpin team spirit, being based on teamwork – an important prerequisite for international cooperation within the group.

Staff appraisals have a key role at Celesio and are based on standardised specifications. An integral part of this is always a precise analysis of the employee's individual abilities and the planning of further career moves and possible succession. Using these standards, the performance of employees can be compared across the board. Potential can be identified at an early stage and managerial and key positions filled internationally by those employees best suited to them. Celesio supports its own human resources with an international personnel information system and an intranet job market. Internationality and the promotion of the best are not empty words for Celesio. In 2006 there were people from 18 different nations working at the group head office in Stuttgart. Vacant managerial positions are ideally filled internally.

Employees

As an attractive employer, Celesio not only offers interesting tasks and appealing prospects, but also a flat hierarchical structure. Short decision-making paths encourage employees to work on their own initiative and responsibility, allowing entrepreneurial-minded action among all employees.

Celesio motivates high performing management with an attractive financial remunerative structure. The standardised benchmarks introduced in 2005 for managerial staff for performance-based and fair reward combine personal and strategic targets.

Early contact with potential employees

For a growing company like Celesio, contact with potential new employees is particularly important. In order to find and win over young talent, Celesio presents itself as an exciting employer at trade fairs and events. From an early stage, graduates, subject specialists, trainees and students come to see Celesio as an attractive employer in its field. Celesio staff speak at university lectures, exhibit at trade fairs or exchange ideas with academics in advisory councils.

Independent awards have confirmed that staff at Celesio have an interesting working environment, advanced vocational training opportunities and attractive remuneration structures. Unicarepharmacy in Ireland, for instance, received the Proshare Association Award for the introduction of the Care motivation and bonus programme.

Dependence Report

The major shareholder of Celesio AG is Franz Haniel & Cie. GmbH, Duisburg. We have therefore drawn up the necessary report pursuant to § 312 of the Aktiengesetz [German Stock Corporation Act] regarding 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 when the transactions took place.

Mandatory information and notes by the management board

to the details as specified in §§ 289 para. 4, 315 para. 4 Handelsgesetzbuch [German Commercial Code] and § 120 para. 3 Aktiengesetz [German Stock Corporation Act]

On 13 July 2006 the Übernahmerichtlinie-Umsetzungsgesetz [Law Implementing the Take-overs Directive] came into force. It contains inter alia new regulations which must be observed in connection with drawing up financial statements. The §§ 289 para. 4 and 315 para. 4 Handelsgesetzbuch [German Commercial Code], new version, require additional information in the management report and group management report on certain features of the capital and shareholder structure, and also on certain arrangements which might be of significance in a take-over situation.

1. The share capital amounts to 217,728,000 euros and is divided into 170,100,000 individual registered shares (non-par shares). The proportionate nominal value per share is therefore 1.28 euros.

2. Each share in Celesio AG is given one vote. There are no shares with multiple voting rights or preferential voting rights or maximum voting rights. There are neither any limitations of voting rights arising from shares nor is Celesio aware of any limitations on the transferability of shares.

3. The current shareholding of Franz Haniel & Cie. GmbH, Duisburg was 52.9 percent at the end of the year of reporting. No other shareholding of a direct or indirect nature in the capital of Celesio AG has a magnitude of more than 10 percent.

4. There are no holders of shares with special rights.

5. Employees with shares in the capital of the company may exercise their control rights directly themselves.

6. Members of the management board are appointed by the supervisory board for a maximum tenure of five years. Re-appointment or extension to the term of office, for a maximum of five years in each case, is permitted. Re-appointment or extension to the term of office requires a new decision by the supervisory board, which may only be made at the earliest one year prior to expiry of the previous term of office.

   In the event of the death of a member of the management board, or if they leave the board due to their appointment being revoked or through resignation from office, in such urgent cases, the court must appoint a member at the request of one of the parties involved, if the absent member of the management board is required for a representation or management measure.

   The supervisory board may revoke the appointment of a member of the management board and the nomination as chairman of the management board for good cause. Good cause is constituted notably by gross negligence of duty, incapability to exercise proper management or a vote of no confidence at an annual general meeting, unless the vote of no confidence was on evidently unjustified grounds.

   Any amendment of the articles of association requires a resolution by the annual general meeting. For such a resolution, a majority of at least three quarters of the share capital represented at the time of the resolution is required.

   The supervisory board shall only be empowered to make amendments to the articles of association to the extent that they merely affect the wording of the same and do not bring about any changes to content. For this resolution a majority of the votes cast shall suffice.

Mandatory information and notes by the management board
to the details as specified in §§ 289 para. 4, 315 para. 4 Handelsgesetzbuch [German Commercial Code] and § 120 para. 3 Aktiengesetz [German Stock Corporation Act]

7. The management board is authorised to increase the share capital up until 7 May 2007 with the consent of the supervisory board by issuing new registered shares against cash contributions on one or more occasions by a maximum of 43,545,600 euros (authorised capital). In this respect the shareholders shall be granted a subscription right; the management board is however authorised to exempt fractional amounts from the subscription right of the shareholders with the consent of the supervisory board. In accordance with § 186, paragraph 5 of the Aktiengesetz [German Stock Corporation Act], the new shares may also be acquired by a credit institution provided they are offered to the shareholders for purchase.

   The management board is authorised, with the agreement of the supervisory board, to define more precise details of the capital increase and its execution, in particular the content of the share rights and the conditions governing the issue of shares.

   In the event that the share capital is increased, the distribution of profits may be determined in derogation of § 60 of the Aktiengesetz [German Stock Corporation Act]. Any entitlement of the shareholders to securitise their shares is excluded. The management board is entitled to issue share certificates for several shares (multiple share certificates); the form and content of the share certificates as well as the dividend and renewal certificates shall be determined by the management board, with the agreement of the supervisory board.

   The company may acquire its own shares with the intention of offering them as part of the employee share programme to persons who are or have been employed by the company or an affiliated company.

   Furthermore, the management board possesses no further powers for the issue or buy-back of shares relevant to takeover proceedings.

8. There are no substantial agreements by Celesio AG which are conditional upon a change in control as the result of a takeover bid.

9. At Celesio there are no arrangements in place with members of the management board or employees for compensation in the event of a takeover offer.

The management board has considered the mandatory information pursuant to §§ 289 para. 4, 315 para. 4 Handelsgesetzbuch [German Commercial Code] and § 120 para. 3 Aktiengesetz [German Stock Corporation Act]. It confirms the rules in place at Celesio and sees no reason for any change. The mandatory information relating to features of the capital and shareholder structure reflect the current content of the Celesio AG articles of association.

We bring medicines to pharmacies about 100,000 times every day

Countries	Revenue 2005 € m	**Revenue 2006 € m**	Revenue Change in euros %	Revenue Change in local currency %	Number of branches 2006	Number of employees 2006
France	7,150.4	**7,039.9**	(1.5)	(1.5)	52	4,664
Germany	3,638.2	**3,632.5**	(0.2)	(0.2)	19	2,502
United Kingdom	3,193.5	**3,455.0**	8.2	7.9	19	3,912
Austria	855.3	**906.5**	6.0	6.0	7	787
Portugal	478.1	**476.9**	(0.2)	(0.2)	9	297
Norway	407.4	**442.3**	8.6	9.1	4	445
Belgium	392.4	**384.9**	(1.9)	(1.9)	5	301
Slovenia*	291.8	**315.6**	8.2	7.7	9	543
Ireland	255.4	**299.2**	17.1	17.1	3	244
Denmark	–	**198.1**	–	–	4	263
Czech Republic	161.6	**186.1**	15.2	9.7	3	217
Italy	122.4	**127.6**	4.3	4.3	1	150
Total	**16,946.5**	**17,464.6**	**3.1**	**3.0**	**135**	**14,325**

* Including the subsidiaries in Croatia and Romania

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

Celesio Wholesale

Celesio Wholesale puts the needs of its customers first and foremost, and offers services which create value for pharmacies. Pharmacies are supplied with all they need quickly and safely, regardless of their location or the frequency of demand for the medicines. The services which strengthen the pharmacies make the range of services offered by Celesio Wholesale particularly attractive.

Wholesale grows in line with comparable market

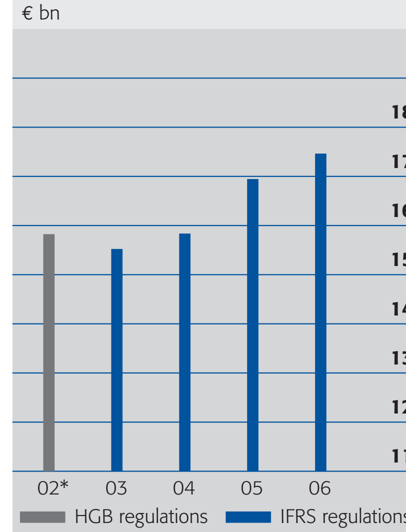
In 2006 Celesio Wholesale increased revenue by 3.1 percent (3.0 percent in local currency) to 17,464.6 million euros, representing growth that was in line with the comparable market. Government measures in France and Germany as well as in the United Kingdom from the fourth quarter considerably dampened growth in the largest markets in this field and consequently also the revenue growth of Celesio Wholesale. The Danish companies Max Jenne and K.V. Tjellesen have been consolidated since the third quarter of 2006 and have contributed to growth. Adjusted to take account of acquisitions, Wholesale improved revenue by 1.9 percent (1.8 percent in local currency).

Development of Celesio's British wholesaler AAH was very positive compared with the prior year with revenue increasing by 8.2 percent (7.9 percent in local currency). This growth was in part due to the basic effect, as government measures had seriously hampered market growth in 2005. In 2006 AAH also gained several new customers and was also able to share the strong growth of its existing customers. AAH grew ahead of the comparable market in the generic products segment.

In Austria Celesio Wholesale, as market leader, showed growth, after government measures had negatively impacted on growth in 2005.

In Norway and Ireland the revenue of Celesio Wholesale grew in particular in business with hospitals. In Slovenia, Celesio grew alongside the market and maintained its leading position.

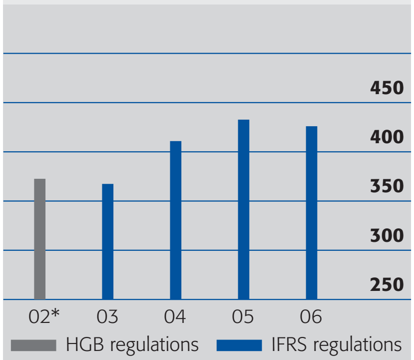
Revenue
Celesio Wholesale
€ bn



* Including Solutions business division

Celesio Wholesale

EBITDA
Celesio Wholesale
€ m



* Including Solutions business division

Gross profit of Celesio Wholesale rose in 2006 by 0.7 percent (0.6 percent in local currency) compared with the prior year to 1,102.5 million euros. Growth was not as strong as that of revenue. The gross profit margin sank by 15 basis points to 6.31 percent. Intense competition in Germany and pressure on the margin in the United Kingdom are the most significant causes for this decline.

EBITDA, which measures earnings before interest, tax, depreciation, and amortisation, declined in comparison to 2005 by 1.6 percent (1.6 percent in local currency) to 426.0 million euros. The following special items are included: 8.6 million euros for the restructering of the French Wholesale branch network, started in 2006, and a one-off payment of the Contribution Exceptionelle, the special tax for French pharmaceutical distributors, in the sum of 6.9 million euros. At 333.8 million euros, profit before tax decreased slightly compared to the prior year. Return on sales, based on pre-tax profit, fell by 19 basis points to 1.91 percent. The pre-tax profit includes, alongside the restructering and the special tax, an impairment loss of 16.2 million euros for a software development project which was not continued.

Counter-measures in the partially difficult market environment

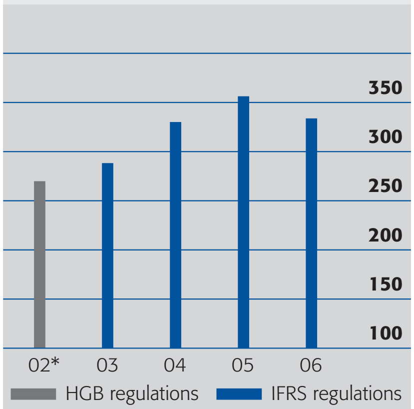
The last fiscal year was characterised by government measures in various individual markets, in particular in the two large markets of France and Germany. Government regulation is customary in the pharmaceutical market; Celesio is able to counteract this intervention through its geographically broad base, increasing level of productivity, entrepreneurial flexibility and proximity to customers. Celesio expanded its range of services, offered its customers attractive purchase conditions, modernised and streamlined its branch network and reduced costs. It was not possible to fully compensate for the negative effects of government intervention because in Germany, for instance, it was accompanied by unreasonably intense discount and price competition.

