Celesio AG
Annual Report
2012

more positive lives

celesio

More Positive Lives

Key figures and corporate portrait in fold-out

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The fiscal year at a glance

KEY FIGURES OF THE CELESIO GROUP		2011	**2012**	Change on a € basis %	Organic change [6] %
Continuing operations					
Revenue	€ M	22,152.9	**22,270.8**	0.5	–1.6
Gross profit	€ M	2,335.0	**2,425.1**	3.9	/
adjusted [1]	€ M	2,339.0	**2,423.4**	3.6	–1.0
EBITDA	€ M	495.4	**542.5**	9.5	/
adjusted [1) 2)]	€ M	554.9	**579.6**	4.5	1.7
EBIT	€ M	308.0	**370.1**	20.2	/
adjusted [1) 2) 3)]	€ M	429.8	**444.8**	3.5	0.2
Profit before tax	€ M	176.9	**214.7**	21.4	/
adjusted [1) 2) 3) 4)]	€ M	319.9	**333.1**	4.1	/
Net profit/loss	€ M	76.7	**109.6**	43.0	/
adjusted [1) 2) 3) 4)]	€ M	200.6	**214.2**	6.8	/
Earnings per share (basic)	€	0.43	**0.60**	39.5	/
Earnings per share (basic), adjusted [1) 2) 3) 4)]	€	1.16	**1.22**	5.0	/
Net cash flow from operating activities	€ M	578.1	**432.9**	–25.1	/
Net cash flow from investing activities	€ M	–165.8	**–292.9**	–76.7	/
Free cash flow	€ M	290.8	**37.5**	–87.1	/
Full-time equivalents [5]		30,199	**28,812**	/	/
Retail pharmacies [5]		2,280	**2,177**	/	/
Wholesale branches [5]		141	**136**	/	/
Discontinued operations					
Net profit/loss	€ M	–70.9	**–258.6**	≥100	/
Earnings per share (basic)	€	–0.42	**–1.52**	≥100	/
Full-time equivalents [5]		6,471	**65**	/	/
Continuing and discontinued operations					
Total assets [5]	€ M	8,826.8	**7,928.7**	–10.2	/
Equity [5]	€ M	2,466.6	**2,195.9**	–11.0	/
Equity ratio [5]	%	27.9	**27.7**	–0.9	/
Full-time equivalents [5]		36,670	**28,877**	/	/
Employees [5]		46,977	**38,940**	/	/
Net profit/loss	€ M	5.8	**–149.0**	/	/
Earnings per share (basic)	€	0.01	**–0.92**	/	/

1) Adjusted for non-recurring expenses and income from the Operational Excellence Program (including tax effect).
2) Adjusted for special effects from revaluations pursuant to IFRS 5 as well as deconsolidation effects (including tax effect).
3) Adjusted for impairment losses recognised on non-current assets (including tax effect).
4) Adjusted for special effects in the financial result (including tax effect).
5) Figures on closing date.
6) Organic change is defined on page 112.

Celesio is a leading international trading company and provider of logistics and services in the pharmaceutical and health-care sector. Our proactive and preventive approach ensures that patients receive the products and support that they require for optimum care.

With 39,000 employees in 16 countries and revenue of more than EUR 22bn in 2012, our high-performing supply chain proves its worth day in, day out.

Every day, we serve over 2 million customers – at 2,200 pharmacies of our own and 4,500 participants in our brand partnership schemes. With 136 wholesale branches, we supply around 65,000 pharmacies and hospitals every day with up to 130,000 pharmaceutical products.

A healthier world where more people can live life to the fullest.

Effectively, efficiently and passionately delivering innovative healthcare services that equip and inspire more positive lives.

Rubina /

My pharmacy has redefined skincare!

Everyone wants to feel comfortable – and healthy – in their own skin. Skincare is much more than a cosmetic issue. Celesio's new pharmacy concept draws on the pharmaceutical expertise of the pharmacist and builds on this through innovative service offerings, including individual skin type analyses, specially trained personnel and patient events with skincare specialists. Celesio works closely with the European Skin Health Alliance and is therefore always up to date with developments in this area.

More positive lives

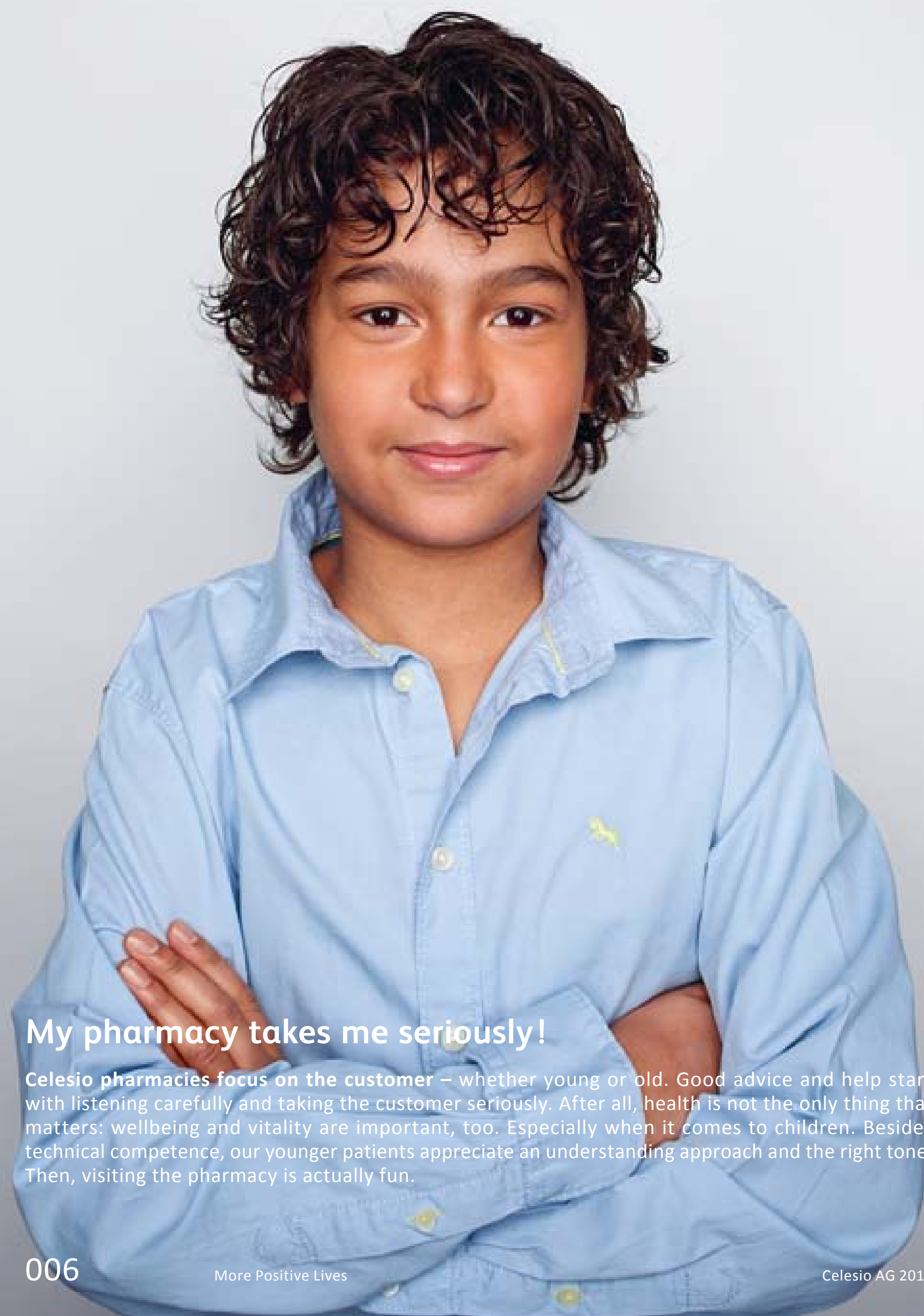
Lothar /

My pharmacy offers me more than just medicine!

Pain is not compatible with enjoyment of life. Especially not chronic pain. The Celesio pharmacy concept is therefore tailored to pain sufferers and their needs. In a first step, we aim to understand and analyse on the basis of detailed discussions and a professional pain assessment. We help by offering advice and high-quality pain products. The pharmacist can continue to support the patient using a pain diary. Hand in hand with the attending physician. That's how the pharmacist helps patients develop a more positive outlook on life.

More positive lives

Felipe /



My pharmacy takes me seriously!

Celesio pharmacies focus on the customer – whether young or old. Good advice and help start with listening carefully and taking the customer seriously. After all, health is not the only thing that matters: wellbeing and vitality are important, too. Especially when it comes to children. Besides technical competence, our younger patients appreciate an understanding approach and the right tone. Then, visiting the pharmacy is actually fun.

More positive lives

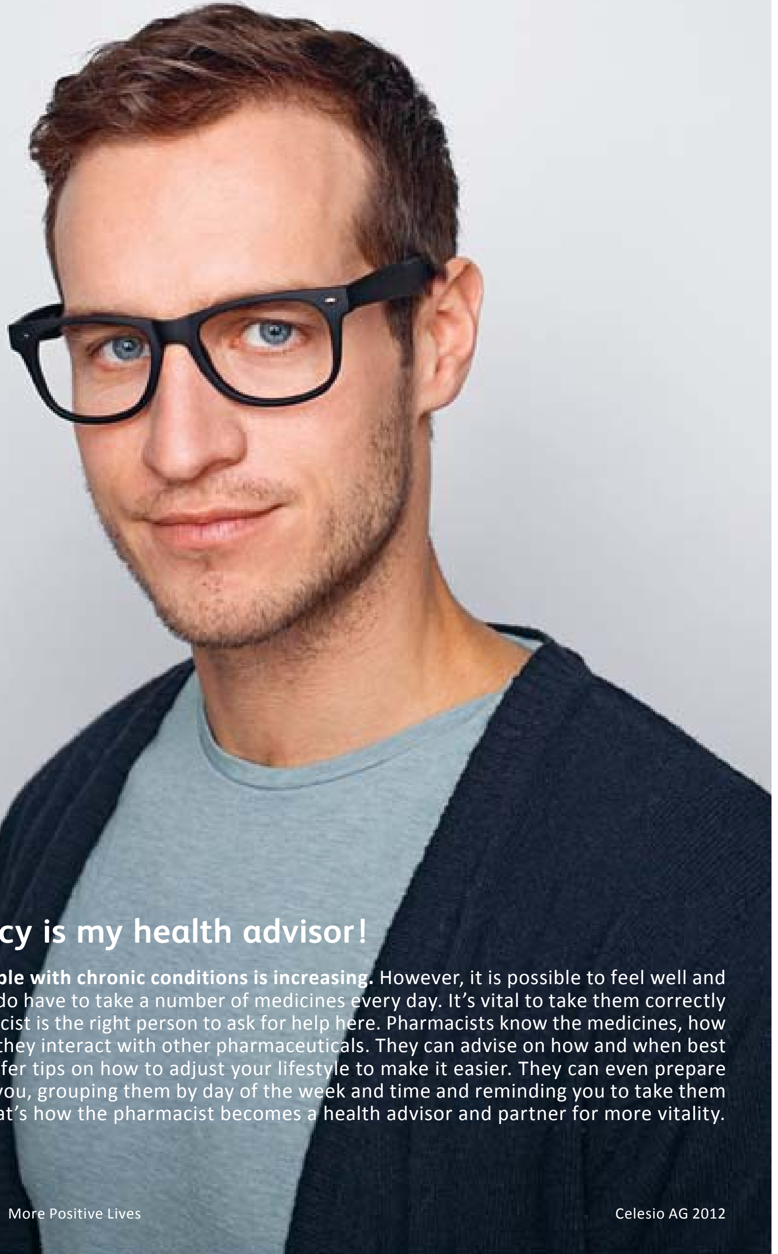
Jinja /

My pharmacy keeps me up to date!