In France, several economy measures came into force in 2006. The prices of certain groups of active ingredients were reduced by 15 to 25 percent. Certain medicines are only partly reimbursed or not at all. In mid November 2006, it was also resolved to introduce a one-off additional payment as an element of the Contribution Exceptionelle, the special tax for pharmaceutical distributors. Some 35 million euros were to be raised by this means. Celesio's share of this was 6.9 million euros.

The Arzneimittelversorgungs-Wirtschaftlichkeitsgesetz [AVWG: Act on the cost-effectiveness of the supply of medicines] came into force on 1 May 2006 in Germany. The AVWG prohibits rebates in kind and a merit pricing system for doctors is to regulate prescribing behaviour more stringently. It also includes lower ceilings for fixed prices of medicines and a price moratorium for reimbursable medicines. All these measures had a direct negative impact on market growth in Germany. Some manufacturers of generic medicines have reduced their prices considerably as a reaction to the AVWG. A new health reform, expected to come into force on 1 April 2007 in Germany, will bring in further regulatory measures. The discussion on this reform is causing uncertainty amongst all market participants and has also already negatively impacted on the German market in 2006.

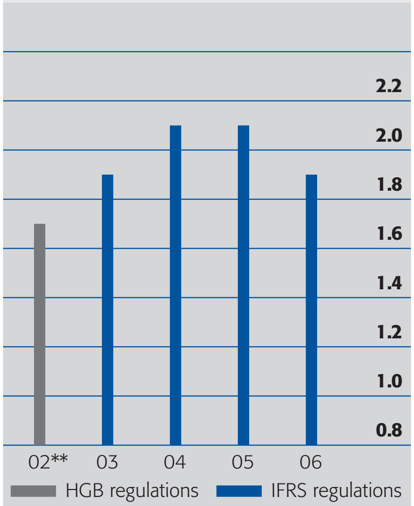
At the beginning of 2007 the graduated pricing model in Norway was extended. The graduated pricing system has led since January 2005 to set price reductions at regular intervals for selected generic ingredients. The price of generic products were cut in the United Kingdom in the fourth quarter of 2006. In Italy there were several price cuts for prescription medicines in the last fiscal year. In Ireland it was decided to introduce a two-stage reduction in the price of generic products; the first reduction is applicable as of March 2007, the second as of January 2009.

Profit before tax
Celesio Wholesale
€ m



* Including Solutions business division

Return on sales*
Celesio Wholesale
%



* Based on profit before tax
** Including Solutions business division

Celesio Wholesale

Creating more value for customers

Customers have clear priorities: They opt for the provider who offers them the greatest benefit and the best value. Pharmacies are no different. It is for this reason that Celesio Wholesale is continuously working on improving the quality and breadth of services for its customers.

Reliable, quick and punctual delivery, comprehensive range of products and high degree of flexibility are a matter of course for Celesio. Staff are sensitised to customers' needs on a regular basis and trained in service quality. Celesio Wholesale offers additional services, over and above delivery itself, which strengthen the pharmacies and make their work easier. The specially developed customer loyalty models are particularly successful, enhancing cooperation between manufacturers, wholesalers and pharmacies as well as the competitive positioning of owner-managed pharmacies. These customer loyalty models were further developed in many countries in 2006. As an example, there are already more than 2,800 pharmacies participating in the Commitment programme of Celesio's German wholesaler GEHE Pharma Handel. As part of this programme GEHE Pharma Handel developed the quality symbol 'gesund leben' [live healthily] and in the middle of the year introduced a new range of own brands under this brand name. The product range that consisted of around 100 products at the end of the year, offers high quality products at favourable prices.

With its Evolutiv programme OCP, Celesio's French wholesaler, offers good purchasing conditions for generic products that are in demand. The range includes almost 130 generic products. With its Exostiv service, OCP guarantees its customers speedy delivery of medicines that are less common and not so much in demand.

In the middle of 2006, Celesio Wholesale in Ireland launched its purchasing association Connect. This combines the demand of a number of pharmacies in order to generate purchasing advantages. 126 pharmacies are already taking part in the programme.

Celesio Wholesale	2005		2006		Change in euros	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	16,946.5	100.00	**17,464.6**	**100.00**	3.1	3.0
Gross profit	1,094.7	6.46	**1,102.5**	**6.31**	0.7	0.6
EBITDA	432.7	2.55	**426.0**	**2.44**	(1.6)	(1.6)
EBIT	381.8	2.25	**359.1**	**2.06**	(5.9)	(6.0)
Profit before tax	356.3	2.10	**333.8**	**1.91**	(6.3)	(6.4)

Improved branch structure throughout Europe

Fast, reliable delivery of what pharmacies need: Only a well-functioning branch network can deliver this. Celesio works continuously on modernising its branches and to better utilise capacity. For this reason OCP built a new branch near Paris to serve as a central store for a very wide range of medicines less frequently in demand. In this way, these medicines can also be delivered in the shortest possible time throughout France. At the same time this allows the product range of other branches to be streamlined and reduce costs. OCP has also started to extensively restructure its branch network to secure its position for the future. In other countries Celesio has also invested in its branch network in 2006. In the Austrian branches Graz and Klagenfurt as well as in the English Warrington branch, Celesio has upgraded its warehouse logistics, bringing it in line with the most modern standards of technology. In Germany the telephone system in the call centres was improved.

New market Denmark

With the acquisition of the two Danish pharmaceutical wholesalers Max Jenne and K.V. Tjellesen Celesio Wholesale expanded its presence in Scandinavia, making Celesio Denmark's second largest pharmaceutical wholesaler. Max Jenne and K.V. Tjellesen complement each other ideally – including geographically, with Max Jenne predominantly supplying pharmacies in the west and K.V. Tjellesen in the east of Denmark.

Despite the negative effects of government measures, the business division showed positive development also in 2006. Celesio Wholesale successfully entered the market in Denmark, strengthened customer loyalty and improved its branch network. In brief: Celesio Wholesale is very well positioned for future changes and challenges.

We hand out more than
3 million medicines every week

Countries	Revenue 2005 € m	**Revenue 2006 € m**	Revenue Change in euros %	Revenue Change in local currency %	Number of pharmacies 2006	Number of employees 2006
United Kingdom	2,025.2	**2,266.0**	11.9	11.6	1,556	15,543
Norway	368.0	**391.4**	6.4	6.9	132	1,387
Italy	205.2	**205.5**	0.1	0.1	162	758
Netherlands	115.4	**151.9**	31.6	31.6	56	878
Ireland	112.3	**121.6**	8.2	8.2	60	987
Belgium	85.5	**97.6**	14.2	14.2	91	431
Czech Republic	38.1	**36.3**	(4.7)	(9.3)	43	351
Total	**2,949.7**	**3,270.3**	**10.9**	**10.6**	**2,100**	**20,335**

Our pharmacies: Advice and care in everything to do with medicines and health

Celesio Pharmacies

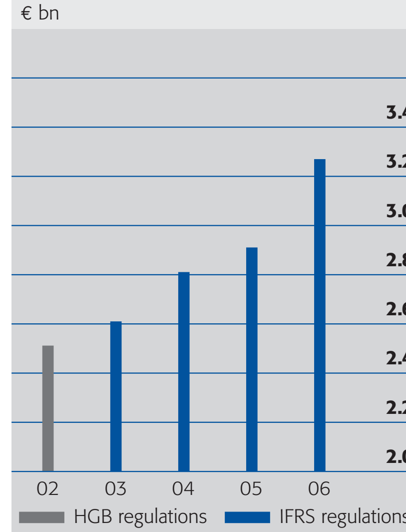
Creating value for patients and customers – with this maxim, growth in Celesio Pharmacies in 2006 was in organic terms stronger than the market. Celesio's pharmacies are more than just dispensing points for medicines. Their qualified staff are the first port of call for any questions concerning medicines, preventive measures, health and well-being. Pharmacy acquisitions and newly opened pharmacies also contributed to the positive business performance last year.

Profit increases more strongly than revenue

In 2006 the business division Celesio Pharmacies grew ahead of the market, with revenue increasing by 10.9 percent (10.6 percent in local currency) to 3,270.3 million euros. In terms of organic growth, Celesio also developed better than the market. Adjusted to take account of acquisitions, new openings and pharmacy disposals, revenue increased by 2.9 percent (2.6 percent in local currency).

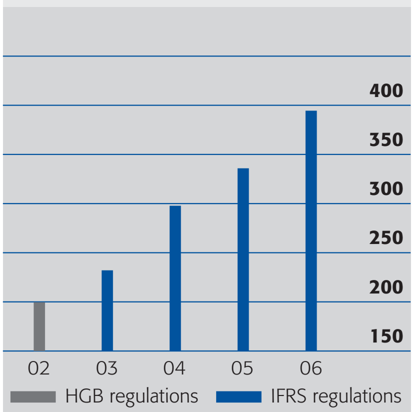
Lloydspharmacy in the United Kingdom showed considerable growth last year. The 110 Cohens and Scholes pharmacies, consolidated since 1 December 2005, in particular contributed to this. In 2006 Lloydspharmacy processed over 122 million prescriptions in its 1,556 pharmacies. The service-orientation of pharmacies, which is increasingly rewarded by the NHS (National Health Service) and is more and more in demand with British consumers and patients, had a positive impact, as Lloydspharmacy leads the market in pharmacy-specific services. Last year for instance, Lloydspharmacy carried out about 160,000 Medicine Use Reviews, qualified consultations between pharmacist and patient about medication. In 2006 Lloydspharmacy was the first pharmacy chain accredited for the processing of electronic prescriptions as part of the Electronic Prescription Service. The company is well positioned to exploit the business opportunities opened up by the agreements between the NHS and pharmacies.

Revenue
Celesio Pharmacies
€ bn



Celesio Pharmacies

EBITDA
Celesio Pharmacies
€ m



In Norway the high level of advisory expertise of Celesio Pharmacies also paid off. In the context of the graduated pricing model introduced in early 2005 and the resultant increase in demand for generic products, the well-trained Vitusapotek staff gave their customers informed advice about the generic alternatives. Thanks to the quality of this advice and an attractive product range, Vitusapotek developed ahead of the market, just as in the prior year.

In Ireland, Unicarepharmacy considerably increased its revenue in a very competitive market. In Italy, the Netherlands and Czech Republic the pharmacy companies developed ahead of the market in a weak environment.

The business division increased its gross profit in particular due to the increased proportion of generic products in the product mix and the expansion of the range of services. In 2006, gross profit showed a rise over the prior year of 16.8 percent (16.6 percent in local currency) to 1,179.1 million euros. The gross profit margin rose by 183 basis points to 36.05 percent.

EBITDA grew by 17.4 percent (17.2 percent in local currency) to 394.5 million euros. Pre-tax profit rose by 17.6 percent (17.4 percent in local currency) to reach a new record with 276.6 million euros. Return on sales, based on pre-tax profit, increased by 49 basis points to 8.46 percent.

Successful even in changed market environment

Dealing with government intervention is part of everyday business for Celesio Pharmacies. Customer-orientation, geographical diversification and sustained cost management produced a good performance in 2006 despite a number of government measures.

Effective 1 October 2006 the NHS introduced a new financing package for English pharmacies. The prices of generic products were reduced and remuneration for services in the pharmacy increased.

The Dutch government, health insurers, pharmaceutical manufacturers and pharmacy association agreed to reduce the rise in the cost of medicines. The prices of generic products were, among other things, reduced. As anticipated, this slowed down market growth. As of January 2006 all Dutch residents must take out a basic health insurance. This constitutes a fundamental change in the entire health insurance system. The basic health insurance, as well as various additional insurances, are offered exclusively by private health insurance companies.

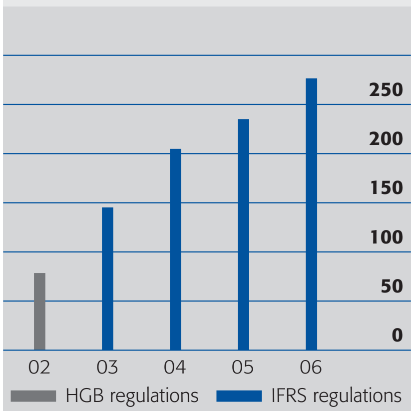
In Italy, price cuts dampened market growth. The reimbursement prices of prescription medicines were reduced in two stages at the beginning and in the middle of the year. As of July 2006 it is now also possible to sell non-prescription medicines outside pharmacies under the supervision of pharmacists, for instance in food retail outlets.

In Belgium there was an increase in the proportion of prescriptions for generic products, as a consequence of the government fixing prescription quotas for low-priced medicines. Furthermore, the prices of original preparations were reduced in January and July 2006.

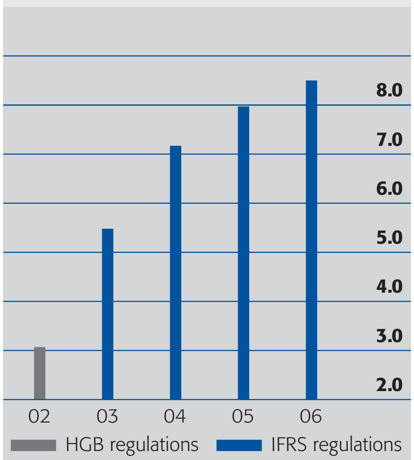
The Irish government and pharmaceutical manufacturers agreed on price reductions for unpatented prescription medicines. As of March 2007, as an initial step, the price for these medicines will be reduced by 20 percent, followed by a further 15 percent reduction in January 2009.

The discussion on the liberalisation of the pharmacy markets continues throughout Europe. In Germany, a single licensing authority allowed a legal entity to run a pharmacy for the first time. However, this decision has not yet been ultimately upheld in law. The EU Commission is investigating the pharmacy market, in particular the respective branch restrictions in Italy, Austria and Spain. In Italy, the European Commission has required since 2005 the ban on third-party and multiple ownership of pharmacies to be lifted. At the end of June 2006 the Commission decided to file a suit against Italy before the European Court of Justice. Only a short time thereafter the Italian government responded with a decree providing for deregulation of the service sector including the pharmacy sector. Despite this, the requirements of the European Commission have still not been fully met. Last year the European Commission also formally requested that Austria and Spain change the national legal frameworks for the ownership and operation of pharmacies. Celesio is following the liberalisation debate very intently.

Profit before tax
Celesio Pharmacies
€ m



Return on sales*
Celesio Pharmacies
%



* Based on profit before tax

Celesio Pharmacies

Healthcare campaigns

Celesio is committed to people's health. Every day its pharmacists help prevent, ease and heal illnesses. Lloydspharmacy in the United Kingdom, together with Teenage Cancer Trust and patient organisations, launched a campaign for adequate sun protection at the beginning of the holiday period. For many years Lloydspharmacy has only sold suntan creams with a sun protection factor of 15 or higher in its pharmacies.

Lloydspharmacy also informed the public of the risks of high blood pressure. One in three Britons suffers from high blood pressure, but this risk factor can only be detected by regular testing. Lloydspharmacy has for this reason carried out more than 1.4 million blood pressure tests free of charge and offers its customers automatic blood pressure monitors at very favourable conditions. Only launched at the end of August, Celesio's UK pharmacies had sold over 500,000 of these devices by the end of 2006.

In Norway the heart and lung association launched a campaign to encourage more exercise. Vitusapotek helped organise this initiative and supported it by selling pacemakers in its pharmacies.

Commitment to customers rewarded

Offering its customers added value is important to pharmacies. In Celesio's pharmacies, patients find the range of products and get the services they need. Celesio is continually improving its range of products, service and the quality of its advice. Customer surveys illustrate the success of this demand-driven business policy. In 2006, Vitusapotek in Norway attained the highest scores in an independent customers satisfaction survey by Norsk Gallup, a leading Norwegian market researcher.

In the United Kingdom Lloydspharmacy received the prestigious Pharmaceutical Care Award for its care of asthma patients. Lloydspharmacy also won the Customer Service Initiative Award for its free diabetes tests, which acknowledges outstanding customer service.

Celesio Pharmacies	2005		2006		Change in euros	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	2,949.7	100.00	**3,270.3**	**100.00**	10.9	10.6
Gross profit	1,009.5	34.22	**1,179.1**	**36.05**	16.8	16.6
EBITDA	335.9	11.39	**394.5**	**12.06**	17.4	17.2
EBIT	297.4	10.08	**351.7**	**10.76**	18.3	18.0
Profit before tax	235.1	7.97	**276.6**	**8.46**	17.6	17.4

Celesio's pharmacies: Modern and close to the customer

Celesio is everywhere where patients need to be supplied with medicines quickly. Celesio develops health centres together with doctors and health authorities. Doctors' practices, pharmacies and other healthcare providers offer their patients all-round medical care under one roof. The channels could not be shorter. Celesio is therefore directly at the source of prescriptions. In 2006 Celesio was involved in the construction of a total of 17 health centres in the United Kingdom, Norway and the Netherlands.

Celesio Pharmacies was operating 2,100 pharmacies in seven European countries on 31 December 2006. In the last fiscal year Celesio further expanded its pharmacy network. 63 pharmacies were acquired and 14 new ones opened. Celesio improved its existing portfolio with 138 pharmacies being modernised and 22 pharmacies being sold or closed.

An important step for Celesio Pharmacies in 2006 was the integration of the 110 Cohens and Scholes pharmacies acquired in the United Kingdom in the fourth quarter of 2005. The pharmacies were integrated into the existing Lloydspharmacy network very quickly and smoothly.

Acquisitions are an important component of the Celesio growth strategy. Celesio will also purchase pharmacies in future if the location and purchase price are right. In particular Ireland, the Netherlands and Belgium, but also the United Kingdom still offer potential for expansion.

We talk to 400 pharmaceutical manufacturers every day

Business unit	Gross profit 2005 € m	**Gross profit 2006** **€ m**	Gross profit Change in euros %	Gross profit Change in local currency %	Number of employees 2006
Movianto* (logistics and transportation services)	131.2	**150.0**	14.3	14.1	1,550

* Until March 2006 AVS Health Distribution

Growth driver: Innovative services related to medicines

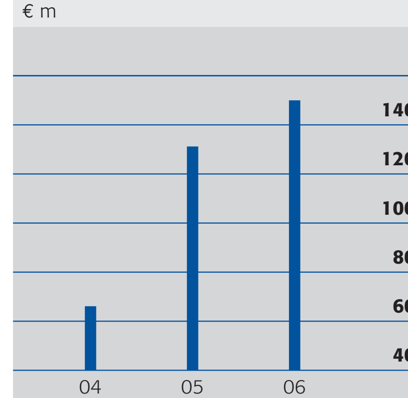
Celesio Solutions

With services covering everything relating to medicines, Celesio Solutions helps pharmaceutical manufacturers and other market participants to concentrate on their respective core activities. With the Movianto business unit Celesio Solutions offers tailor-made logistics and transportation services for pharmaceuticals at local, national and European level. In addition, Celesio Solutions is building up a second pillar with the strategic alliance with pharmexx, a worldwide leading provider of sales and marketing solutions.

Acquisitions and new business increase Movianto's gross profit

In the last fiscal year the Movianto business unit increased gross profit* by 14.3 percent (14.1 percent in local currency) to 150.0 million euros. New contracts and the acquisition of British market leader Healthcare Logistics, acquired in 2005 and whose figures were for the first time fully incorporated in the annual balance sheet in 2006, contributed to this good development. The manufacturer logistics division of the Danish company K.V. Tjellesen has been consolidated since the third quarter of 2006. Without taking account of acquisitions, the absolute gross profit of Movianto rose by 3.0 percent (2.9 percent in local currency). The business unit is gaining importance within the group, and in 2006 contributed 6.2 percent to the gross profit of the group. The previous year this was 5.9 percent.

Gross profit Celesio Solutions
€ m



* For Movianto it is the absolute gross profit that is the measure of success rather than revenue, as customers generally pay on the basis of services rendered. Only in isolated cases is trading revenue involved. Gross profit is derived from total remuneration for services rendered and margins from trading revenue. Due to the particular structure of revenue, the gross profit ratio is not representative for the business unit Movianto

Celesio Solutions

EBITDA of Celesio Solutions increased by 1.7 percent (1.4 percent in local currency) to 24.3 million euros. Profit before tax showed a drop, in line with expectations, of 7.5 percent (7.8 percent in local currency) to 15.5 million euros. This development reflects the investment involved in building up and expanding this still young business unit. Depreciation and amortisation as well as the costs of financing acquisitions also impacted on profit.

The 30 percent holding in pharmexx GmbH, a worldwide leading provider of sales and marketing solutions for pharmaceutical manufacturers, was consolidated for the first time in the third quarter of 2006. The profit from pharmexx attributable to Celesio was included in income from investments. The proportional operational profit exceeded the cost of financing.

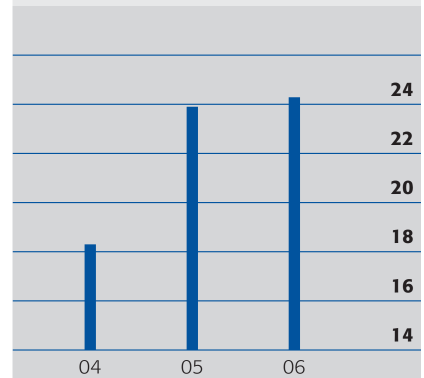
Movianto offers a broad range of services

Movianto's services range from warehousing through to dispatch, from administration to order handling, and transcends national boundaries. The Movianto business model is geared to Europe and includes regional, national and multinational solutions. In 2006 Movianto built up central functions to lay the foundations for a Europe-wide quality management system. Quality audits in the various countries help to achieve and ensure a high universal standard. Since the beginning of the 2006 fiscal year Movianto has created a European sales, marketing and key account team which, supported by local national teams, allows customers who operate with Movianto in multiple countries to have a single point of contact.

The acquisition of the Danish pharmaceutical wholesaler and services provider K.V. Tjellesen was a milestone in 2006. The manufacturer logistics division of K.V. Tjellesen is a perfect complement to Movianto's range of services in Europe, in particular as regards central solutions for northern Europe.

International contracts and increased capacity utilisation are evidence that Movianto's services are much in demand. Last year Movianto increased warehousing capacity in Dublin, Ireland and in Brno, the Czech Republic. At the end of the fiscal year Movianto had over 160,000 palett spaces and a workforce of 1,550 employees.

EBITDA
Celesio Solutions
€ m



Building up a strong international brand name

The development of Celesio Solutions' first business unit made great progress in 2006. In March it was given a new name, Movianto. It combines the expertise of individual national companies under a single European umbrella brand. The catchy name, which in future all national companies will include in their names, gives the Movianto Group a uniform image. The Movianto companies have already been renamed in the Czech Republic and Germany. The new name Movianto Deutschland was announced right on cue at the tenth anniversary of the German company Sanalog.

Celesio Solutions

pharmexx cooperation opens up new business opportunities

Since early last fiscal year, Celesio, together with pharmexx, has been involved in the field of sales and marketing support for pharmaceutical manufacturers. pharmexx is one of the world leaders in this field. The company offers pharmaceutical manufacturers qualified sales representatives for a limited period or a specific project. With its qualified team of field staff, pharmexx has acquired an excellent reputation in the industry. This is reflected in the growth rate of the company. In 2006 annual sales increased from 70.4 million euros to 127.0 million euros and the number of employees to about 4,500. In the last fiscal year pharmexx opened up 14 new markets, including India and Turkey, and is operating today in 24 countries. Furthermore, in future pharmexx intends to increase its market presence – in Europe and beyond.

Celesio is convinced of the growth opportunities of pharmexx and has underpinned the strategic alliance through a 30 percent holding. In conjunction with the other Celesio divisions, pharmexx will be able to offer service packages which are unrivalled and create added value for pharmaceutical manufacturers.

Celesio Solutions	2005 € m	2005 % of gross profit	**2006 € m**	**2006 % of gross profit**	Change in euros %	Change in local currency %
Gross profit	131.2	100.00	**150.0**	**100.00**	14.3	14.1
EBITDA	23.9	18.22	**24.3**	**16.21**	1.7	1.4
EBIT	18.3	13.94	**18.5**	**12.31**	0.9	0.6
Profit before tax	16.8	12.80	**15.5**	**10.36**	(7.5)	(7.8)

Attractive market without government regulation

The pharmaceutical market is growing and becoming increasingly complex. The demand for new, innovative services relating to medicines grows apace. Pharmaceutical manufacturers and other market participants are increasingly concentrating on their core activities. This still young, unconsolidated and fast-growing market for services relating to medicines is also attractive to Celesio because it is not subject to direct government regulation and because it offers – at least in parts – the opportunity for globally-oriented business models.

Solutions is a new quality in the Celesio portfolio. It allows Celesio to open up new markets that are not government-controlled and are growth-oriented as well as enter new countries which are, at present, not conducive for a geographical expansion by Celesio Wholesale or Celesio Pharmacies. Solutions is at the same time an important step forward towards further risk diversification of Celesio activities.

Revenue and profit increased
for 20th time in succession

The consolidated financial statements were authorised for issue by the management board on 15/02/2007.