Interactive and attractive. The positive new experience is not limited to the health bar at Celesio pharmacies, where customers can get information at touchscreen terminals, try out products and speak to their pharmacists. It is also available at home or out and about. Customers can also access the consultation results and other products and services offered by their pharmacy at any time via PC or smartphone. These channels also offer the latest medical and scientific insights into the topics of interest to any given customer.

More positive lives

Sven /

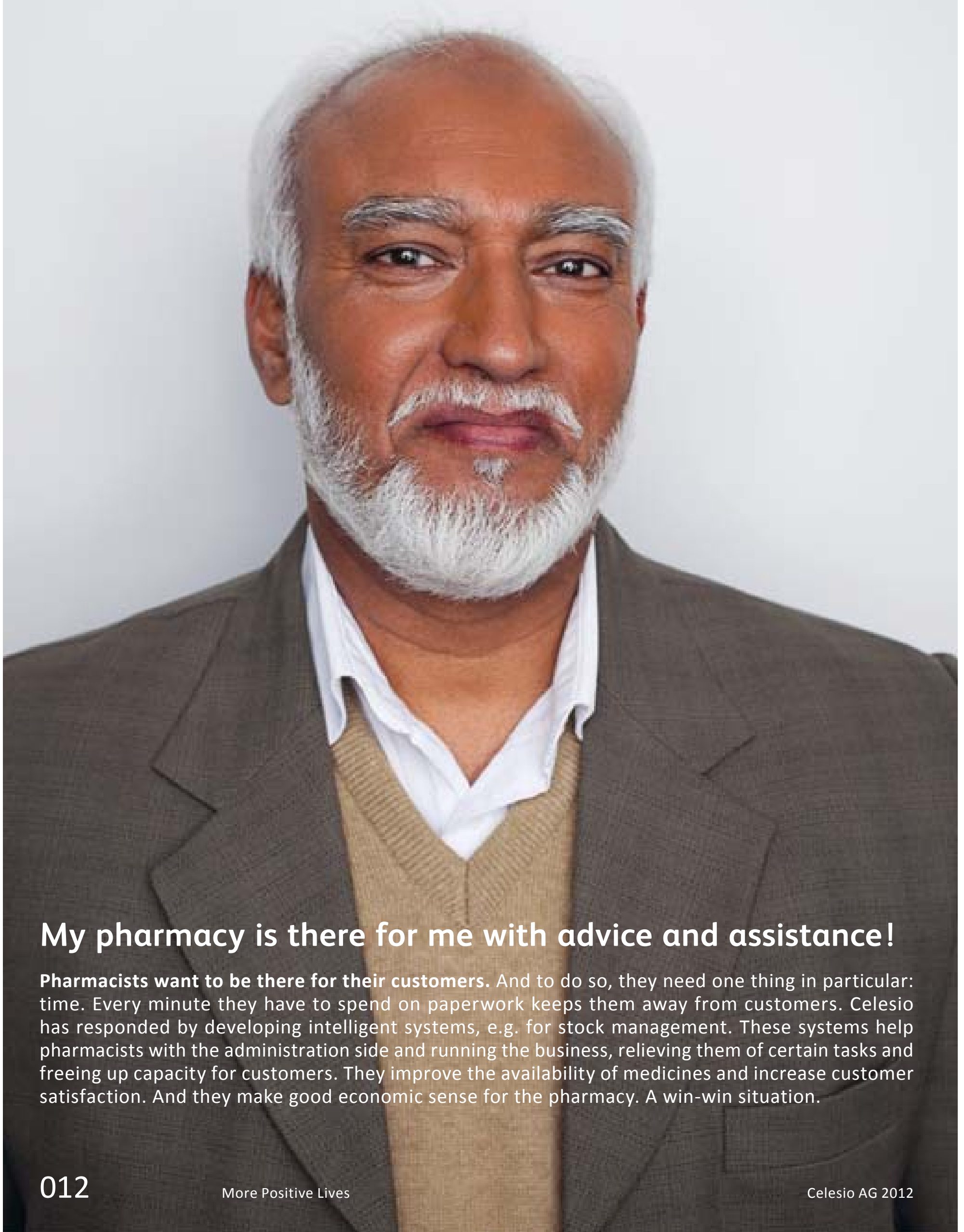


My pharmacy is my health advisor!

The number of people with chronic conditions is increasing. However, it is possible to feel well and healthy even if you do have to take a number of medicines every day. It's vital to take them correctly though. The pharmacist is the right person to ask for help here. Pharmacists know the medicines, how they work and how they interact with other pharmaceuticals. They can advise on how and when best to take them and offer tips on how to adjust your lifestyle to make it easier. They can even prepare your medicines for you, grouping them by day of the week and time and reminding you to take them via smartphone. That's how the pharmacist becomes a health advisor and partner for more vitality.

more positive lives

Abdul /



My pharmacy is there for me with advice and assistance!

Pharmacists want to be there for their customers. And to do so, they need one thing in particular: time. Every minute they have to spend on paperwork keeps them away from customers. Celesio has responded by developing intelligent systems, e.g. for stock management. These systems help pharmacists with the administration side and running the business, relieving them of certain tasks and freeing up capacity for customers. They improve the availability of medicines and increase customer satisfaction. And they make good economic sense for the pharmacy. A win-win situation.

More positive lives

When our customers leave our pharmacies, they take something away with them!

More than just medicines. Positivity. Better health. Better quality of life.

EAU THERMALE
Avène
EAU THERMALE
Avène
EAU THERMALE
Avène
Crème
pour peaux intolérantes
Apaisante
Skin recovery cream
Calming formula

My pharmacy

Good health is the recipe for vitality and quality of life. And the ingredients are care, consulting, service and the right medicine. Ideally from professionals who care about what they're doing and do it well. Whether in Norway, the UK, Germany or Italy, as a visit to four Celesio or Celesio partner pharmacies shows.

Snowfall, minus three degrees. Winter in Oslo. One of those days when people long for warmth and relaxation. In the Norwegian capital, two of Celesio's own pharmacies offer special services: "We now have spa areas at six branches around the country where we offer skincare and beauty treatments," reports Silje Skålevik. Ever since, the pharmaceutical technician – who is also a trained skincare therapist – has been doing more than just advising customers on health. The number of customers placing themselves in her capable – and qualified – hands has increased steadily. Whether they have specific skin problems or just want to relax, a visit to the separate treatment room is a good way for customers to care for their health. In future, Celesio will increasingly work with the Skin Care Academy, an initiative of the Skin Health Alliance which is an independent not-for-profit organisation in Europe. The aim is to offer Celesio's pharmacy employees ongoing training in skincare.

Trained eye

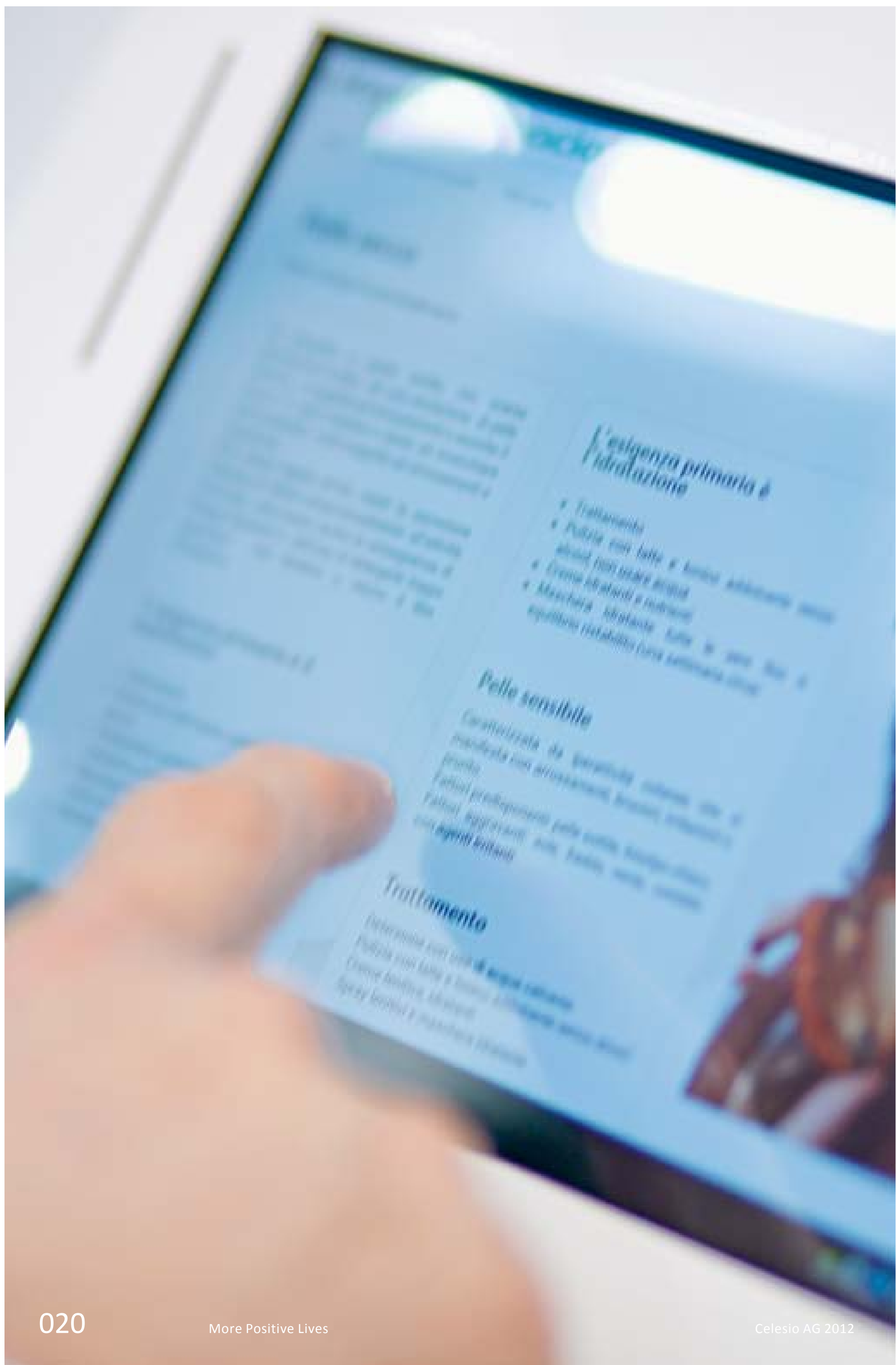
The services on offer at these six Celesio pharmacies in Norway range from traditional pharmaceutical facials to massage and epilation to manicures and makeup. "The climate in Norway means that many people have extremely dry skin," explains Silje Skålevik. Eczema and psoriasis are not unusual and this is a situation to be found in many other countries. There are 50 million eczema sufferers throughout Europe, of which half are children. "I am not a doctor, but as skincare specialists we have a trained eye. If we think the patient could have a skin disease, we recommend a visit to the dermatologist and can even make contact with a physician directly if the patient wants. We also offer tips so that the skin condition doesn't deteriorate before the patient has a chance to visit the doctor." Silje Skålevik's patients range in age from 15 to 88, with the younger ones often visiting the salon for acne treatments. "Young people and their parents are more aware about keeping skin healthy in general."