Income statement for the 2006 fiscal year of the Celesio Group

	Notes	2005 € '000	**2006** **€ '000**
Revenue	1	**20,491,115**	**21,569,146**
Own work capitalised		2,737	2,947
Total operating performance		**20,493,852**	**21,572,093**
Cost of raw materials, consumables and supplies, and of purchased goods		(18,258,368)	(19,140,507)
Gross profit		**2,235,484**	**2,431,586**
Other expenses and income	2	(433,082)	(489,441)
Personnel expenses	3	(1,062,183)	(1,158,408)
Income from associates accounted for using the equity method	4	802	2,521
Net income from other investments	4	4,837	17,448
EBITDA		**745,858**	**803,706**
Amortisation of intangible assets and depreciation of property, plant and equipment	5	(97,706)	(117,906)
EBIT		**648,152**	**685,800**
Interest expenses	6	(106,734)	(113,020)
Interest income	6	11,530	9,977
Other financial result	6	1,576	7,381
Profit before tax		**554,524**	**590,138**
Income taxes	7	(129,630)	(164,570)
Net profit		**424,894**	**425,568**
Profit attributable to minority interests		(4,116)	(2,394)
Profit attributable to equity holders of Celesio AG		**420,778**	**423,174**
Earnings per share – basic (€)	8	**2,47**	**2,49**
Earnings per share – diluted (€)	8	**2,47**	**2,49**

Balance sheet at 31/12/2006 of the Celesio Group

		Notes	31/12/2005 € '000	**31/12/2006 € '000**
Assets	**Non-current assets**			
	Intangible assets	10	2,407,650	2,569,836
	Property, plant and equipment	11	598,218	636,838
	Investments accounted for using the equity method	12	9,770	55,516
	Other financial assets	12	124,162	134,785
	Income tax receivables		0	3,471
	Deferred tax assets	13	85,293	46,382
			3,225,093	**3,446,828**
	Current assets			
	Inventories	14	1,639,377	1,645,925
	Trade receivables	15	2,382,111	2,503,246
	Income tax receivables	15	45,130	65,282
	Other receivables and other assets	15	211,886	255,570
	Cash and cash equivalents	16	8,079	9,644
			4,286,583	**4,479,667**
	Total assets		**7,511,676**	**7,926,495**
Equity and liabilities	**Shareholders' equity**	17		
	Issued capital		217,728	217,728
	Capital reserves		1,113,030	1,113,030
	Revenue reserves		845,479	1,148,923
	Revaluation reserves		99,888	129,254
	Minority interests		8,056	19,125
			2,284,181	**2,628,060**
	Liabilities	20		
	Non-current liabilities			
	Financial liabilities	21	1,901,104	1,727,356
	Pension provisions	18	140,236	139,468
	Other non-current provisions	19	34,199	34,906
	Other liabilities	20	0	5,340
	Deferred tax liabilities	13	34,497	55,720
			2,110,036	**1,962,790**
	Current liabilities			
	Financial liabilities	21	167,791	168,603
	Trade payables	22	2,189,431	2,447,464
	Other current provisions	19	151,051	146,062
	Income tax liabilities		142,214	130,308
	Other liabilities	22	466,972	443,208
			3,117,459	**3,335,645**
	Total equity and liabilities		**7,511,676**	**7,926,495**

Cash flow statement for the 2006 fiscal year of the Celesio Group

	2005 € '000	**2006** **€ '000**
Net profit	424,894	425,568
Depreciation and amortisation/write-up of property, plant and equipment and intangible assets	97,623	117,906
Net result from disposals of non-current assets	(19,340)	(7,758)
Non-cash changes in net working capital	29,572	72,304
Other non-cash income and expenses	(1,978)	(18,058)
Cash flow	**530,771**	**589,962**
Change in operating assets	(243,242)	35,126
Change in operating liabilities	173,220	107,965
Net cash flow from operating activities	**460,749**	**733,053**
Proceeds from the disposal of non-current assets	31,690	21,757
Investment in non-current assets	(127,629)	(204,662)
Proceeds from the disposals of subsidiaries	11,181	7,418
Cash paid for acquisitions of subsidiaries	(414,788)	(149,718)
Net cash flow from investing activities	**(499,546)**	**(325,205)**
Dividends paid to shareholders	(103,319)	(120,322)
Proceeds from borrowings	1,284,177	238,463
Repayment of borrowings	(1,149,329)	(524,518)
Net cash flow from financing activities	**31,529**	**(406,377)**
Net change in cash and cash equivalents	**(7,268)**	**1,471**
Net foreign exchange difference	127	94
Cash and cash equivalents at the beginning of the period	15,220	8,079
Cash and cash equivalents at the end of the period	**8,079**	**9,644**

Statement of shareholders' equity for the 2006 fiscal year 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**
01/01/2006	**217,728**	**1,113,030**	**845,479**	**88,542**	**11,346**	**2,276,125**	**8,056**	**2,284,181**
Dividends	0	0	(119,070)	0	0	(119,070)	(1,252)	(120,322)
Currency adjustments	0	0	0	15,818	242	16,060	45	16,105
Net profit	0	0	423,174	0	0	423,174	2,394	425,568
Revaluation of financial instruments	0	0	0	0	13,306	13,306	(8)	13,298
Changes to consolidated group/others	0	0	(660)	0	0	(660)	9,890	9,230
31/12/2006	**217,728**	**1,113,030**	**1,148,923**	**104,360**	**24,894**	**2,608,935**	**19,125**	**2,628,060**
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**

Segment reporting for the 2006 fiscal year of the Celesio Group by business division

Segmentation by business division	Celesio Wholesale 2005 € '000	Celesio Wholesale **2006 € '000**	Celesio Pharmacies 2005 € '000	Celesio Pharmacies **2006 € '000**
Income statement				
Revenue	**16,951,907**	**17,464,624**	**2,949,652**	**3,270,311**
External revenue	16,946,455	17,464,603	2,949,652	3,270,311
Inter-segment revenue	5,452	21	0	0
Gross profit	**1,094,743**	**1,102,468**	**1,009,495**	**1,179,104**
Segment profit from operations	**381,051**	**357,682**	**297,293**	**351,615**
Assets, liabilities and capital expenditures				
Segment assets	4,391,646	4,437,638	2,570,732	2,893,054
of which goodwill	[484,857]	[500,882]	[1,763,806]	[1,892,191]
Segment liabilities	2,299,911	2,427,311	382,276	485,331
Associates accounted for using the equity method	9,400	11,322	456	265
Capital expenditures	110,470	98,248	344,657	202,968
Employees				
Average for the year	14,189	14,222	18,205	19,636
at 31/12/	14,392	14,325	19,386	20,335
Reconciliation to net profit				
Income from associates accounted for using the equity method	715	1,380	87	107
EBITDA	**432,748**	**425,935**	**335,944**	**394,508**
Amortisation of intangible assets and depreciation of property, plant and equipment	50,982	66,873	38,564	42,786
EBIT	**381,766**	**359,062**	**297,380**	**351,722**
Interest result	(25,501)	(25,249)	(62,272)	(75,134)
Profit before tax	**356,265**	**333,813**	**235,108**	**276,588**
Income taxes	115,921	104,341	67,644	80,205
Net profit	**240,344**	**229,472**	**167,464**	**196,383**

Celesio Solutions		Others		Consolidation		Group	
2005 € '000	**2006 € '000**	2005 € '000	**2006 € '000**	2005 € '000	**2006 € '000**	2005 € '000	**2006 € '000**
791,577	**1,124,979**	**0**	**0**	**(202,021)**	**(290,768)**	**20,491,115**	**21,569,146**
595,008	834,232	0	0	0	0	20,491,115	21,569,146
196,569	290,747	0	0	(202,021)	(290,768)	0	0
131,246	**150,014**	**0**	**0**	**0**	**0**	**2,235,484**	**2,431,586**
18,225	**17,435**	**(49,219)**	**(43,453)**	**0**	**0**	**647,350**	**683,279**
359,769	408,154	90,915	94,976	(39,721)	(27,838)	7,373,341	7,805,984
[107,186]	[109,134]	[651]	[1,754]	[0]	[0]	[2,356,501]	[2,503,961]
238,839	225,536	47,293	54,254	(55,222)	(13,761)	2,913,097	3,178,671
0	43,929	0	0	(86)	0	9,770	55,516
117,999	54,096	6,379	1,746	0	0	579,505	357,058
1,080	1,455	200	219	0	0	33,674	35,532
1,410	1,550	219	232	0	0	35,407	36,442
0	1,034	0	0	0	0	802	2,521
23,839	**24,321**	**(46,673)**	**(41,058)**	**0**	**0**	**745,858**	**803,706**
5,614	5,852	2,546	2,395	0	0	97,706	117,906
18,225	**18,469**	**(49,219)**	**(43,453)**	**0**	**0**	**648,152**	**685,800**
(1,499)	(2,933)	(4,356)	7,654	0	0	(93,628)	(95,662)
16,726	**15,536**	**(53,575)**	**(35,799)**	**0**	**0**	**554,524**	**590,138**
4,950	3,247	(58,885)	(23,223)	0	0	129,630	164,570
11,776	**12,289**	**5,310**	**(12,576)**	**0**	**0**	**424,894**	**425,568**

Segment reporting for the 2006 fiscal year of the Celesio Group by geographical region

Segmentation by region	Germany		France		United Kingdom		Other countries		Group	
	2005 € '000	**2006 € '000**	2005 € '000	**2006 € '000**	2005 € '000	**2006 € '000**	2005 € '000	**2006 € '000**	2005 € '000	**2006 € '000**
Segment revenue	3,648,797	**3,650,015**	7,172,852	**7,074,718**	5,403,266	**5,894,001**	4,266,200	**4,950,412**	20,491,115	**21,569,146**
Segment assets	984,880	**939,207**	1,393,481	**1,285,090**	2,879,370	**3,134,866**	2,115,610	**2,446,821**	7,373,341	**7,805,984**
Segment capital expenditures	38,519	**57,167**	20,397	**14,316**	378,289	**155,376**	142,300	**130,199**	579,505	**357,058**

Notes to the consolidated financial statements

General

Basis of presentation

The consolidated financial statements for the year ended 31/12/2006 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, as approved for adoption in the European Union as of the balance sheet date. In addition Sec. 315a (1) of the HGB [Handelsgesetzbuch: German Commercial Code] has been applied. The revised Standards IAS 19, 21 and 39 as well as IFRS 4 have been adopted for the first time. The first-time adoption of these Standards did not have any material effects on the presentation of net assets, financial position and results of operations. IFRS 6, whose adoption is also mandatory since 01/01/2006 is of no relevance for Celesio. In addition, all binding interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) were observed in 2006 fiscal year. The company has elected not to early adopt IFRS Standards 7 and 8, both of which have been enacted but whose adoption is not yet mandatory, or the revised IAS I. The future adoption of these Standards is not expected to have any material effect on the consolidated financial statements.

The consolidated financial statements have been prepared from the individual financial statements of consolidated group companies as of 31/12/2006. These have been prepared in compliance with the group's uniform recognition and measurement principles, based on IFRS. All consolidated companies have reported at 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 classified as available-for-sale financial assets and financial assets measured at fair value through profit and loss; these have generally been recognised at fair value.

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

General

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 are discussed in detail in the notes to the financial statements.

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

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 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 difference is expensed 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: eight) 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 to lease properties.

The consolidated group comprises 575 domestic and foreign companies (prior year: 556). As compared to the prior year the group of consolidated companies has developed as follows:

01/01/2006	**556**
Changes in 2006 fiscal year	
Acquisitions of shares	49
Formation of new companies	1
Mergers with other group companies	(18)
Liquidations	(13)
31/12/2006	**575**
of which domestic companies	25
of which foreign companies	550

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

General

In 2006 the company K.V. Tjellesen (Denmark), which belongs to the Celesio Wholesale and Celesio Solutions divisions, and A/S Max Jenne (Denmark), which belongs to the Celesio Wholesale division, were consolidated on a preliminary basis for the first time as of 01/07/2006. In the Celesio Pharmacies division a total of 63 pharmacies were purchased in 2006, mainly in the United Kingdom. Full shareholdings were acquired in each case, with the exception of the share purchase in K.V. Tjellesen in which Celesio had a 49.98% shareholding and 82.79% of the voting rights as of 31/12/2006.

The acquisition cost, including purchase price payments contingent on future events, amounted to € 142,562,000 (prior year: € 444,491,000) of which € 5,566,000 (prior year: € 5,155,000) 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 payables were settled in full by cash payments, i.e. no share transfers were involved.

Revenue of € 388,228,000 (prior year: € 561,552,000) and net profit of € 5,011,000 (prior year: € 10,606,000) 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 € 723,930,000 (prior year: € 735,038,000) to revenue and € 5,832,000 (prior year: € 23,888,000) to the net profit of the group. The first-time inclusion of the companies in the consolidation does not impair comparability with the prior year.

Based on the opening balance sheet, the following assets and liabilities pertain to companies acquired during the reporting year:

	2005 € '000	**2006** **€ '000**
Non-current assets	470,698	155,477
Current assets	209,407	246,727
	680,105	**402,204**
Non-current liabilities	5,994	62,518
Current liabilities	216,998	182,851
	222,992	**245,369**

Non-current assets here contain both the allocable goodwill as well as other intangible assets identified in the course of the purchase price allocation, specifically customer relationships and brand names.

The carrying amounts of the other purchased assets and liabilities generally approximate their fair values.

A summary of all investment holdings (list of shareholdings) pursuant to Sec. 313 (4) HGB [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 euros 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	Currency	Closing rate		Annual average	
		31/12/2005	**31/12/2006**	2005	**2006**
United Kingdom	**GBP**	0.6853	0.6715	0.6837	0.6817
Norway	**NOK**	7.9850	8.2380	8.0056	8.0430
Czech Republic	**CZK**	29.0000	27.4850	29.7755	28.3391
Slovenia	**SIT**	239.5000	239.6400	239.5680	239.5961
Romania	**RON**	3.6802	3.3835	3.6189	3.5249
Croatia	**HRK**	7.3648	7.3500	7.4154	7.3245
Denmark	**DKK**	–	7.4560	–	7.4591

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 € 21,781,000 (prior year: € 3,227,000) and exchange rate losses to € 14,616,000 (prior year: € 1,890,000) 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 Celesio Pharmacies and Celesio Wholesale divisions mainly originates from the sale of merchandise and, to a lesser extent, from the provision of services. In the Celesio Solutions division revenue is also generated by services related to pharmaceuticals. Merchandise sales are not recognised until the risks and rewards of ownership have been transferred to the customer. Revenue from services is recognised upon performance of the services concerned.

(2) Other expenses and income

	2005 € '000	**2006** **€ '000**
Advertising subsidies	52,578	56,008
Income from data sales	15,954	16,625
Income from rent and lease	5,374	6,169
Net income/expense from disposals of non-current assets	19,043	6,766
Income/expense from the write-off of bad debt allowances	(2,241)	(179)
Exchange rate gains/losses	937	1,012
Building expenses	(153,267)	(170,239)
Transportation expenses	(149,629)	(161,188)
IT and communication expenses	(65,057)	(71,203)
Promotion and advertising expenses	(43,280)	(49,518)
Legal and consulting fees	(28,000)	(30,043)
Third-party personnel services	(22,754)	(23,676)
Other expenses and income	(62,740)	(69,975)
Total expenses	**(433,082)**	**(489,441)**

Other income includes income from transactions that are not part of the core business of the Celesio Group. In the Celesio Pharmacies and Celesio Wholesale divisions this includes income from marketing activities, services and data processing and IT services as well as income from renting out buildings. 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 property, plant and equipment and above all the sale of pharmacies and contains income of € 7,908,000 (prior year: € 19,780,000) and expenses of € 1,142,000 (prior year: € 737,000). The net result of doubtful debt allowances contains income from the reversal of € 18,193,000 (prior year: € 19,813,000) and expenses from the recognition of valuation allowances of € 18,372,000 (prior year: € 22,054,000). The net currency result from operations contains exchange gains of € 1,564,000 (prior year: € 1,566,000) and offsetting exchange rate losses of € 552,000 (prior year: € 629,000), in both cases including the revaluation of the allocated derivatives with effect on income.

Other expenses and income comprises expenses of € 121,918,000 (€ 111,591,000). 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 € 647,300,000 (prior year: € 596,370,000) while other income amounts to € 157,859,000 (prior year: € 163,288,000).

Notes to the income statement

(3) Personnel expenses/Employees

	2005 € '000	**2006 € '000**
Wages and salaries	824,750	904,467
Social security costs	148,290	155,538
Pension costs	24,059	23,206
Personnel services	58,418	67,629
Other personnel expenses	6,666	7,568
Total	**1,062,183**	**1,158,408**

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

	2005 € '000	**2006 € '000**
Income from associates accounted for using the equity method	802	2,521
Income from other investments	4,837	17,448
Total	**5,639**	**19,969**

Income from other investments contains no impairment losses (prior year: € 13,000).

(5) Depreciation and amortisation

	2005 € '000	**2006** **€ '000**
Depreciation of property, plant and equipment	89,078	90,203
Amortisation of intangible assets	8,628	27,703
Total	**97,706**	**117,906**

Depreciation and amortisation do not include impairment losses (prior year: € 537,000). These largely pertain in the prior year to the Celesio Solutions segment.

Amortisation of intangible assets contains impairment losses of € 16,188,000 (prior year: € 0). They relate to a discontinued software development project in the Celesio Wholesale segment.

(6) Interest result

	2005 € '000	**2006** **€ '000**
Interest and similar income	**11,530**	**9,977**
of which from affiliated companies	16	9
Interest and similar expenses	**(106,734)**	**(113,020)**
of which to affiliated companies	[(65)]	[(71)]
of which for finance leases	[(1,755)]	[(1,954)]
of which for pensions	[(3,875)]	[(2,512)]
Other financial result	**1,576**	**7,381**
Total	**(93,628)**	**(95,662)**

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

Notes to the income statement

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.

(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 other 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 and associates because these will be retained in the companies for the foreseeable future. In the event of a future profit distribution or sale of the equity investment, the additional tax liability would amount to € 20,838,000 (prior year: € 11,255,000).

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 € 879,000 (prior year: € 2,520,000) were recognised on unused tax losses from prior years. 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 € 68,000 in 2006 (prior year: € 910,000). In addition, the group carries unused tax losses of € 100,354,000 (prior year: € 102,293,000) 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 € 73,696,000 (prior year: € 100,520,000) can be carried forward for an unlimited period of time; an amount of € 26,658,000 (prior year: € 1,773,000) lapses within the next ten 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%.

	2005 € '000	**2006** **€ '000**
Current taxes	127,380	118,117
Deferred taxes	2,250	46,453
Income taxes	**129,630**	**164,570**

The current tax burden includes tax income from other periods of € 14,724,000 (prior year: € 45,515,000). The prior year figure includes a trade tax refund in Germany of net € 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:

	31/12/2005 € '000	 %	**31/12/2006** **€ '000**	 **%**
Profit before tax	554,524	100.0	590,138	100.0
Expected income tax expenses	**215,710**	**38.9**	**229,564**	**38.9**
Effect of differing national tax rates	(46,426)	(8.4)	(49,356)	(8.4)
Tax from previous periods	(45,515)	(8.2)	(14,724)	(2.5)
Tax effect of non deductible expenses and tax-free income	2,189	0.4	(28)	0.0
Impact of tax rate changes on deferred taxes	194	0.0	278	0.1
Non recognition, adjustment or utilisation of unused tax losses	(251)	0.0	74	0.0
Other tax effects	3,729	0.7	(1,238)	(0.2)
Income taxes	**129,630**	**23.4**	**164,570**	**27.9**

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

Notes to the income statement

(8) Earnings per share

	2005	**2006**
Profit attributable to equity holders of Celesio AG (€ '000)	420,778	423,174
Weighted number of no-par shares outstanding	170,100,000	170,100,000
Earnings per share (€)	**2.47**	**2.49**

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.

In the reporting year, a two-for-one stock split was carried out. The prior-year figure was adjusted accordingly.

(9) Research and development expenses

In the reporting year, expenses for the development of software of € 14,397,000 (prior year: € 13,282,000) had to be recorded as an expense because the recognition criteria pursuant to IAS 38 were not satisfied.

Notes to the balance sheet

Non-current assets

	2005				2006			
	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/	**1,997,867**	**1,231,794**	**134,863**	**3,364,524**	**2,475,196**	**1,354,192**	**138,813**	**3,968,201**
Currency translation differences	30,691	13,082	44	43,817	25,019	5,992	4	31,015
Changes to consolidated group	401,729	77,022	2,273	481,024	140,888	24,192	58	165,138
Changes in fair market value	0	0	1,570	1,570	0	0	3,215	3,215
Additions	31,090	87,595	28,737	147,422	27,292	119,811	75,067	222,170
Reclassifications	18,088	(2,715)	(16,111)	(738)	2,518	(2,513)	(7,306)	(7,301)
Disposals	(4,269)	(52,586)	(12,563)	(69,418)	(4,937)	(28,554)	(15,113)	(48,604)
31/12/	**2,475,196**	**1,354,192**	**138,813**	**3,968,201**	**2,665,976**	**1,473,120**	**194,738**	**4,333,834**
Accumulated valuation adjustments 01/01/	**55,270**	**671,509**	**5,599**	**732,378**	**67,546**	**755,974**	**4,881**	**828,401**
Currency translation differences	261	7,481	0	7,742	313	3,824	1	4,138
Changes to consolidated group	6,628	26,371	0	32,999	297	11,189	0	11,486
Additions	8,628	89,078	13	97,719	27,703	90,203	0	117,906
Reclassifications	304	(1)	0	303	1,257	(1,252)	0	5
Disposals	(3,545)	(38,464)	(700)	(42,709)	(976)	(23,656)	(73)	(24,705)
Reversals	0	0	(31)	(31)	0	0	(372)	(372)
31/12/	**67,546**	**755,974**	**4,881**	**828,401**	**96,140**	**836,282**	**4,437**	**936,859**
Carrying amount at 31/12/	**2,407,650**	**598,218**	**133,932**	**3,139,800**	**2,569,836**	**636,838**	**190,301**	**3,396,975**

Notes to the balance sheet

(10) Intangible assets

	2005				
	Franchises, industrial and similar rights € '000	Goodwill € '000	Other intangible assets € '000	Payments on account € '000	**Total € '000**
Accumulated historical cost					
01/01/	**70,919**	**1,915,936**	**8,748**	**2,264**	**1,997,867**
Currency translation differences	402	30,230	59	0	30,691
Changes to consolidated group	5,752	394,335	1,497	145	401,729
Additions	14,492	235	5,970	10,393	31,090
Reclassifications	3,727	15,765	477	(1,881)	18,088
Disposals	(2,124)	0	(2,145)	0	(4,269)
31/12/	**93,168**	**2,356,501**	**14,606**	**10,921**	**2,475,196**
Accumulated valuation adjustments					
01/01/	**50,204**	**0**	**5,066**	**0**	**55,270**
Currency translation differences	219	0	42	0	261
Changes to consolidated group	5,450	0	1,178	0	6,628
Additions	8,252	0	376	0	8,628
Reclassifications	304	0	0	0	304
Disposals	(1,844)	0	(1,701)	0	(3,545)
Reversals	0	0	0	0	0
31/12/	**62,585**	**0**	**4,961**	**0**	**67,546**
Carrying amount at 31/12/	**30,583**	**2,356,501**	**9,645**	**10,921**	**2,407,650**

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.

2006				
Franchises, industrial and similar rights € '000	Goodwill € '000	Other intangible assets € '000	Payments on account € '000	**Total € '000**
93,168	**2,356,501**	**14,606**	**10,921**	**2,475,196**
258	24,716	26	19	25,019
320	123,008	16,481	1,079	140,888
13,381	903	3,052	9,956	27,292
4,625	0	52	(2,159)	2,518
(1,278)	(1,167)	(2,263)	(229)	(4,937)
110,474	**2,503,961**	**31,954**	**19,587**	**2,665,976**
62,585	**0**	**4,961**	**0**	**67,546**
210	0	20	83	313
297	0	0	0	297
10,328	0	1,363	16,012	27,703
1,257	0	0	0	1,257
(961)	0	(15)	0	(976)
0	0	0	0	0
73,716	**0**	**6,329**	**16,095**	**96,140**
36,758	**2,503,961**	**25,625**	**3,492**	**2,569,836**

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. Borrowing costs are not capitalised. The position Payments on account contains expenses recognised for software being developed, including own work capitalised. The project was discontinued in the reporting year.

Notes to the balance sheet

Franchises, industrial rights, licences, patents and software have useful lives ranging from two to 20 years. Intangible assets that are amortised 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 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 Celesio Pharmacies and Celesio Wholesale divisions, these correspond to the national units (e.g. Celesio Wholesale Germany). Within the Celesio

Solutions division, both Movianto and pharmexx are considered jointly to be a cash generating unit. The planning covers a period of five years. 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 cost of capital is composed of borrowing 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 2006 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 6.1% to 7.8% (prior year: 7.1% to 8.8%).

In the reporting period, other intangible assets includes capitalised brand names of € 7,365,000 (prior year: € 0).