Competitive advantage and revenue boost

Premium medical skincare products are used in the treatment rooms. "Our brands are of the highest quality and some of them are exclusive to our pharmacies. There is definitely an emotional aspect to this. People in Norway are often well off and keen to do something positive for their health and wellbeing," says Silje Skålevik. The advice that she and her colleagues offer is not just good for customers, it's good for business too. "Our salons and skincare specialisation respond to patients' wishes while at the same time securing a competitive advantage. Revenue has soared at all six branches and we are now booked up almost every day. Although we distribute leaflets and maintain a website and Facebook page, news of our services has mainly been spread by word of mouth. That really is the best advertisement," smiles Silje Skålevik.

Comprehensive market study

A market study carried out by Celesio also confirms that healthy skin is a major concern, regardless of socioeconomic background. A sample of 1,000 patients each was polled in Germany, the UK, France, Norway and Italy. At 40 percent on average and over 50 percent in Norway, demand for special skincare offerings was particularly strong in health conscious


L'esigenza primaria è l'idratazione
Pelle sensibile
Trattamento

customer groups. The figures are similar for pain solutions. One in four Europeans complains of chronic pain and this is another area where more than a third of the respondents would welcome more and better advice. Whether skin or pain, most people view their local pharmacist as the first port of call and advisor of choice. That is why both of these issues feature as focus points in our new Celesio pharmacy concept currently being tested in four Lloyds pilot pharmacies in Italy and the UK.

Professional pain counselling

In Milan, one of these pilot pharmacies is showcasing excellence in pain counselling for patients. For instance, "Lloyds Farmacia" displays pain medicines in special shelving, grouped by area and intensity to give the patient a clear overview. An integrated touch-screen delivers valuable information on any sort of pain instantly, while pharmacy staff are on hand to offer the customer a detailed consultation and suggest solutions. "To give the best consultation possible, we have developed a methodical check list which patients can use to describe their pain using a points system. The responses give us a better understanding and allow us to select the right products," explains pharmacist Grazia Polimeni. To keep track of how effectively the products are working, chronic pain sufferers are invited to keep a pain diary. "They use this every day to record how the pain has developed since taking their medication. This overview shows us whether the product is working as hoped or we should try something else," says the pharmacist. The diary is a valuable tool in helping the physician choose the right treatment.

Individual medicine management

One of the advantages of a pan-European pharmacy network like Celesio's is that experience, successful offerings and new developments can quickly be exploited across borders. For instance, the Milanese pharmacy introduced a service called MyMed that was originally designed by Lloyds Pharmacy in Ireland. The centrepiece is a tablet organiser with multiple compartments which helps patients who take various medicines at different times of the day. About the size of a book, the slim box is split into separate sections for each day of the week and allows pharmaceuticals to be divided further according to time of day. Patients can even opt for extra support in the form of a reminder service – electronically or via smartphone app.

Older people and those with chronic conditions benefit from MyMed in particular as, according to expert estimates, between 33 and 50 percent do not take their medication correctly. This not only jeopardises the success of the treatment, it usually leads to high follow-up costs. To avoid this, pharmacists prepare the pharmaceuticals with the utmost care. "We wear face masks and white gloves when filling the boxes – strict hygiene is essential. Also, we double check with the doctor that everything is correct," reports Grazia Polimeni. The main advantages of MyMed are safety and more freedom. Even holidays and business trips are unproblematic thanks to the seven-day boxes.

Countering risks and side effects

The new pilot pharmacy in Bicester, not far from Oxford in the UK, also specialises in skin and pain counselling. Staff at the Lloyds Pharmacy have the use of a separate consultation room for

confidential advice or for measuring blood pressure or testing blood sugar. Besides the ordinary customer business, the pharmacy is piloting medicine use reviews, a kind of electronic patient record. This service is paid by the NHS in England and Wales and is available in all pharmacies. The goal is to achieve optimal treatment of patients who must regularly take prescription drugs. Not all medicines are compatible with each other so taking a mixture of pharmaceuticals can lead to undesired consequences or impede the effect of the treatment. The computerised document is the basis for patients' individual medication: "It shows the indications and directions for taking the medicine correctly. At the same time, it allows us to look for potential intolerance or side effects. If there are any problems, we inform the attending physician," explains pharmacist Victor Odumosu. Advice on how to take medicines correctly doesn't just improve quality of life for patients. It also helps avoid subsequent costs due to intolerances.

Advising patients with chronic conditions is also a priority in Bicester. Take asthma, for example. Figures show that more than half of those affected do not use their metered-dose inhalers correctly, rendering the devices ineffective. Or worse. If the medication collects at the back of the throat, the risk of an attack is actually higher. Experts at the pharmacy offer valuable support in the form of an asthma control test to check inhalation technique. This case study is also an example of how third parties can benefit from experience gathered in the UK. In France, it became mandatory in 2013 for pharmacies to offer advice and training to asthmatics. In light of this, Celesio will offer independent French pharmacies a special service concept in future.

Come in and feel at ease

Anyone entering one of the revamped Lloyds Pharmacy branches in the UK or Italy will be immediately impressed by the light and airy design which puts people instantly at ease. The health bar is one component of the new layout concept, and is clearly on view as you enter the pilot pharmacy in Bicester. Incorporating four tablet PCs, it is available for pharmacy staff to use during consultations and also invites customers to find out about pain and skin on their own – for instance if they have to wait briefly. The health bar contains a wealth of information on special focus topics and products. Browsing the summary of frequently asked questions delivers suitable answers. Furthermore, the health bar's four stations allow customers to try out various skincare products. The pharmacy's large sales floor is also home to a consultation table with a special device that is usually only available at dermatology clinics. Visitors can have the medical state of their skin analysed using a professional machine that measures moisture, fat content, PH value, elasticity and pigmentation. The results are printed out for customers to take home together with instructions and care tips. The consultation by the skin specialist includes recommendations for appropriate skincare products.

Efficient stock management

Because health can't wait, Celesio's new pharmacy concept also incorporates the ideal supply of pharmaceuticals to pharmacies. This benefits patients most of all. Efforts are centred on a newly developed system to improve product availability and stock management. The system is now up and running throughout Germany at over 800 partner pharmacies that work with

Celesio's German wholesale subsidiary GEHE. Not far from Stuttgart, Brynja Nickel and her husband operate two pharmacies in Plüderhausen. She has seen product availability improve considerably since linking her internal system to WAWI Top, the German name of the stock management program. "When people visit the pharmacy, they want to be able to get their medicines instantly. Nobody wants to have to come back. Satisfied customers are loyal customers, and that is our goal," says Brynja Nickel. A positive side effect is the reduction in the number of courier deliveries which are offered to patients should a medicine not be in stock. The pharmacy team has more time to advise and talk to patients, safe in the knowledge that WAWI Top is taking care of many time-consuming stock management tasks in the background

Leveraging potential

With its combination of software, reporting and personal advice, GEHE's system solution offers fine-tuning with big effects for pharmacies' operating results. It is not unusual for stockrooms to house medicines that are difficult or impossible to sell, tying up valuable capital. "We prefer to avoid this situation if we can. We are particularly keen to avoid having expensive products hanging around in the stockroom," summarises Brynja Nickel. WAWI Top allows the pharmacist to keep a close eye on stock levels. On this basis, the system automatically draws the necessary conclusions and generates weekly listing and delisting suggestions to ensure that the stock reflects current demand.

Celesio's own pharmacies have already come up with many innovative services and solutions. The new pharmacy concept reflects the best experiences from various European countries. These leading practices, in interaction with future-oriented innovation, give us a whole new image. The first pilot pharmacies in Italy and the UK already mark the dawn of a new era where the pharmacy will enjoy a stronger role. The Celesio pharmacies' uniform market presence across Europe under the Lloyds brand, coupled with innovative service approaches tailored to the legal requirements in each country – that will also benefit independent partner pharmacies – make the company a reliable and strong partner in the pharmaceutical and healthcare sector. For patients, cooperation partners and for the healthcare system as a whole.

WEDNESDAY

More Positive Lives

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To our shareholders

Celesio AG 2012

Chairman's letter to the shareholders

Dear shareholders,
ladies and gentlemen

We successfully pressed ahead with our strategic realignment in the past fiscal year and made excellent progress, not least thanks to our employees who have gone beyond the call of duty in supporting our efforts. We would also like to thank our shareholders for their confidence and valuable support.

Our priority in 2012 was to halt the earnings slide of recent years and restabilise Celesio's business development. With a considerable improvement in the adjusted operating result, we have more than met this target – despite operating in an environment that remains difficult and highly competitive.

Our success confirms the value of our new strategy which was announced at the end of 2011 with five cornerstones: focus on core business, European pharmacy network, regional expansion, review options for Manufacturer Solutions, Operational Excellence Program.

Implementation is progressing bang on schedule. In the past fiscal year we were able to realise the extensive measures of the Operating Excellence Program. The program contributed significantly to the stabilisation of earnings. Furthermore, we sold Manufacturer Solutions and the mail-order pharmacy DocMorris much earlier than expected and also completed other smaller activities well ahead of plan. We took an important step in our efforts towards regional expansion by acquiring the remaining shares in the Brazilian pharmaceutical wholesaler Panpharma. Last but not least, we introduced a new uniform organisational structure across the group, in a project that called for cooperation, efficiency and innovation.

We have now completed the first phase of our strategic realignment. With our renewed focus on the core business, Celesio's business is once again on course for stable development and we continue to channel efforts into our company's future.

“As defined in our strategic roadmap, the past fiscal year was all about stabilisation. The current fiscal year 2013 will focus on our realignment.”

MARKUS PINGER

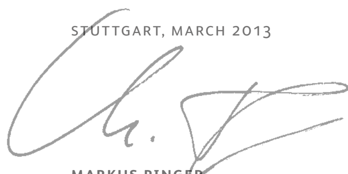
For our markets, we anticipate a steady increase in the need for healthcare products and services. Pharmaceutical retail stands to benefit from this trend, which is why our strategy includes expanding our pharmacy business and strengthening its integration with wholesale. We believe that this will present good opportunities for growth. We will realign our wholesale and pharmacy business with an international and integrated structure.