Notes to the balance sheet

(11) Property, plant and equipment

	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**
Accumulated historical cost					
01/01/	**569,341**	**252,164**	**405,689**	**4,600**	**1,231,794**
Currency translation differences	2,982	2,599	7,414	87	13,082
Changes to consolidated group	36,144	11,793	24,490	4,595	77,022
Additions	15,688	20,754	47,541	3,612	87,595
Reclassifications	3,853	(9,466)	13,335	(10,437)	(2,715)
Disposals	(15,341)	(9,359)	(27,886)	0	(52,586)
31/12/	**612,667**	**268,485**	**470,583**	**2,457**	**1,354,192**
Accumulated valuation adjustments					
01/01/	**237,592**	**166,383**	**267,534**	**0**	**671,509**
Currency translation differences	1,434	1,655	4,392	0	7,481
Changes to consolidated group	6,824	3,228	16,319	0	26,371
Additions	22,705	23,953	42,420	0	89,078
Reclassifications	149	(9,422)	9,272	0	(1)
Disposals	(7,743)	(9,146)	(21,575)	0	(38,464)
Reversals	0	0	0	0	0
31/12/	**260,961**	**176,651**	**318,362**	**0**	**755,974**
Carrying amount at 31/12/	**351,706**	**91,834**	**152,221**	**2,457**	**598,218**
of which **finance leases**					
Carrying amount at 31/12/	**49,023**	**5,152**	**6,173**	**0**	**60,348**

	2006				
	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**
	612,667	**268,485**	**470,583**	**2,457**	**1,354,192**
	592	1,446	3,990	(36)	5,992
	16,408	4,112	3,502	170	24,192
	17,210	14,066	77,997	10,538	119,811
	1,044	3,105	(1,505)	(5,157)	(2,513)
	(7,422)	(3,531)	(17,390)	(211)	(28,554)
	640,499	**287,683**	**537,177**	**7,761**	**1,473,120**
	260,961	**176,651**	**318,362**	**0**	**755,974**
	87	892	2,845	0	3,824
	5,672	3,394	2,123	0	11,189
	23,759	22,299	44,145	0	90,203
	0	410	(1,662)	0	(1,252)
	(4,459)	(3,421)	(15,776)	0	(23,656)
	0	0	0	0	0
	286,020	**200,225**	**350,037**	**0**	**836,282**
	354,479	**87,458**	**187,140**	**7,761**	**636,838**
	45,704	**3,894**	**2,990**	**0**	**52,588**

Notes to the balance sheet

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. Borrowing costs are not capitalised.

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

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.

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

The useful lives for the various asset categories in years are:

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 title to 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 lease payments plus any incidental costs borne by the lessee or, if lower, at its fair value pursuant to IAS 17. These leases primarily relate to real estate. The agreements have terms of up to 12 years and some contain purchase options. The depreciation methods and useful lives applied correspond to those of comparable assets acquired for a consideration.

Notes to the balance sheet

(12) Financial assets

	2005					
	Investments in associates € '000	Available-for-sale financial assets € '000	Financial assets measured at fair value through profit and loss € '000	Loans to associates € '000	Other loans € '000	**Total € '000**
Accumulated historical cost 01/01/	**10,163**	**94,362**	**0**	**4,296**	**26,042**	**134,863**
Currency translation differences	8	30	0	3	3	44
Changes to consolidated group	0	1,706	0	0	567	2,273
Changes in fair value	0	(5,691)	7,261	0	0	1,570
Additions	1,391	4,865	0	377	22,104	28,737
Reclassifications	(304)	(57,097)	41,636	0	(346)	(16,111)
Disposals	(1448)	(2,373)	(7)	(626)	(8,109)	(12,563)
31/12/	**9,810**	**35,802**	**48,890**	**4,050**	**40,261**	**138,813**
Accumulated valuation adjustments 01/01/	**0**	**3,004**	**0**	**110**	**2,485**	**5,599**
Currency translation differences	0	0	0	0	0	0
Changes to consolidated group	0	0	0	0	0	0
Additions	0	13	0	0	0	13
Reclassifications	0	0	0	0	0	0
Disposals	0	(305)	0	0	(395)	(700)
Reversals	0	0	0	0	(31)	(31)
31/12/	**0**	**2,712**	**0**	**110**	**2,059**	**4,881**
Carrying amount at 31/12/	**9,810**	**33,090**	**48,890**	**3,940**	**38,202**	**133,932**

Investments and securities classified as available-for-sale financial assets and financial assets measured 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 financial assets category, unrealised gains or losses are reported in a separate reserve under equity after considering any deferred

	2006					
	Investments in associates € '000	Available-for-sale financial assets € '000	Financial assets measured at fair value through profit and loss € '000	Loans on associates € '000	Other loans € '000	**Total** **€ '000**
	9,810	**35,802**	**48,890**	**4,050**	**40,261**	**138,813**
	0	24	0	(4)	(16)	4
	0	44	0	0	14	58
	0	1,516	1,699	0	0	3,215
	48,621	6,861	0	2,649	16,936	75,067
	(107)	2,491	0	(202)	(9,488)	(7,306)
	(2,768)	(5,066)	0	(1,084)	(6,195)	(15,113)
	55,556	**41,672**	**50,589**	**5,409**	**41,512**	**194,738**
	0	**2,712**	**0**	**110**	**2,059**	**4,881**
	0	0	0	0	1	1
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	(73)	0	0	0	(73)
	0	0	0	0	(372)	(372)
	0	**2,639**	**0**	**110**	**1,688**	**4,437**
	55,556	**39,033**	**50,589**	**5,299**	**39,824**	**190,301**

tax effects until they are realised. This results in a figure of € 1,121,000 (prior year: € 146,000) 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 financial assets measured at fair value through profit and loss category, on the other hand, changes in market value are recognised directly in the income statement.

Notes to the balance sheet

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 31/12/2006, equity investments totalling € 25,274,000 (prior year: € 22,739,000) were valued at cost for this reason.

In one case the fair value option was used and a financial asset was allocated to the financial assets measured at fair value through profit and loss category. For the investment in Andreae-Noris Zahn AG, the seller had a covered option. Generally, this purchase option of the seller is accounted for at fair value through profit and loss. If, on the other hand, the fair value option is not exercised, the financial asset would be classified as available for sale. Classifying the assets in this way avoids incongruence in their measurement. Thus, measuring the two financial instruments at fair value does not result in a net effect on results. The change in value of financial assets in the reporting year amounts to € 1,699,000 (prior year: € 7,261,000); the accumulated change amounts to € 11,346,000. This option expired during the reporting year. The carrying amount of € 11,346,000 has been written off. This does not affect the classification of the financial asset as valued at fair value through profit and loss. Future fluctuations in the fair value of the financial asset will therefore have a net effect on results.

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.

Investments in associates are accounted for using the equity method pursuant to IAS 28. Listed market prices do not exist for any of the associates measured at equity. The investments in associates mainly consist of the 30% investment in pharmexx GmbH, Hirschberg/Germany acquired in the reporting year.

The share of the net profit of all associates allocable to Celesio, including amortisation of intangible assets identified during the purchase price allocation, amounts to € 2,521,000. The carrying amount of investments measured at equity totals € 55,516,000. The goodwill attributable to it comes to € 34,521,000. These companies generated in the 2006 fiscal year revenue of € 215,334,000 and net profit of € 3,811,000. Total assets and liabilities amounted to € 118,387,000 and € 99,068,000 respectively.

(13) Deferred taxes

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

	31/12/2005 Assets € '000	31/12/2005 Liabilities € '000	**31/12/2006 Assets € '000**	**31/12/2006 Liabilities € '000**
Non-current assets	6,720	72,823	10,692	103,386
Current assets	17,710	4,403	12,370	2,974
Non-current liabilities	40,608	240	38,243	774
Current liabilities	60,710	10,765	46,227	16,135
Sum of deferred taxes on temporary differences	125,748	88,231	107,532	123,269
Deferred taxes on tax loss carryforwards	13,279	0	6,399	0
less offsetting	(53,734)	(53,734)	(67,549)	(67,549)
Total	**85,293**	**34,497**	**46,382**	**55,720**

These include deferred tax assets set up without effect on income totalling € 11,195,000 (prior year: € 5,108,000). 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 Celesio 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.

	31/12/2005 € '000	**31/12/2006** **€ '000**
Raw materials, consumables and supplies	2,070	2,327
Finished goods and merchandise	1,635,126	1,641,329
Payments on account	2,181	2,269
Total	**1,639,377**	**1,645,925**

In the reporting year inventories were written down by € 5,161,000 (prior year: € 4,413,000). This was counteracted by revaluations from reversing valuation allowances of € 2,644,000 (prior year: € 5,460,000). The carrying amount of inventories valued at net realisable value amounts to € 63,142,000 (prior year: € 32,880,000).

(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, current receivables and other assets are as follows:

	31/12/2005 € '000	**31/12/2006 € '000**
Trade receivables	2,382,111	2,503,246
Tax receivables	45,130	65,282
Receivables from affiliated companies	405	984
Receivables from associates	21	34
Derivative financial instruments	9,131	6,106
Input tax and other tax receivables	74,912	66,601
Other assets	127,417	181,845
Total	**2,639,127**	**2,824,098**

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

Notes to the balance sheet

(16) Cash and cash equivalents

	31/12/2005 € '000	**31/12/2006 € '000**
Cash in hand and cheques	3,669	4,708
Bank balances	4,410	4,936
Total	**8,079**	**9,644**

Movements in cash and cash equivalents as defined by IAS 7 are shown in the accompanying 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 at balance sheet date.

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

(17) Equity

A two-for-one stock split was carried out on 24/07/2006. Since this date the issued capital of Celesio AG is split into 170,100,000 no-par value shares (prior year: 85,050,000). 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 by subsidiaries since their first-time consolidation 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 € 24,539,000 (prior year: € 11,789,000). In addition, this item also includes changes in the fair value of securities categorised as available-for-sale financial assets which resulted in a change of € 355,000 in the reporting year (prior year: loss of € 443,000). An amount of € 8,199,000 was released to income in the fiscal year (prior year: € 124,000).

The increase in minority interests is mainly due to the purchase of K.V. Tjellesen (Denmark).

(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 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 mainly 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:

	2005 %	**2006** **%**
Discount rate by currency region		
EURO	4.3	4.5
NOK	4.5	4.3
GBP	5.0	4.9
Future salary increases	1.0 – 4.6	1.8 – 4.8
Future pension increases	1.0 – 4.0	1.0 – 3.3
Expected return on plan assets	4.0 – 6.0	5.0 – 6.2

Notes to the balance sheet

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

	31/12/2005 € '000	**31/12/2006** **€ '000**
Service cost	16,024	17,889
Past service cost	743	0
Amortisation of actuarial gains and losses	30	300
Interest expense	25,270	26,201
Expected return on plan assets	(21,395)	(23,689)
Curtailments and settlements	0	(3,825)
Total	**20,672**	**16,876**

The interest portion contained in the additions to pension provisions is also 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 € 25,893,000 (prior year: € 48,669,000).

Pension provisions developed as follows in the reporting year:

	2005 € '000	**2006** **€ '000**
Provisions for pension liabilities at 01/01/	132,663	140,236
Pension expenses	20,672	16,876
Pension payments	(17,291)	(17,431)
Currency, consolidated group and other changes	4,192	(213)
Provisions for pension liabilities at 31/12/	**140,236**	**139,468**

The pension payments contain both payments to external pension funds and payments to pensioners.

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

	2005 € '000	**2006** **€ '000**
Present value of funded obligations	463,873	502,465
Present value of unfunded obligations	106,003	106,780
Fair value of plan assets	(401,862)	(431,455)
Unrecognised actuarial gains/losses	(27,778)	(38,322)
Pension provisions at 31/12/	**140,236**	**139,468**

The projected benefit obligation and the fair value of the plan assets developed as follows:

	2005 € '000	**2006** **€ '000**
Defined benefit obligation at 01/01/	**498,659**	**569,876**
Service cost	16,024	17,889
Interest expense	25,270	26,201
Contributions to plan assets by plan participants	330	413
Benefits paid	(22,073)	(24,059)
Actuarial gains/losses	36,462	21,897
Past service cost	743	0
Curtailments and settlements	0	(3,825)
Currency, consolidated group and other changes	14,461	853
Defined benefit obligation at 31/12/	**569,876**	**609,245**

Notes to the balance sheet

	2005 € '000	**2006** **€ '000**
Fair value of plan assets at 01/01/	**360,610**	**401,862**
Expected return on plan assets	21,395	23,689
Contributions by employer	11,381	11,780
Contributions by plan participants	330	413
Payments out of plan assets	(16,163)	(18,408)
Actuarial gains/losses	14,041	11,053
Currency, consolidated group and other changes	10,268	1,066
Fair value of plan assets at 31/12/	**401,862**	**431,455**

	2003 € '000	2004 € '000	2005 € '000	**2006** **€ '000**
Defined benefit obligation	354,660	410,009	569,876	609,245
Fair value of plan assets	273,928	360,610	401,862	431,455
Liability	**80,732**	**49,399**	**168,014**	**177,790**

The plan assets consist of the following components:

	2005 € '000	**2006** **€ '000**
Equity instruments	125,617	134,209
Fixed-income securities	230,009	253,035
Real estate	25,903	30,548
Other	20,333	13,663
Fair value of plan assets at 31/12/	**401,862**	**431,455**

The defined contribution pension plan installed for companies of the Celesio Group involves no commitment for the group at balance sheet date other than payment of the defined contribution to the external fund. Expenses from current contributions to these plans amounted to € 8,436,000 in the reporting period (prior year: € 7,124,000).