We have already taken the first important step in this direction. At the end of 2012, we unveiled our new pharmacy concept comprising numerous new and innovative services. The central idea behind this new concept is “More positive lives” for our customers and patients. We hope to play a part in helping them enjoy better health, a more positive attitude and higher quality of life. We will gradually roll out this concept at all of our own pharmacies across Europe under the “Lloyds” brand. We intend to position ourselves as the leading pharmacy brand in Europe while at the same time consolidating and expanding our partnership with independent pharmacies.

As defined in our strategic roadmap, the past fiscal year was all about stabilisation. The current fiscal year 2013 will focus on our realignment. We will test our new pharmacy concept in a pilot phase and take measures to ensure effective integration with wholesale. The general market rollout is scheduled to start in 2014. This will be an important milestone along the way to sustainable, profitable growth.

I very much hope that you as shareholders will continue to place your confidence in Celesio.

STUTTGART, MARCH 2013



MARKUS PINGER
CHAIRMAN OF THE MANAGEMENT BOARD

The Management Board

Dr Marion Helmes
Chief Financial Officer,
Member of the
Management Board

Markus Pinger
Chairman of the
Management Board

Stephan Borchert

Member of the
Management Board

The Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD OF CELESIO AG

Stephan Gemkow (Chairman since 19 December 2012)
Ihno Goldenstein [1] (Deputy Chairman)
Klaus Borowicz [1]
Prof Dr med. Julius Michael Curtius
Dr Hubertus Erlen
Dr Florian Funck (since 16 May 2012)
Dirk-Uwe Kerrmann [1]
Jörg Lauenroth-Mago [1]
Susan Naumann [1]
Ulrich Neumeister [1]
W.M. Henning Rehder
Hanspeter Spek

RETIRED FROM OFFICE IN THE 2012 FISCAL YEAR

Prof Dr Jürgen Kluge (Chairman until 18 December 2012)
Prof Dr Klaus Trützschler (until 16 May 2012)

MEMBERS OF THE SUPERVISORY BOARD COMMITTEES OF CELESIO AG

General Committee
Stephan Gemkow (Chairman since 19 December 2012)
Prof Dr Jürgen Kluge (Chairman until 18 December 2012)
Dr Hubertus Erlen
Ihno Goldenstein

Audit Committee
W.M. Henning Rehder (Chairman since 16 May 2012, previously member)
Prof Dr Klaus Trützschler (Chairman until 16 May 2012)
Klaus Borowicz
Dr Florian Funck (since 16 May 2012)
Ulrich Neumeister

Nomination Committee
Stephan Gemkow (Chairman since 19 December 2012)
Prof Dr Jürgen Kluge (Chairman until 18 December 2012)
Dr Hubertus Erlen

Arbitration Committee
Stephan Gemkow (Chairman since 19 December 2012)
Prof Dr Jürgen Kluge (Chairman until 18 December 2012)
Ihno Goldenstein
Susan Naumann
Hanspeter Spek

1) Employee representative.

Report of the Supervisory Board

Dear shareholders,
Ladies and gentlemen,

We, the Supervisory Board of Celesio AG, regularly advised the Management Board on executive matters and constantly monitored its management of the company during the 2012 fiscal year. We performed the tasks required of us by law, the articles of association and the rules of procedure with great care. As an oversight body, we closely examined the economic and financial development of the company and its strategic alignment. We were involved in all fundamental corporate decisions at an early stage.

Cooperation with the Management Board

Our cooperation with the Management Board in the past fiscal year was once again characterised by in-depth and frank exchange based on mutual trust. The Management Board reported regularly and extensively to the Supervisory Board and its Chairman on the situation of the company, both in writing and by means of oral communication. Our work together focused on the earnings, financial position and assets position of the group, the development of business in the divisions, the development of the market environment, corporate strategy and planning as well as portfolio considerations. For instance, the Management Board discussed the implementation of the group's strategic realignment with us at length. We also examined the topics risk management, compliance and diversity management.

Any deviations from the planned business performance were explained individually by the Management Board and discussed by the Supervisory Board. Where required by law, the articles of association or the rules of procedure, the Management Board submitted all of its reports and resolution proposals to the Supervisory Board, which approved them following careful consideration.

Meetings

The Supervisory Board held four ordinary and nine extraordinary meetings in 2012. In preparation for the meetings, the Management Board sent written reports and resolution proposals to the Supervisory Board.

The average attendance rate of the Supervisory Board members was just under 90% and every member attended at least half of the meetings. We also maintained close contact with the Management Board between meetings. The Chairman of the Supervisory Board regularly discussed the current business performance, significant transactions and strategy with the Chairman of the Management Board.

At the first extraordinary meeting, held on 8 March 2012, the Supervisory Board passed a resolution adjusting the Management Board compensation structure for all members and approving the adapted contracts accordingly. Discussions at this meeting also focused on the implementation of the strategic realignment as well as potential plans to bring forward the acquisition of all outstanding shares in the Brazilian wholesaler Panpharma.

The first ordinary meeting of the Supervisory Board took place on 22 March 2012 and addressed the separate financial statements of Celesio AG and the consolidated financial statements for the 2011 fiscal year as well as the dependent company report.

We approved them following detailed examination and discussion, based on the recommendation of the Audit Committee and taking into account the audit reports issued by the independent auditor. The Supervisory Board also passed resolutions on the report of the Supervisory Board, the joint Corporate Governance Report of the Management Board and Supervisory Board as well as the proposed resolutions, including the proposal to the annual general meeting on 16 May 2012 to issue a dividend as well as the exercise of ownership rights pursuant to Sec. 32 Mitbestimmungsgesetz (MitbestG, Codetermination Act) (authorization of the shareholder representatives of Celesio AG's Management Board to exonerate the general managers and Supervisory Board of GEHE Pharma Handel GmbH). Furthermore, we passed resolutions regarding Management Board remuneration in line with the scheduled review process and discussed at length the Celesio group's new organizational structure and the Panpharma acquisition project.

The extraordinary meeting on 26 April 2012 was devoted entirely to the resolution on the early acquisition of the outstanding shares (49.9 percent) in the Brazilian wholesaler Panpharma.

The Management Board provided a detailed report on the current status of potential divestments and updated us on the progress of key IT projects at the ordinary meeting of 16 May 2012, where we also dealt with the engagement of the auditor for the separate and consolidated financial statements and for the review of the interim reports. Furthermore, we discussed the development of business in the first quarter and prepared for the annual general meeting.

The extraordinary meeting of 16 May 2012 was held directly after the annual general meeting. The Supervisory Board elected Dr Florian Funck as a new member of the Audit Committee and W.M. Henning Rehder as its Chairman. The planned new functional organizational structure was also discussed.

We approved a new plan for the allocation of duties to the Management Board by resolution of the extraordinary meeting on 29 May 2012. The plan entered into force alongside the group's new organizational structure on 1 June 2012.

The premature termination of Wolfgang Mähr's appointment and contract as member of the Management Board and the associated changes to the plan for the allocation of duties were the core topics of the extraordinary meeting on 29 June 2012. Other topics of this meeting were the approval of Markus Pinger's appointment as Chairman of the Supervisory Board of GEHE Pharma Handel GmbH following Wolfgang Mähr's departure, next steps in the planned divestments and the scheduled review and adjustment of Stephan Borchert's compensation for his role as member of the Management Board.

The Supervisory Board passed resolutions to dispose of Movianto and Pharmexx at the extraordinary meeting on 23 July 2012 and to sell the Czech pharmacy and wholesale business at the extraordinary meeting on 13 August 2012.

At the ordinary meeting of 14 September 2012 the Management Board updated the Supervisory Board on the current status of business development in Brazil following the premature takeover of all the shares in Panpharma and also considered how to proceed with the planned divestments.

At a further extraordinary meeting on 22 October 2012, we discussed the planned sale of the DocMorris mail-order pharmacy at length and authorised the Chairman of the Supervisory Board to pass a resolution on the disposal. We also passed a resolution to sell the Irish wholesaler Cahill May Roberts, including Movianto Ireland.

Following detailed deliberations with the Management Board, the sale of the DocMorris mail-order pharmacy was approved by resolution of the authorised Chairman of the Supervisory Board at the last extraordinary meeting held on 24/25 October 2012.

The last ordinary meeting on 18 December 2012 focused on the budget for the 2013 fiscal year, an IT status report and adjustments to the plan for the allocation of duties to the Supervisory Board. The annual efficiency review of the Supervisory Board's work also took place. Furthermore, the Supervisory Board approved the targets for its composition and issued a declaration of compliance pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporations Act). The Supervisory Board also passed resolutions to adjust the compensation awarded to Markus Pinger and Dr Marion Helmes in accordance with the scheduled review process and on the 2013 long-term incentive tranche for all members of the Management Board.

Stephan Gemkow was elected Chairman of the Supervisory Board by the District Court of Stuttgart with effect as of 19 December 2012 and is thus also Chairman of the General Committee, the Nomination Committee and the Arbitration Committee founded to satisfy Sec. 27 (3) MitbestG.

Committees

The Supervisory Board of Celesio AG has set up four committees to ensure it exercises its duties efficiently. The General, Audit, Nomination and Arbitration Committees prepare the resolutions and agenda items to be discussed by the Supervisory Board. They also pass some resolutions in place of the entire Supervisory Board. The composition of the four committees is set out on → page 38 of this annual report. The Chairman of the Supervisory Board is also the chairman of the committees with the exception of the Audit Committee, which is chaired by W.M. Henning Rehder (since 16 May 2012; he was preceded by Prof Dr Klaus Trützschler). The Supervisory Board is regularly updated with full details of the committees' activities.

General Committee

The General Committee met seven times in the reporting period and passed two resolutions by circulation.

At the meeting on 15 February 2012, the committee prepared the new Management Board compensation structure, found out about the status of IT projects and was briefed by the Management Board on the planned new organizational structure of the group. In a circular process on 27 February 2012, the committee prepared new contracts for all members of the Management Board; the adjustments were necessary to reflect the amended compensation structure.

At its meeting on 8 March 2012 the committee passed a resolution to conclude new contracts with the Management Board following the approval of the Supervisory Board. Discussions at the meeting on 2 May 2012 centred on the group's planned new organisational structure. The committee prepared the resolution on the new plan for the allocation of duties from 1 June 2012 onwards at its meeting on 23 May 2012. The meeting of 28 June 2012 focused on the adjustment of Stephan Borchert's compensation for his Management Board duties, the premature termination of Wolfgang Mähr's appointment to the Management Board and the associated changes that had to be made to the plan for the allocation of duties as of 1 July 2012.

The final meeting on 30 November 2012 was concerned with the adjustment of compensation awarded to Dr Marion Helmes and Markus Pinger in accordance with the scheduled review process as well as the 2013 long-term incentive tranche for all members of the Management Board. The adjustments were approved by circular resolution on 11 December 2012.

Audit Committee

The Audit Committee held four meetings in 2012, all of which were attended by the independent auditor.

At the first meeting on 21 March 2012, the committee reviewed the separate and consolidated financial statements for the 2011 fiscal year, the management report and dependent company report as well as the audit reports on the separate and consolidated financial statements, together with the proposal for the appropriation of profits. The committee also confirmed the independence of the auditor and prepared a recommendation for the annual general meeting to approve the proposal for the election of the independent auditor. Internal audit was another topic of discussion. The committee examined the significant audit findings for 2010 and the internal audit plan for 2011.

On 10 May 2012, the committee determined the audit focus for the 2011 fiscal year and informed the independent auditor of the scope of the audit engagement.

The committee also talked about the interim report for the first quarter of 2012. Compliance was another item on the agenda.

At its meeting on 13 August 2012, the committee discussed and examined Celesio AG's interim report for the first half year in particular and turned its attention to risk management.

The committee's final meeting on 13 November 2012 was concerned with the interim report for the first nine months of 2012 as well as the internal control system and internal audit.

Nomination Committee

The Nomination Committee met twice in the reporting year. At its meeting on 15 February 2012 the committee prepared the nomination of Dr Florian Funck to replace Prof Dr Klaus Trützschler as member of the Supervisory Board. On 18 December 2012 the committee met to discuss the nomination of candidates for the Supervisory Board's election of shareholder representatives at the general meeting on 16 May 2013. Resolutions were passed accordingly.

Arbitration Committee

There was no occasion for the Arbitration Committee (founded to satisfy Sec. 27 (3) MitbestG) to convene in the reporting period.

Corporate governance

Corporate governance was a regular topic at our Supervisory Board meetings in the reporting period. We primarily discussed the application and development of the standards issued by the Government Commission German Corporate Governance Code. Celesio once again complied with the recommendations of the Code with just one exception in the reporting period (the performance-related component of Celesio's Supervisory Board is aligned to the dividend, in accordance with the company's articles of association).

A resolution to approve the updated compliance declaration – also approved by the Management Board in accordance with Sec. 161 AktG – was passed at the Supervisory Board meeting on 18 December 2012 and then published on Celesio's website.

This annual report also contains the declaration on → page 59. At the final meeting of the year we also performed our scheduled efficiency review of Supervisory Board activities. No major efficiency enhancement measures were required. The Supervisory Board and Management Board take a joint approach to corporate governance – please refer to our joint corporate governance report on → page 58 for further details.

Separate financial statements, consolidated financial statements and management report

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the separate and consolidated financial statements of Celesio AG and the combined management report for the year ended 31 December 2012. The auditors rendered an unqualified audit opinion on both sets of financial statements. The Supervisory

Board had awarded the audit engagement on the recommendation of the Audit Committee and pursuant to the resolution of the annual general meeting on 16 May 2012.

The documentation pertaining to the financial statements together with the audit reports were made available to all members of the Supervisory Board and were discussed thoroughly, including with the auditor, at the Supervisory Board's closing meeting on 21 March 2013. Based on the results of the audit, the Supervisory Board had no reservations. Following the recommendation of the Audit Committee, the board agreed with the results of the audit and approved the financial statements of Celesio AG and the consolidated financial statements authorised for issue by the Management Board. The financial statements have thus been ratified. The Supervisory Board has examined and approved the Management Board's proposal for the appropriation of profits.

In light of the majority shareholding in Franz Haniel & Cie. GmbH, Duisburg, Germany, in 2012, the Management Board presented the Supervisory Board with the dependent company report for the 2012 fiscal year prepared pursuant to Sec. 312 AktG and the audit report on this prepared by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, in its capacity as independent auditor pursuant to Sec. 313 AktG. Based on the audit completed with no cause for objections, the independent auditor issued the following audit opinion:

"Based on our audit and assessment in accordance with professional standards, we confirm that:

1. the actual disclosures contained in the report are correct,

2. the payments made by the company in connection with transactions detailed in the report were not unreasonably high."

The Supervisory Board reviewed and approved the dependent company report and the review report thereon. We, the Supervisory Board of the company, do not raise any objections to the Management Board's concluding statement contained therein.

Changes to the Supervisory Board

Prof Dr Klaus Trützschler and Prof Dr Jürgen Kluge, Chairman of the Supervisory Board, left the Supervisory Board in 2012. We would like to thank Prof Dr Klaus Trützschler and Prof Dr Jürgen Kluge for the constructive and trusting working relationship.

Dr Florian Funck was elected as Prof Dr Klaus Trützschler's successor by the general meeting of Celesio AG on 16 May 2012. Stephan Gemkow was appointed by the district court of Stuttgart to replace Prof Dr Jürgen Kluge as Chairman of the Supervisory Board with effect as of 19 December 2012.

Changes to the Management Board

The Supervisory Board appointed Dr Marion Helmes to the Management Board of Celesio AG with effect as of 1 January 2012. Wolfgang Mähr's appointment to the Management Board was terminated prematurely in 2012. We would like to thank Mr Mähr for his contribution to the success of Celesio AG and for the good working relationship.

Thanks

The Supervisory Board would like to thank the Management Board, the group companies' management and all employees. We particularly appreciate the strong personal commitment, ongoing dedication, outstanding performance and high level of loyalty shown by everyone in the 2012 fiscal year. With our strategic realignment underway, we are confident that Celesio is on the right path to seizing the opportunities and overcoming the challenges that 2013 will bring.

STUTTGART, MARCH 2013

ON BEHALF OF THE SUPERVISORY BOARD

STEPHAN GEMKOW
CHAIRMAN

“With our strategic realignment underway, we are confident that Celesio is on the right path to seizing the opportunities and overcoming the challenges that 2013 will bring.”

STEPHAN GEMKOW

The stock markets and the Celesio share

The stock markets

The 2012 fiscal year was overshadowed by the banking and sovereign debt crisis in Europe and the continuation of challenging economic conditions overall. Intense political and economic debate was devoted to the causes of the crisis and efforts to contain it were continued in 2012. The European Central Bank's pledge to buy back unlimited government bonds buoyed markets as they welcomed the perceived reduction in the risk of uncontrollable bankruptcy in certain euro countries.

The DAX got off to an excellent start in 2012, enjoying a clear upward course until mid-March when it started its descent, slipping below 6,000 points at the beginning of June. The DAX hit its low for the year of 5,969.4 points on 5 June 2012, before undergoing a sustained period of recovery until mid-September. A clear upward trend set in from mid-November in what was a highly volatile fourth quarter. The DAX closed the year at 7,612.39 points on 28 December 2012, up around 30% on the previous year. The DAX fared well in an international comparison, clearly outperforming other leading indices at important financial centres around the world.

The MDAX, which includes the Celesio share in its basket, regained upward momentum in the past fiscal year after starting 2012 at an annual low of 8,894.2 points. Development of the MDAX in the first quarter mirrored the positive course of the DAX. The downward movement to the end of June was not as sharp as for the DAX, however. Like the DAX, the MDAX soared in the third and fourth quarter and enjoyed clearly positive momentum until early November. Following a price collapse that ended mid-November the MDAX managed to recover and closed the year on 28 December 2012 at 11,914.37 points, up around 34% on the previous year.

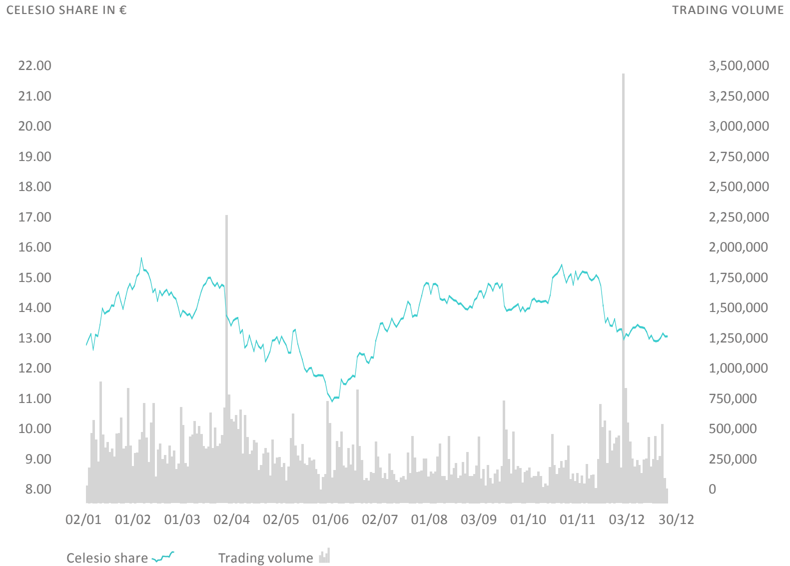
The Celesio share

The 2012 fiscal year was a highly volatile one for Celesio. The good start to the year was quickly followed by a sharp drop from early February onwards, with prices fluctuating dramatically in March. The Celesio share followed the downward trend of the DAX and MDAX at the end of the first quarter and the share price dropped to a low for the 2012 fiscal year of € 10.88 on 4 June. The Celesio share gained considerable ground through to the end of July before slipping again and entering a volatile month of September. The share returned to growth with strong price increases at the end of October only to tumble again in November. After a steady December the share closed at a price of € 13.05, an increase of around 7% on the closing price of the previous year.

Market capitalisation came to € 2.22bn as of 28 December 2012 (previous year € 2.08bn). The trading volume of our share on the Xetra market averaged 402,592 shares per day in the reporting period, down around 28% on the previous-year level of 559,444 per day.

Share price 2012

DEVELOPMENT OF THE CELESIO SHARE AND TRADING VOLUME
CLOSING PRICES ON XETRA 02/01/2012 – 30/12/2012 (TRADING DAYS ONLY)



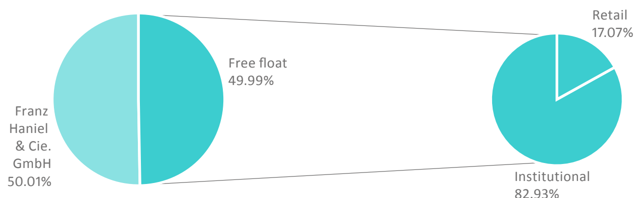
DEVELPOMENT OF THE CELESIO SHARE, DAX AND MDAX
CLOSING PRICES ON XETRA 02/01/2012 – 30/12/2012 (TRADING DAYS ONLY), SCALED TO THE CELESIO SHARE PRICE

Shareholder structure

Franz Haniel & Cie., Duisburg, is the majority shareholder of Celesio AG as of 31 December 2012. In line with the package of debt reduction measures announced by the Haniel holding company in November 2012, Franz Haniel & Cie. reduced its interest in Celesio AG from 54.64% to 50.01%, and thus remains the largest shareholder of Celesio AG. Convinced of Celesio's potential for generating sustainable value, it remains in the Haniel portfolio as a long-term core investment. On 31 December 2012, 49.99% of the Celesio shares were in free float. Most of these (82.93%) were held by institutional investors, primarily based in Germany, the UK and the USA.

SHAREHOLDER STRUCTURE
31/12/2012

FREE FLOAT
31/12/2012



In March 2012 the investment company Templeton Investment Counsel, LLC, Wilmington, reduced its Celesio shareholding to below 3% of the shares outstanding. Furthermore, BlackRock, Inc., New York, BlackRock Financial Management, Inc., New York, and BlackRock Holdco, Inc., Wilmington, reached the reporting threshold of 3% of shares outstanding in May and October 2012, but reduced their shareholdings to below 3% of shares outstanding over the subsequent course of the reporting period.