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 3.8% and 5.3% (prior year: 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:

	2005		2006							
	Carrying amount 31/12/	of which due within 1 year	Changes in currency and in the consolidation group	Additions	Utilisations	Reversals	Discount	Reclassifications	Carrying amount 31/12/	of which due within 1 year
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Other personnel obligations	81,494	50,498	575	55,238	(50,357)	(2,683)	519	(447)	84,339	52,473
Other provisions	103,756	100,553	2,202	15,752	(12,722)	(12,806)	0	447	96,629	93,589
Total	**185,250**	**151,051**	**2,777**	**70,990**	**(63,079)**	**(15,489)**	**519**	**0**	**180,968**	**146,062**

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

	31/12/2005				**31/12/2006**			
	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	125,620	90,386	1,142,385	1,358,391	148,289	184,975	887,479	1,220,743
Promissory notes	0	513,478	102,145	615,623	0	515,423	104,244	619,667
Lease liabilities	11,602	18,061	14,075	43,738	7,123	14,084	11,475	32,682
Other financial liabilites	30,569	14,764	5,810	51,143	13,191	4,526	5,150	22,867
	167,791	**636,689**	**1,264,415**	**2,068,895**	**168,603**	**719,008**	**1,008,348**	**1,895,959**
Trade payables and other liabilities								
Trade payables	2,189,431	0	0	2,189,431	2,447,464	0	0	2,447,464
Income tax liabilities	142,214	0	0	142,214	130,308	0	0	130,308
Liabilities to affiliated companies	1,077	0	0	1,077	24	0	0	24
Liabilities to associated companies	2,452	0	0	2,452	2,847	0	0	2,847
Other liabilities	463,443	0	0	463,443	440,337	5,340	0	445,677
	2,798,617	**0**	**0**	**2,798,617**	**3,020,980**	**5,340**	**0**	**3,026,320**
Liabilities	**2,966,408**	**636,689**	**1,264,415**	**4,867,512**	**3,189,583**	**724,348**	**1,008,348**	**4,922,279**

(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.

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.

Notes to the balance sheet

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. In addition, special purpose lease entities have arranged fixed interest loans of € 77,031,000 (prior year: € 87,157,000) to finance real estate. The fair value of fixed-interest loans comes to € 79,318,000 (prior year: € 91,595,000). Liabilities to banks are broken down by maturity. They are denominated in the following currencies and are subject to the following interest rates on the balance sheet date, without taking account of the impact of interest hedges:

		31/12/2005		**31/12/2006**	
Currency	Due in	Weighted effective interest rate %	Carrying amount € '000	Weighted effective interest rate %	Carrying amount € '000
EUR			**795,278**		**659,374**
	1 year	2.9	85,134	4.1	80,851
	1 to 5 years	4.4	24,322	4.6	24,930
	more than 5 years	3.1	685,822	4.2	553,593
GBP			**504,880**		**458,142**
	1 year	5.0	23,334	6.0	41,165
	1 to 5 years	5.1	43,776	5.6	148,921
	more than 5 years	5.1	437,770	5.7	268,056
DKK			**–**		**22,599**
	1 year	–	–	4.8	9,476
	1 to 5 years	–	–	4.0	755
	more than 5 years	–	–	4.3	12,368
CZK			**50,935**		**74,618**
	1 year	2.5	9,854	2.9	10,787
	1 to 5 years	2.4	22,288	2.9	10,369
	more than 5 years	2.5	18,793	2.9	53,462
NOK			**5,163**		**3,393**
	1 year	2.9	5,163	3.9	3,393
Others			**2,135**		**2,617**
	1 year	6.2	2,135	6.2	2,617
			1,358,391		**1,220,743**

b) Promissory notes

To secure 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 € 159,744,000 (prior year: € 157,645,000) is subject to a fixed interest rate and has a fair value of € 160,290,000 (prior year: € 165,580,000). The effective interest rates at the balance sheet date range between 3.62% and 5.52% (prior year: 2.89% and 5.40%).

c) Lease liabilities

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

	31/12/2005 € '000	**31/12/2006 € '000**
Minimum lease payments	52,610	39,764
due within one year	13,302	8,510
due after one year but not more than five years	22,883	17,716
due in more than five years	16,425	13,538
Interest portion	(8,872)	(7,082)
Present value	**43,738**	**32,682**

d) Other financial liabilities

Other financial liabilities chiefly contain payables 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 of real estate. In these cases, collateral equal to the secured loans of € 94,377,000 (prior year: € 99,679,000) has been assigned.

(22) Trade payables and other liabilities

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

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

Other liabilities are as follows:

	31/12/2005 € '000	**31/12/2006** **€ '000**
Personnel liabilities	109,202	112,099
Other tax liabilities	71,857	51,640
Outstanding invoices	114,659	123,581
Derivative financial instruments	67,804	37,781
Interest liabilities	9,030	9,300
Further liabilities	90,891	111,276
Total	**463,443**	**445,677**

(23) Risk management and derivative financial instruments

a) Principles of risk management

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

The use of derivatives is subject to uniform group guidelines, compliance of which is monitored constantly. These include functional segregation of trading, handling and posting and the authorisation of a few qualified employees to enter into derivative financial instruments. All derivatives are entered into exclusively for hedging purposes, i.e. they are not used for trading or other speculative purposes.

b) Interest rate risks

With regard to interest-rate risks, a distinction must be made between fixed interest and variable interest financial instruments. For fixed interest financial instruments, a fixed market interest rate is agreed on for the full term of the derivative. The risk is that when the market interest rates fluctuate, the market price of the financial instrument will change (fair value risk due to interest rates). The market price is based on the present value of future payments (interest payments plus repayment of principal) discounted using the market interest rate prevailing on balance sheet date. The interest rate related risk will therefore lead to a profit or loss if the fixed-interest instrument is sold before maturity.

For financial instruments subject to variable interest rates, the interest rate is adjusted in line with respective market interest 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).

Interest caps, collars and swaps were used in the fiscal year to hedge interest risks. An interest cap puts an upper limit on a variable interest rate. An interest collar has both an upper and a lower limit. An interest swap involves swapping the underlying transaction subject to a fixed interest rate for a financial instrument with a variable interest rate or vice versa for the entire term of the underlying instrument.

Notes to the balance sheet

An up to one-percent increase in the 6-month EURIBOR, which at year end stood at 3.85%, would have resulted in an increased interest expense of approx. € 4.8 m. If the 6-month GBP LIBOR, which at year-end stood at 5.43%, were to increase by up to one percent, this would change the interest expense to be recognised in relation to the year as a whole by around £ 1.1 m (approx. € 1.6 m).

c) Currency risks

Currency risks refer to the possible impairment of balance sheet items and any forward transactions due to fluctuations in exchange rates.

The currency risks at Celesio pertain, among other things, to capital expenditures, financing measures and operating activities. As the group companies largely settle their operating business in their respective functional currency, the currency risk can be classified as low.

Forward exchange contracts and currency swaps were used in the 2006 fiscal year to hedge against exchange rate fluctuations.

d) Credit risk

The credit risk pertains to the risk that the contractual partner will fail wholly or partly to meet its obligations, leading to a financial loss. To mitigate this risk Celesio only enters into derivative financial instruments with selected business associates. Given the current derivative financial instruments, the maximum theoretical risk of default equals the positive fair values of the instruments. These amount to € 6,106,000 as of balance sheet date (prior year: € 9,131,000).

e) Liquidity risk

Liquidity management takes the form of rolling liquidity planning taking existing lines of credit into account. The Celesio Group has a significant amount of unused long-term confirmed lines of credit and bank gurantees and can make use of these at any time.

In the 2006 fiscal year, 20 European banks provided Celesio AG and Celesio Finance B.V. with a syndicated line of credit of € 600 million. The line of credit expires on 10/02/2011. At the end of the first two years, it is possible to extend the line of credit for one year each time. This requires the approval of the lenders. The line of credit had not been used as of the balance sheet date.

f) Hedge accounting

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.

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.

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.

Notes to the balance sheet

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.

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 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 forward exchange contracts are based on the latest official exchange rates taking account of forward discounts and premiums.

The fair values of derivatives are as follows:

	31/12/2005			**31/12/2006**		
	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	**(58,828)**	1,028	(59,736)	**(29,297)**	(365)	(29,423)
Currency instruments	**7,417**	0	197	**(2,378)**	0	(537)
Other derivatives	**(7,261)**	0	0	**0**	0	0
Total	**(58,672)**	**1,028**	**(59,539)**	**(31,675)**	**(365)**	**(29,960)**

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

	31/12/2005				**31/12/2006**			
	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	**1,222,298**	115,000	688,416	418,882	**1,877,952**	156,366	1,387,476	334,110
Currency instruments	**763,426**	763,426	0	0	**452,744**	452,744	0	0
Other derivatives	**39,243**	39,243	0	0	**0**	0	0	0
Total	**2,024,967**	**917,669**	**688,416**	**418,882**	**2,330,696**	**609,110**	**1,387,476**	**334,110**

(24) Contingent liabilities and other financial commitments

	31/12/2005 € '000	**31/12/2006 € '000**
Contingent liabilities from bills of exchange	12,354	8,832
Guarantee contingencies	204,791	161,103
Total	**217,145**	**169,935**

The warranties and guarantees were primarily issued by the Celesio Wholesale division in the United Kingdom € 114,502,000 (prior year: € 160,580,000) and Austria € 23,565,000 (prior year: € 23,006,000) as well as the Celesio Pharmacies division in Italy € 18,132,000 (prior year: € 18,076,000).

For 2006 fiscal year, Celesio AG issued the following guarantees for the benefit of its Irish subsidiaries (Celesio Wholesale and Celesio Pharmacies division): "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 these guarantees. Consequently, these subsidiaries were exempted from certain disclosure requirements.

Notes to the balance sheet

Other financial obligations	31/12/2005 € '000	31/12/2006 € '000
Rent agreements and operating leases due within one year	85,411	99,554
due after one year but not more than five years	320,900	302,873
due in more than 5 years	263,339	431,045
	669,650	**833,472**
Purchase price obligations from business combinations	6,228	9,795
Purchase obligations for capital expenditures	5,234	7,891
Property, plant and equipment	[4,247]	[7,457]
Intangible assets	[769]	[114]
Other assets	[218]	[320]
	681,112	**851,158**

Commitments related to rental agreements and leases are mainly attributable to the Celesio Wholesale and Celesio Pharmacies businesses in the United Kingdom € 511,767,000 (prior year: € 430,554,000) and Celesio Pharmacies in Ireland € 114,202,000 (prior year: € 88,210,000). In addition, future rental income of € 40,991,000 (prior year: € 40,587,000) can be expected from sub-leases of property.

The purchase price commitments associated with business combinations primarily relate to pharmacy acquisitions in Belgium and further shares in K.V. Tjellesen (Denmark).

Notes to the cash flow statement

Pursuant to IAS 7, the consolidated cash flow statement presents the changes in the 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 € 9,966,000 (prior year: € 11,974,000), and interest payments of € 109,570,000 (prior year: € 101,761,000). Income taxes resulted in cash payments of € 131,779,000 (prior year: € 132,138,000).

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 € 418,000 (prior year: € 428,000) 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 Celesio Wholesale, Celesio Pharmacies and Celesio Solutions as well as Others. The primary format used for segment reporting is by business division.

Notes on segment reporting by business division

The Celesio Wholesale segment comprises the wholesale trading activities Celesio conducts with third party customers. The Celesio 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 Celesio Solutions division consists of providing medicines-related transport and logistics services for pharmaceutical manufacturers in the Movianto business unit as well as the strategic cooperation initiated with pharmexx during the reporting year. 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. Capital expenditures are derived from the internal reporting and also contain non-cash additions to non-current assets.

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

From 01/01/2006 onwards, the activities of the head office of the Movianto business unit are reported in the Solutions division. Previously, the corresponding segment result, assets and liabilities were contained in the Others segment. The prior-year figures were adjusted accordingly.

Notes on segment reporting by geographical region

The segment titled Other countries contains the Netherlands, Austria, Norway, Spain, Portugal, Czech Republic, Belgium, Ireland and Italy, Slovenia, Croatia, Romania and Denmark.