Employee share programme

Since 1985 Celesio has also offered its employees the opportunity to participate in the success of the company in the form of employee shares. Around 2,800 employees in the German group company were offered the chance to purchase Celesio shares at special conditions in the spring of 2012. With an uptake rate of 40%, participation was stable compared to the average of 44% reached in past campaigns between 1985 and 2011.

Annual general meeting

Celesio AG's 2011 annual general meeting was held in the Porsche Arena in Stuttgart on 16 May 2012. Attendance was once again high with 75.10% of voting rights represented – an increase on the previous-year turnout of 72.0%. The resolutions of the annual general meeting followed all the proposals put forward by management.

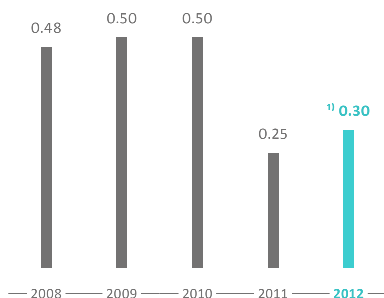
The next annual general meeting will once again be held in the Porsche Arena in Stuttgart and is scheduled for 16 May 2013. As always, all documents and information on the annual general meeting are published in advance at www.celesio.com/annual-general-meeting.

Dividend

The annual general meeting of Celesio AG passed a resolution on 16 May 2012 to distribute a dividend of € 0.25 per share for the 2011 fiscal year. The dividend was paid out on 18 May 2012.

The Management Board and Supervisory Board will propose to the annual general meeting on 16 May 2013 a dividend payment of € 0.30 per share for the 2012 fiscal year, an increase of 20% on the previous year. Celesio thus maintains its policy of distributing consistent dividends and intends to distribute an amount that is commensurate with the company's economic situation.

DIVIDEND PER SHARE
€



1) Proposal by the Management Board and Supervisory Board to the 2013 annual general meeting.

KEY SHARE FIGURES

Number of shares outstanding [2]	million
Market capitalisation [2]	€ m
Closing price [2] [3]	€
High [3]	€
Low [3]	€
Average trading volume per day [3]	shares
Dividend per share	€
Dividend yield [5]	%

1) Adjusted for the 1:2 share split carried out on 24 July 2006.
2) Closing figures as of 31 December.
3) Xetra, source: Bloomberg.
4) Proposed by the Management Board and Supervisory Board to the 2013 annual general meeting.
5) Related to the closing share price (Xetra).

Coverage

The financial community showed great interest in Celesio AG once again in 2012 – as reflected by the high level of coverage that the company received. Regular analyses and evaluations of our company and the Celesio share were issued by 18 financial analysts in 2012, of which 12 expressed recommendations to purchase our share. A further five suggested it for holding while just one classed it for sale. As of year-end analysts predicted an average share price target of € 16.40, a considerable increase on the previous-year level of € 13.25. Find out more at celesio.com.

[1] 2006	2007	2008	2009	2010	2011	**2012**
170.1	170.1	170.1	170.1	170.1	170.1	**170.1**
6,912.9	7,229.3	3,299.9	3,010.8	3,163.9	2,082.0	**2,218.9**
40.64	42.50	19.40	17.70	18.60	12.24	**13.05**
42.77	55.02	42.39	21.69	25.50	20.05	**15.65**
34.11	36.21	17.01	13.70	15.96	9.28	**10.88**
310,360	485,665	733,755	434,703	588,134	559,444	**402,592**
0.75	0.77	0.48	0.50	0.50	[4] 0.25	**0.30**
1.8	1.8	2.5	2.8	2.7	2.0	**2.3**

Investors with a focus on sustainability

Sustainability is moving up the agenda. There is a steady trend for investors to invest in companies guided by the principle of sustainability. Besides an approach that is as transparent as possible, environmental and social criteria are also growing concerns. The financial market and those who operate in it are increasingly viewing corporate social responsibility as a fixed component of their everyday actions. Read more around this topic in our CSR report starting on → page 65.

Our measures and activities in pursuit of a sustainable business strategy and governance were once again recognized in the 2012 fiscal year. The Celesio share once again qualified for the ECPI Ethical Index EMU and was included in the FTSE4Good index. FTSE4Good, the sustainability index of the London Stock Exchange and the Financial Times, only accepts companies that meet all of their predefined social, environmental and ethical criteria. Examples include activities that promote environmental sustainability, positive and sustainable relationships with stakeholders and the respect and support of human rights.

Investor relations

At Celesio AG, investor relations is about reporting fully and promptly to the financial community, while ensuring continuity and a maximum of transparency in the process. These principles are the basis from which we operate day-to-day and guide us in our interaction with the capital markets.

We actively engaged with our analysts as well as current and potential investors at numerous meetings, conferences and roadshows in the past fiscal year. For instance, the Management Board of Celesio AG, supported by investor relations, exploited the opportunities afforded by conferences and roadshows at all the major financial centres of Europe and the USA to provide comprehensive updates on Celesio, its strategic realignment and our recent progress and to exchange ideas with the financial community. For Celesio AG's management, personal contact and regular exchange with capital market players is a key component of our communication with the capital markets.

We also have a dedicated section about this topic on our website www.celesio.com – Investor Relations. The website provides the latest news and dates, presentations and speeches as well as our annual and interim reports. Our free alert service is a convenient way for subscribers to receive news releases and information by e-mail.

INFORMATION ON THE CELESIO SHARE

Share type	No-par value registered shares
Share capital in € on 31/12/12	217,728,000.00
ISIN code	DE000CLS1001
German securities code	CLS 100
German stock exchange code	CLS1
Bloomberg	CLS1 GY
Reuters	CLSGn.DE
Stock exchanges	Xetra; Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Indices (selection)	MDAX, MSCI Germany Index, FTSE4Good, ECPI Ethical Index EMU

Corporate governance report and corporate governance declaration [1)]

Corporate governance stands for responsible management and control of a company generating sustainable value-added.

A balanced corporate governance strategy aims to secure the company's competitive position, strengthen confidence in our company – both on the capital markets and among the general public – and create value over the long term. The key principles of good corporate governance are efficient cooperation and segregation of functions between management and supervisory boards, respect for shareholder interests as well as open and transparent corporate communication.

Corporate Governance Code

The Celesio Management Board and Celesio Supervisory Board act in accordance with the German Corporate Governance Code. The Code contains the main legal provisions for the management and monitoring of German companies listed on the stock markets as well as internationally accepted standards of good and responsible management. It aims to improve transparency and applicability of the German corporate governance system.

Stock corporations are required by law to make an annual declaration of compliance presenting the extent to which they have adhered to the German Corporate Governance Code and providing reasons for any deviations.

1) The corporate governance declaration required by Sec. 289a HGB and the remuneration report form part of the management report.

Declaration of compliance

The following declaration of compliance pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporations Act) was issued by the Supervisory Board and Management Board on 19 December 2012:

The Management Board and Supervisory Board declare that, since their last declaration of compliance in December 2011, Celesio AG has complied with the recommendations of the Government Commission of the German Corporate Governance Code initially in the version dated 26 May 2010 and then in the version of the Code dated 15 May 2012 since it came into force – with the following exception – and will continue to comply with them in the future:

5.4.6: In accordance with the company's articles of association, the performance-related component of Celesio's Supervisory Board is aligned to the dividend. Celesio's Management Board and Supervisory Board are examining whether a proposal to adjust the compensation structure should be put forward at the next annual general meeting.

STUTTGART, DECEMBER 2012

On behalf of the Supervisory Board

PROF DR JÜRGEN KLUGE

On behalf of the Management Board

MARKUS PINGER

Working methods of the Management Board and Supervisory Board

Celesio has a dual management system as required by law. The Management Board is responsible for managing the company and the Supervisory Board for advising and monitoring the management of the company by the Management Board. The areas of competence of the Management Board and of the Supervisory Board are laid down in the AktG, the articles of association and the respective rules of procedure. The two boards work closely together for the good of the company yet are strictly segregated, both in terms of their composition and their respective areas of competence. The Supervisory Board seeks to safeguard diversity and increase the percentage of female members of the Management Board. The Management Board applies the same approach to filling managerial positions in the company.

Management Board

The Management Board, currently made up of three members, is responsible for managing the company. It does so in the interest of the company, taking into account the needs and concerns of all our stakeholders with the aim of raising the value of the company in the long term. The Management Board represents the company, develops its strategy and is responsible for compliance, corporate governance and an effective risk management system. The following board changes took place in 2012: Dr Helmes joined the Management Board as CFO as of 1 January 2012. Mr. Mähr's contract was terminated prematurely on 30 September 2012. For further information including the composition of the Management Board, please refer to → page 328. None of the members of the Management Board served in a comparable function on more than three supervisory boards of non-group listed companies or oversight bodies of companies with similar requirements (see → page 328 of the notes to the consolidated financial statements).

Supervisory Board

The Supervisory Board's duty is to advise and effectively control the Management Board in its management of the company on an ongoing basis. It appoints and dismisses members of the Management Board and works with management on long-term successor planning. The Supervisory Board has a close and trusting working relationship with the Management Board and is involved in all fundamental business decisions. As in previous years, no current or former members of the Management Board served on the Supervisory Board in 2012. The Supervisory Board

has set up committees (General, Audit, Arbitration and Nomination Committees) to support it in fulfilling its duties. The composition of the Supervisory Board and its committees is presented on → page 38. The Supervisory Board regularly reviews the effectiveness of its activities in line with the requirements of the German Corporate Governance Code (No. 5.6). The 2012 review revealed that the Supervisory Board performs its work to a very high standard, meaning that no major measures to boost efficiency were required. Suggestions from the Supervisory Board members were taken into account in the course of the continuous improvement process. The Supervisory Board has to be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks. We aim to have at least two female members on the Supervisory Board in the medium term and four in the long term. The Supervisory Board currently has one female member. Particular attention should be paid to ensuring the diversity of professional backgrounds and experience when filling board positions. Art. 4 (1) of the Supervisory Board's rules of procedure provides for the disclosure of conflicts of interest and Art. 1 (4) sets the maximum age for members of the Supervisory Board at 70. At least three of the Supervisory Board members should be independent shareholder representatives. This target is currently met. The report of the Supervisory Board starting on → page 39 details the function, structure and work of the Supervisory Board and its committees.

Notes on corporate governance practice

Annual general meeting and shareholders

In addition to the Management Board and Supervisory Board, the annual general meeting makes up a further corporate body. Its areas of competence are set out in the AktG and in the articles of association. As a rule, the annual general meeting takes place at least once annually within the first six months of the fiscal year. If there is special cause, additional extraordinary meetings of the shareholders may also be called. The annual general meeting is an opportunity for the shareholders to exercise their legally afforded rights to contribute to decision making as owners of the share capital in Celesio AG. These include, but are not limited to, the decision on the appropriation of profits, in the form of a dividend, for example, the exoneration of the Management Board and Supervisory Board and the election of the Supervisory Board, the election of the independent auditor and any changes to the articles of association. Shareholders unable to attend

the annual general meeting personally can elect to have their vote exercised by an authorised representative of their choosing or a company proxy bound by instructions. We also offer this service electronically via the internet. In 2012 we offered the option of a postal vote at the annual general meeting for the first time. Shareholders can also register to attend the annual general meeting and order tickets via our website, where all the required documents and information will be published in advance of the meeting. Shareholders who are unable to attend the meeting in person can view the speech of the Chairman of the Management Board live on the internet.

Celesio AG's 2012 annual general meeting was held in the Porsche Arena in Stuttgart on 16 May. 75.0% of the voting rights were represented (previous year 72.1%). All of the management proposals were approved. The next annual general meeting will be held on 16 May 2013, once again in the Porsche Arena in Stuttgart. As is customary, all documents and information on the annual general meeting will also be published in advance at www.celesio.com/annual-general-meeting.

Compliance

Compliance is an integral component of the Celesio Group's corporate and leadership culture and refers to the obligation to observe the law and internal corporate guidelines. For Celesio, the aim of compliance is to avert and avoid negative consequences for the company. This does not simply mean following rules, however. More than that, it is a rolling process in which we reconsider our actions and adapt to new challenges and situations.

In addition to the relevant legal provisions, the organisation of management and control at Celesio is based mainly on the articles of association, the German Corporate Governance Code as well as the rules of procedure of the Supervisory Board and Management Board. At Celesio, internal corporate guidelines are drawn up and introduced by the Management Board or by the group departments. The relevant departments monitor implementation of the regulatory framework, making adjustments as necessary. Some years ago, we established an internal code of conduct which goes beyond the formal legal requirements. In this document, we have defined principles for acting in a transparent, trustworthy and sustainable way. The code of conduct is available on our website under Investor Relations/Corporate Governance.

From an organizational perspective, compliance is part of Legal at Celesio AG and its director is automatically chief compliance officer. Celesio's compliance management is regularly reviewed and refined.

A compliance jour fixe with representatives from Legal, Audit, Controlling and Human Resources serves as a platform for integrated exchange. There are local compliance officers in each country who are responsible for developing, implementing and monitoring compliance management systems. A confidential whistleblower system gives all employees round-the-clock access to the external ombudsman free of charge.

Directors' dealings

Pursuant to Sec. 15a of the Wertpapierhandelsgesetz (WpHG, German Securities Trading Act), members of the management or supervisory board of a listed German company and their close relatives must report their transactions with securities to that company and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority) within five working days. Such notification must then also be published by the company "without delay". These reportable transactions are known as directors' dealings.

There were no such transactions at Celesio in 2012.

Risk and opportunities management

Like all companies, Celesio regularly examines the numerous business risks and opportunities that arise. These are the internal and external events that are associated with our business operations and have the potential to affect our company's success and the financial stability of the group. Intangible assets such as brand, image or the environment can also be sources of risk or opportunity. Further details can be found in our risk and opportunities report starting on → page 162.

Financial reporting and audit

The consolidated financial statements of Celesio were prepared pursuant to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, as adopted by the EU. In addition, the provisions of German commercial law were applied pursuant to Sec. 315a (1) Handelsgesetzbuch (HGB, German Commercial Code). The 2012 annual general meeting elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, as independent auditor for the separate financial statements of Celesio AG and the consolidated financial statements for the 2012 fiscal year, and as independent auditor for any reviews of the interim reports. Before awarding the engagement, the Supervisory Board confirmed that existing relationships

between the auditor and the company or its boards did not give any grounds to doubt the independence of the auditor. The independent auditor of Celesio is concerned with the principles of good corporate governance. Its duties include informing the Supervisory Board of all findings and results of the audit of the financial statements which are relevant for the board's work. The auditor must report any independence issues immediately.

Transparency

We aim to keep shareholders, other capital market players, employees and interested members of the public up to date with comprehensive and transparent information on current developments at Celesio. Our company website (www.celesio.com) is a significant component of communication, providing information on the company, its strategy and the Celesio share as well as press releases and all ad hoc announcements, our financial reports, details of our press briefings on annual results, our annual general meeting and our financial calendar. The annual report and three interim financial reports contain detailed analyses and explanations regarding our results of operations, financial position and assets position. We attach great importance to personal contact with our investors, employees and other stakeholders. Investor Relations is available to answer questions from investors and analysts by telephone, e-mail or at any of our numerous information events while Corporate Communications ensures a steady dialogue with representatives from the German and international press. Interested parties can also subscribe to our free e-mail service as a quick and easy way to stay up to date on company news.

ⓘ Visit our website www.celesio.com to find out more about the principles of corporate governance at Celesio, including:

- Code of conduct
- Articles of association
- Directors' dealings
- Opportunity and risk management
- Information and documents relating to the annual general meeting

Corporate responsibility

Health and education for everyone

Pharmaceuticals today are not a luxury product. They need to be available for everyone, at any time, in any place. 177 years ago on 1 May 1835, the businessman Franz Ludwig Gehe founded his chemist's and dye business in Dresden with the aim of "doing everything possible to advance pharmaceutics". He wanted to make medicines affordable and available for everyone – and use his resources as a way to help "improve the health of the nation". That was the start of corporate social responsibility in practice and the tradition continues today. Besides health, Gehe was also committed to education. The Gehe trust was set up in 1885 and was so well received that it soon attained the status of an academy. With well over 25,000 participants each year, the GEHE Academy is an integral part of the company's ongoing commitment to sustainable health and education.

Now, 177 years on, corporate social responsibility remains a firm feature of Celesio's corporate identity. As member of society, we are involved in areas that naturally emerge from our line of business and the story of our foundation: health and education.

Sustainability as a leading principle

For us, sustainability means using resources responsibly, considering economic, social and environmental aspects. We constantly review our actions to ensure that this principle is cemented in our corporate culture.

Sustainability at Celesio

People, knowledge, experience, motivation, satisfaction and employee health – just some examples not only of core personal values, but also a company's economic assets. They are major resources requiring a responsible approach.

Corporate responsibility at Celesio

CR refers to our voluntary contribution to social, economic and environmental goals beyond that required by law. We meet a range of voluntary commitments which underscore our belief that entrepreneurial and social acts are complementary and not mutually exclusive. At Celesio, CR includes:

- Our mission, vision, values and guiding principles – for our identity and our shared success.
- Our code of conduct – embedding high ethical standards.
- Our charta of diversity – our commitment to a working environment that is free of prejudices and discrimination and to a corporate culture of openness.
- Our code of conduct in business – describing the main principles governing entrepreneurial action as well as risk areas.
- Our environmental guidelines – protecting and preserving the environment.
- Our Advisory Committee on Social Responsibility and Sustainability – Celesio's internal planning, steering and control instance for significant sustainability activities, reporting to the management board on all sustainability-related matters.
- Our regular workshops and stakeholder dialogue – aimed at integrating and refining our CR activities.

Health

We support the aid organisation "Doctors For Developing Countries – German Doctors" financially, but also by providing professional expertise and the personal input of our employees. Great emphasis is placed on pharmaceutical safety. In cooperation with "Doctors For Developing Countries – German Doctors", we opened a pharmacy in Calcutta in 2012. This facility ensures that pharmaceuticals are correct procured, stored and dispensed for the five major projects currently being run by the aid organisation in Calcutta. Pharmaceutical safety is a core issue in developing and emerging economies. We believe that these engagements by our pharmacists will make a contribution to securing the supply of pharmaceuticals in the long-term.

Education

Celesio pursues its founder's philosophy when it comes to promoting education, too. In addition to training and further education for our employees, we are in dialogue with universities throughout Europe. We support research and publications related to the topic of corporate responsibility, thus fostering the academic development of this field. We have already cooperated with researchers from universities in Lisbon, Maastricht, Berlin, Cologne, Hohenheim and Bonn. We are currently involved in nine ongoing research and publication projects about Celesio and the company's history. At the international CSR conference of Humboldt University of Berlin, the world's largest and best-known conference on corporate social responsibility, a CSR workshop for around 130 PhD students was held with our support for the second time in 2012.

Environment

In addition to health and education, we are, in our role as a service provider, naturally also active in the field of environmental protection. A core element of this is effective management of buildings, IT infrastructure, logistics and our vehicle fleet. In our wholesale operations, we optimise route planning, thereby reducing the CO_2 emissions of our vehicle fleet. Furthermore, when purchasing company cars we take care to select energy-efficient models as a way of really reducing emissions from the use of private transport. Reducing energy consumption is one of the aims of our ongoing efforts to optimise the IT infrastructure across the group.

Celesio's contribution to the current debate on CR

Discussion

To enable us to refine our CR work, we are regularly involved in dialogue with the representatives of our partner organisations, political and social stakeholders and our employees and investors. In pursuit of this aim, we entered into a cooperation with the Wittenberg Centre for Global Ethics in 2010. Drawing on our wealth of experience from numerous talks and workshops, we contributed to the CSR Practice Group working session of the Federal Ministry of Labour and Social Affairs as well as the "WegeWissenWirkung" ("WaysKnowledgeEffect") event hosted in Berlin by the Council for Sustainable Development of the Federal Government. Celesio was also actively involved in the German CSR Forum 2012 in Stuttgart.

The CR section of our website www.celesio.com contains detailed reports about our CR activities and projects as well as further facts and figures. We will publish a sustainability report for the first time in 2013.

You can find out more about CR at Celesio in the following sections of this annual report: Corporate governance report (→ page 58), Employees (→ page 155), Risk and opportunities report (→ page 162).

More Positive Lives

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Group management report

Celesio AG

2012

Business activity and organisation

Our business model

With strong brands in 16 pharmaceutical and healthcare markets in Europe and Brazil, we are one of the leading international trading companies and service providers in the industry. Our core business consists of pharmaceutical wholesale and pharmacies – we operate our own retail pharmacies and maintain partnership schemes with independent, owner-run pharmacies.

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

Our wholesale network consisting of 136 branches worldwide delivers to some 65,000 pharmacies every day in 13 European countries and Brazil.

We have around 2,200 pharmacies of our own in six European countries. With a keen focus on good advice, we support patients and consumers by supplying medicines and numerous pharmaceutical services for health and wellbeing.

Our aim and our mission is to actively help people through effective, efficient and innovative healthcare services and Celesio's processes are structured accordingly. That is why we are in the process of developing and refining our core business through new concepts and innovative approaches as part of our strategic realignment.

New concepts to strengthen the pharmacy business

We have developed a new pharmacy concept for expanding our international pharmacy business. The concept is centred on offering patients and consumers new and comprehensive advisory and other health and wellbeing services. This approach strengthens the role of the pharmacy as a centre for competent pharmaceutical advice for patients and consumers and as one of the service providers within the healthcare system. The new pharmacy concept was announced as a cornerstone of our European pharmacy network in December 2012 and will be rolled out to all our pharmacies following a test phase. We will also invite our partner pharmacies to adopt the concept in accordance with the applicable national legal regulations. We want to develop a competitive pan-European pharmacy network that unifies our own pharmacies and our partner pharmacies to offer comprehensive patient services.