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 structure of remuneration 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, the German companies of the Celesio Group are included in the fiscal unity for VAT of which Franz Haniel & Cie. GmbH is the parent. At balance sheet date the associated liabilities amounted to € 24,000 (prior year: € 999,000) and receivables to € 984,000 (prior year: € 363,000). In the reporting year expenses of € 730,000 (prior year: € 1,152,000) were incurred and income of € 26,000 (prior year: € 16,000) received. In the year 2005 this included a trade tax refund received by Celesio AG of € 52,881,000 gross (net € 38,934,000) for the years 1996 to 2001.

As a rule, associates are 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 € 601,000 (prior year: € 439,000). Of this amount € 419,000 (prior year: € 389,000) related to statutory audits while € 182,000 was spent on other services (prior year: € 50,000).

In the course of the audit of the consolidated financial statements, the subsidiaries were also audited by auditors from the PricewaterhouseCoopers network and other audit firms. The audit costs for the group totalled € 2,595,000 (prior year: € 2,583,000).

Exemption pursuant to Section 264 (3) and Section 264b HGB

Pursuant to Sec. 264 (3) HGB [Handelsgesetzbuch: German Commercial Code], the following companies are exempted from the duty to publish their financial statements: GEHE Pharma Handel GmbH, ABG Apotheken-Beratungsgesellschaft mbH, Admenta Deutschland GmbH, Movianto GmbH and Movianto Deutschland GmbH.

GEHE Immobilien GmbH & Co. KG, GEHE Informatik Services GmbH & Co. KG and Ancavion GmbH & Co. KG are exempted from the duty to publish their financial statements pursuant to Sections 264b, 264a HGB.

Notices from shareholders

According to a notice dated 02/04/2004 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 Celesio 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 the knowledge of Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 52,9% (prior year: 52.9%) at the end of the reporting year.

Other notes

Corporate governance

The management board and supervisory board last issued a declaration of compliance with the recommendations of the German Corporate Governance Code pursuant to Sec. 161 AktG [Aktiengesetz: German Stock Corporation Act] on 12/12/2006 and published this on their website at www.celesio.com.

Total remuneration and remuneration structure of the management board

Total remuneration paid to the management board in 2006 fiscal year amounted to € 8,221,000 (prior year: € 7,145,000). Of this amount € 1,513,000 (prior year: € 1,540,000) was fixed remuneration, € 5,278,000 (prior year: € 4,055,000) performance-related remuneration (profit bonus) and € 1,430,000 (prior year: € 1,550,000) remuneration with long-term incentive (strategy bonus). Besides these short-term benefits, the pension provisions were increased by € 246,000 (prior year: € 789,000). Termination benefits came to € 4,149,000. Pension provisions of € 3,896,000 were released as a result. There is no share based programme in place at Celesio AG.

At the instigation of the personnel committee, the structure of the remuneration system for the management board is discussed by the supervisory board and checked regularly. 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, Dr Eckhard Cordes and two other members of the supervisory board, 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 remuneration of management board members comprises a fixed monthly income and a performance-based variable component. The fixed remuneration as a basic salary and installment payments of the performance-related remuneration (2006: € 549,000) are paid as a monthly salary. The benefits in kind are limited to the use of the company car and must be taxed by the members of the management board. The variable component is made up of a profit bonus and a strategy bonus. The members of the management board also received direct pension commitments. The amount of the commitment depends on the fixed salary and the possible period of service and is thus not tied to the variable remuneration component. Benefits in the event of termination of service have not been promised to the members of the management board.

Profit bonus
This profit bonus is measured on the cash flow of the Celesio Group. 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 the strategy bonus is the performance indicator, EVA (Economic Value Added*). Thus, the measurement base is the development of the value added to the company in excess of the cost of capital. 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 € 269,000 (prior year: € 230,000). A pension provision of € 3,743,000 (prior year: € 3,751,000) has been recognised to cover them.

In the 2006 fiscal year, Celesio AG neither granted credit to management board members nor did it enter into any contingencies in favour of these persons.

* Registered trademark of Stern Stewart & Co.

Other notes

Total remuneration and remuneration 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 remuneration of € 5,000 annually and an additional payment of € 800 for each half percentage point of dividends distributed to shareholders in the past fiscal year that is in excess of 4% of subscribed capital. These payments are net of VAT which must be added as applicable. The chairman receives twice the standard amount paid to the other members of the supervisory board and the deputy receives one and a half times the standard. Each member of a committee – with the exception of the committee founded to satisfy Sec. 27 (3) MitbestG [Mitbestimmungsgesetz: Codetermination Act] – receives € 2,000, with the chairman of a committee receiving € 4,000.

Total remuneration paid to the supervisory board in the 2006 fiscal year amounted to € 1,172,000 (prior year: € 1,006,000). Of this amount, € 68,000 (prior year: € 67,000) was attributable to fixed remuneration paid for membership of the supervisory board, € 1,091,000 (prior year: € 925,000) for variable components pegged to dividend pay-outs for membership in the supervisory board plus € 14,000 (prior year: € 14,000) for committee activities.

Prof Zahn received a fee of € 2,000 (prior year: € 2,000) for consulting services rendered to GEHE Pharma Handel GmbH.

In the 2006 fiscal year, Celesio AG neither granted credit to supervisory board members nor did it enter into any contingencies in favour of these persons.

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. 15a of the Wertpapierhandelsgesetz [German Securities Trading Law] people who hold a management function at a publicly listed German company or any legal or natural person who is related to such a functionary have a duty to report to the company and to the Bundesanstalt für Finanzdienstleistungsaufsicht [Federal Financial Supervisory Authority] if they buy or sell shares or related financial instruments in the company of over € 5,000. Celesio AG 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 € 127,575,000.00 (prior year: € 119,070,000.00).

The management board proposes distributing this amount of € 127,575,000.00 in full (prior year: € 119,070,000.00) as a dividend for 2006 fiscal year.

Based on this proposal for the appropriation of profits, the dividend per share amounts to € 0.75 (prior year: ordinary dividend of € 0.67 plus a special dividend of € 0.03*).

Stuttgart, 15 February 2007

The Management Board

* Adjusted to take account of the 1:2 share split

Members of the management board

	Membership of further management boards and comparable committees:	Membership of supervisory boards and comparable control committees:
Dr Fritz Oesterle Chairman and Chief Executive Officer	– Management board Franz Haniel & Cie. GmbH (from 01/10/2006)	– Herba Chemosan Apotheker-AG, Deputy Chairman – Norsk Medisinaldepot AS, Member of the Board of Directors – Healthcare Services Group plc, Member of the Board of Directors – Untertürkheimer Volksbank e.G. – Verwaltungsrat Christophsbad Göppingen Dr. Landerer Söhne GmbH, (until 31/12/2006) – Lloyds Nederland B.V., (until 07/06/2006)
Stefan Meister Deputy Chairman		– Lloyds Nederland B.V. (until 07/06/2006)
Jacques Ambonville (until 30/09/2006)		
Wolfgang Mähr (from 01/10/2006)		– GEHE Pharma Handel GmbH, Chairman (from 01/10/2006) – OCP S.A., Chairman – Herba Chemosan Apotheker-AG
Dr Felix A Zimmermann		– Herba Chemosan Apotheker-AG – Kemofarmacija d.d., Deputy Chairman

Members of the supervisory board

		Membership of supervisory boards and comparable control committees:
Dr Eckhard Cordes Chairman (from 27/04/2006)	Chairman of the Management Board Franz Haniel & Cie. GmbH	– METRO AG, Chairman (from 20/02/2006) – TAKKT AG (from 31/05/2006) – Rheinmetall AG – Air Berlin PLC, Non-Executive Director in Board of Directors (from 15/05/2006) – SKF Aktiebolaget, Member of Board of Directors (from 25/04/2006)
Prof Theo Siegert Chairman (until 27/04/2006)	Managing partner of de Haen Carstanjen & Söhne	– ERGO Versicherungsgruppe AG – METRO AG, Chairman (until 20/02/2006) – TAKKT AG (until 31/05/2006) – Merck KGaA (from 30/06/2006) – Deutsche Bank AG (from 16/07/2006)
Ihno Goldenstein Deputy Chairman	Employee Goods-In Department GEHE Pharma Handel GmbH	
Klaus Borowicz	Head of Branch Office GEHE Pharma Handel GmbH	
Prof med Julius Michael Curtius	Cardiologist	
Dr Hubertus Erlen	Chairman of the Management Board Schering AG (until 13/09/2006) Deputy Chairman of the Supervisory Board Bayer Schering Pharma AG (from 14/09/2006)	– Bayer Schering Pharma AG, Deputy Chairman of the Supervisory Board (from 14/09/2006) – Kuratorium der Bertelsmann Stiftung
Dirk-Uwe Kerrmann	Commercial employee GEHE Pharma Handel GmbH	
Jörg Lauenroth-Mago	Trade Union Secretary ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	– GEHE Pharma Handel GmbH
Ulrich Neumeister	Logistics employee GEHE Pharma Handel GmbH	
Hans-Martin Poschmann	Trade Union Secretary ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	
Dr Ihno Schneevoigt	Member of the Management Board (retired) Allianz Versicherungs-AG Allianz Lebensversicherungs-AG	– Ströer Out-of-Home Media AG – Korn/Ferry International Corp., Board of Directors
Dr Klaus Trützschler	Member of the Management Board Franz Haniel & Cie. GmbH	– TAKKT AG, Chairman – Allianz Versicherungs-AG – Bilfinger Berger AG – CEMEX Deutschland AG
Prof Erich Zahn	Professor of Buisness Studies University of Stuttgart	– Kuratorium Fraunhofer-Institut für Produktionstechnik und Automatisierung IPA

Auditor’s Report

We have audited the consolidated financial statements prepared by the Celesio AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the Celesio AG for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB [”Handelsgesetzbuch”: German Commercial Code] are the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 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 these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 15 February 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wagner)	(Wißfeld)
Wirtschaftsprüfer	Wirtschaftsprüfer

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Websites

Celesio AG and companies in the Celesio Group:

www.celesio.com

Celesio Wholesale:

France	www.point.ocp.fr
Germany	www.gehe.de
United Kingdom	www.aah.com
Austria	www.herba-chemosan.at
Denmark	www.maxjenne.dk
	www.tjellesen.dk
Belgium	www.pharmabelgium.be
Norway	www.nmd.no
Slovenia	www.kemofarmacija.si
Czech Republic	www.gehe.cz

Celesio Wholesale offers access-protected business-to-business solutions for pharmacies:

Germany	www.gehe-point.de
United Kingdom	www.aah-point.com
Austria	www.herba-point.at
Italy	www.afmpoint.it

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
pharmexx	www.pharmexx.com

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 items of non-cash income and expenses.
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	Euro Interbank Offered Rate is the reference rate for forward securities in euros in interbank business, fixed each working day at 11.00 hrs (Brussels time).
Fair values	The measurement of a balance sheet item on 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 debt-equity ratio. It is calculated by dividing the net financial debt by equity.
GIRP	Groupement International de la Répartition Pharmaceutique Européenne. European Association of Pharmaceutical Full-line 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.
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, 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.
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.
Interest rate swap	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.
LIBOR	London Interbank Offered Rate is the reference rate for forward securities in euros in interbank business, fixed each working day at 11.00 hrs (London time).
Market capitalisation	Market capitalisation reflects the current market value of a company. It is calculated by multiplying the share price by the number of shares. Market capitalisation, measured by the free float, is calculated on the basis of the shares in free float. The trading volume and market liquidity of a share frequently rise when market capitalisation is high and particular when the free float is high.
Net working capital	Financial indicator to measure the solvency structure of a company. Calculated as the difference between current operating assets (inventories, trade receivables and other assets) and current operating liabilities (trade payables, provisions 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 and English. The German version of the annual report is legally binding.

The financial statements and management report of Celesio AG for the 2006 fiscal year are published in the electronic Bundesanzeiger [German Federal Gazette]. The operator of the electronic German Federal Gazette transmits the documents to the Business Register; there the financial statements and management reports are then available online to all free of charge.

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	DE000CLS1001
Securities ID No.	CLS 100
German Stock Exchange Code	CLS1
Reuters Code	CLSGn
Bloomberg Code	CLS1 GR

* Valid as of 24 July 2006 following conversion to registered shares and share split
Number of outstanding shares: 170.1 million

Financial Calendar**

Balance sheet press conference, Stuttgart	15 March 2007
Celesio analysts and investors conference, Dresden	19 March 2007
International Bankers Day, Dresden	20 March 2007
Annual general meeting, Stuttgart	26 April 2007
Dividend payment	27 April 2007
Interim report, 1st quarter 2007	14 May 2007
Interim report, 1st half-year 2007	9 August 2007
Interim report, 1st – 3rd quarter 2007	13 November 2007

** Subject to change

The latest information on roadshows, investment conferences and other events can be found in the Financial Calendar on www.celesio.com

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the healthcare group

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