Optimising the pharmaceutical supply chain: end-to-end integration of retail and wholesale

There are many links in the pharmaceutical supply chain. In a first step, a medicine is developed by the manufacturer. After being tested and approved, it is produced and stored, before usually being transferred to a wholesaler. A wholesaler then stocks the medicines locally, meaning that pharmacies can order any required pharmaceutical quickly and efficiently from one contact. If necessary, Celesio supplies pharmacies several times a day. In turn, these pharmacies ensure that the patient or consumer obtains the medicine they need within an appropriate timeframe.

We launched our end-to-end supply chain project as part of the strategic realignment. We want to standardise, optimise and redesign every stage of the entire logistics process, from manufacturer to pharmacy to leverage efficiency gains for every participant. Celesio will also be able to offer special logistics solutions geared to specific product groups or consumer segments, for example, and thus keep up with the demands of markets today – and tomorrow. Examples of possible approaches include direct-to-pharmacy or specialty pharmaceutical distribution.

You can read more about our strategy on → page 102, our pharmacy business model on → page 122 and our wholesale business on → page 129.

Environment in which we operate

You can read more about the environment in which we operate in the section on markets and strategy on → page 99.

Group structure and management

The organisation and reporting structure of the Celesio group was previously centred on the three divisions which were aligned to the needs and demands of the respective customer group. The Patient and Consumer Solutions division was aimed at patients and consumers and mainly contained the pharmacy business. Pharmacy Solutions served pharmacies and was primarily concerned with the group's wholesale activities. Manufacturer Solutions combined services for pharmaceutical manufacturers. The division was sold in 2012.

The Celesio Group's organisational structure was changed as of 1 June 2012 and is now divided up by function. The new structure is consistent across the Group and covers the following:

- Marketing and Sales
- Operations
- Governance Functions
- Support Functions

Marketing and Sales develops and markets all of the product concepts and services of relevance for pharmacy customers – and therefore for pharmaceutical service providers, such as pharmacies, wholesalers and manufacturers – and which can be offered by Celesio. This involves not only consulting and other services that pharmacists provide to customers, but also services to facilitate pharmacy management or improve product availability. This applies both to Celesio's own pharmacies and to cooperation and partner pharmacies which will be joined together in our project to form a powerful European pharmacy network.

Operations brings together and refines all of the procurement and logistics activities on which Celesio's international business is based, as well as quality and regulatory management. The end-to-end supply chain project is one of the priorities of Celesio's strategic realignment here. In future, all process steps between the manufacturer and pharmacies are to be integrated in an end-to-end logistics concept, so that Celesio can efficiently provide the logistics services that the market demands.

Governance Functions comprises all of the key functions of company management such as Business Development, Legal, Human Resources, Communication and Audit. Global support services and processes are bundled in Support Functions. These include Finance, Accounting and Tax, Controlling, Investor Relations, Real Estate Management and Service Centres.

The new organisational structure enhances the divisional reporting structure, which is divided into Patient and Consumer Solutions (primarily the pharmacy business) and Pharmacy Solutions (primarily the wholesale business).

The business units Logistics Solutions (Movianto) and Marketing Solutions (Pharmexx) were classified as discontinued operations and have been reported as such since the decisions was taken to sell off Manufacturer Solutions in full. The DocMorris mail-order pharmacy, including the DocMorris brand, were also classified as discontinued operations and have been reported as such since the strategic decision to sell the company.

Management and control

The Management Board manages the Celesio Group based on legal requirements and the rules of procedure laid down by the Supervisory Board. The Management Board is advised and controlled in its management function by the Supervisory Board. The Supervisory Board is made up of an equal number of shareholder and employee representatives and is responsible for appointing members of the Management Board; any major transactions by the Management Board must be approved by the Supervisory Board. The corporate governance report starting on → page 58 contains further details of the management and control structure.

Remuneration report

The remuneration report summarises the relevant principles used to determine the total remuneration of the members of Celesio AG's Management Board. It also explains the structure, composition and amount of the individual remuneration components and describes the principles and the amount of remuneration of the members of the Supervisory Board.

The remuneration report follows the recommendations of the German Corporate Governance Code and the requirements of German Accounting Standard 17, the Handelsgesetzbuch (HGB, German Commercial Code) and International Financial Reporting Standards (IFRSs). The notes to the consolidated financial statements contain disclosures pursuant to IAS 24.

Main features of the compensation structure of the Management Board

Management Board remuneration is determined in accordance with the provisions of the Aktiengesetz (AktG, German Stock Corporations Act) and the German Corporate Governance Code. Total remuneration of the members of the Management Board breaks down into performance-related and non-performance-related components. The compensation structure is conducive to the sustainable development of the Celesio Group on account of the remuneration components with a long-term incentive that it contains. In determining the remuneration of members of the Management Board, we take into account the size and complexity of the Celesio Group, its economic and financial position and the amount and structure of remuneration of executive boards of comparable companies, as well as the compensation structure otherwise in place at Celesio. Further criteria considered are the responsibilities and performance of each member of the Management Board. At the instigation of the General Committee, the Supervisory Board regularly reviews the structure and appropriateness of the remuneration system.

Remuneration of each member of the Management Board depends on the compensation structure defined in the personal contract of each individual.

New contracts were concluded with all members of the Management Board with effect as of 1 January 2012 in order to comply with new legal and regulatory requirements. The original termination dates were retained. These adjustments reflect changes in the legal and regulatory environment resulting from the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG, German Act on the Appropriateness of Executive Board Compensation) which promotes remuneration of executive boards that is conducive to sustainable and long-term corporate governance.

Non-performance-related remuneration components

The non-performance-related components consist of a fixed basic component, fringe benefits and pension contributions. A portion of the fixed basic component is paid out each month. The fringe benefits received by the Management Board mainly comprise the use of company cars, accident insurance, health insurance abroad, legal protection and D&O insurance. In accordance with Sec. 93 (2) Sentence 3 AktG, the deductible for D&O insurance is 10% of claims, but no more than one-and-a-half times the fixed annual salary. Members of the Management Board have to tax the benefits in kind from any private use of company cars.

Performance-related remuneration components

The performance-related components consist of a bonus and a rolling remuneration component. With effect as of 2012, 70% of the bonus is paid out annually, with the remaining 30% retained for a vesting period of around three years (share deferral). The rolling component has taken the form of a performance share plan since 2012.

If, in its best judgement, the Supervisory Board deems the extraordinary achievements or successes of a Management Board member to be worthy of special payments, including special remuneration, it is entitled to award these.

Short-term variable remuneration – bonus

The bonus is calculated based on a percentage share in the company's earnings. A standard bonus (in €) is determined individually as a guide for each member of the Management Board.

The bonus is determined using EBIT (earnings before interest and tax; adjusted for special effects, impairment losses on non-current assets and restructuring expenses in 2012) for all members of the Management Board. The maximum bonus is capped at twice the standard bonus.

The members of the Management Board will receive a cash payment for 70% of the bonus calculated for the 2012 fiscal year directly after the 2013 annual general meeting.

In accordance with the share deferral arrangements in all management contracts, the remaining 30% of the bonus calculated for the 2012 fiscal year is retained for a vesting period that expires on the date of the annual general meeting in the third fiscal year following the reporting period. This portion will be converted into phantom shares in Celesio AG directly after the annual general meeting in May 2013. The number of phantom shares is calculated by dividing the 30% share of the bonus by an initial reference price. The Management Board participates in price gains and any dividends, but also bears the risk of losses from the conversion date. If Celesio AG decides to carry out any capital measures or restructuring that affect the value of shares issued, the Management Board members' phantom shares are treated in the same way as real shares. The amount paid out from the share deferral scheme is calculated on the scheduled date after approximately three years even if the member of the Management Board has left the company in the meantime. At the end of the three-year vesting period, the phantom shares are paid out in cash plus any dividends. The reference price used for conversion is based on the average closing rate of the last 30 trading days at the beginning and at the end of the vesting period. This share deferral scheme serves as a long-term incentive by strengthening commitment to sustainability and ownership. Applying the provisions of German Accounting Standard 17 and IFRS 2, the total expense arising from share-based payment transactions and the fair value of the share deferral are to be disclosed as of the issue date. The disclosures below are based on expectations of meeting targets for the grant period and the number of phantom shares depending on these targets, as well as the share price on the date of issue of these share-based payments as of 1 January 2012.

2012	Fair value of share deferral on the date of issue € k	Expected number of phantom shares from share deferral	Total share-based payment in the fiscal year € k
Markus Pinger (Chairman)	317	26,757	347
Stephan Borchert	195	16,493	212
Dr Marion Helmes	176	14,888	191
Wolfgang Mähr (until 30/09/2012)	222	18,740	0
Total	**910**	**76,878**	**750**

2011	Fair value of the share deferral on the date of issue € k	Expected number of phantom shares from share deferral	Total share-based payment in the fiscal year € k
Markus Pinger (Chairman since 15/08/2011)	85	7,334	58
Wolfgang Mähr	42	4,246	35
Total	**127**	**11,580**	**93**

Long-term variable remuneration

Performance cash scheme

The former performance cash scheme was first set up with effect as of 1 January 2008 for a period of three years (2008 tranche) and was followed by the 2009 tranche, the 2010 tranche and the 2011 tranche.

The performance cash scheme for the 2011 tranche is based equally on the increase in share price (average of the last 30 trading days at the end of the three-year period compared to the average of the last 30 trading days leading up to the beginning of the three-year period) and accumulated Celesio value added. The Celesio value added is a key performance indicator which serves our value-based corporate management. To obtain this indicator, the ratio of EBIT to capital employed is compared with the weighted average cost of capital. The amount payable is capped at three times the standard amount. This standard amount is defined as the amount due if the share price increases by 100% plus the Celesio value added accumulated over three years. The 2009 tranche, which would have been paid out in 2012, and the 2010 tranche, which would have been paid out in 2013, will not be applicable for the active members of the Management Board.

As a result, no payments were made to active members of the Management Board in connection with the performance cash scheme in the 2012 fiscal year.

Provisions of € 17k were set up in the 2012 fiscal year for the 2011 tranche for Markus Pinger and Stephan Borchert.

Performance share plan

The Supervisory Board approved the change to the long-term remuneration component as of 1 January 2012 and passed a resolution to issue a new performance share plan for the period 2012 to 2014 (2012 tranche).

At the beginning of the three-year period of the performance share plan, Management Board members receive a fixed standard amount defined as guidance (in €). This fixed standard amount is divided by the average Celesio share price of the last 30 trading days leading up to the beginning of the tranche plus a mark-up of 10% and converted into phantom shares. The performance share plan of the 2012 tranche includes a performance target based on the average earnings per share (EPS) measured over a period of three years. If this performance target is reached, the target is considered to have been met in full (100%). If the performance target is exceeded (150%), the maximum target achievement is 200%, with the amount payable capped at three times the standard amount predefined as guidance. The long-term target is considered not to have been met if the performance target is missed by 20% or more. Each member of the Management Board is allocated a final number of phantom shares at the end of the term and in accordance with performance against targets.

The performance share plan is payable in cash provided that the targets are met. The amount of cash payment depends on the standard amount set for each member of the Management Board, as well as fulfilment of the performance target, the price development of phantom shares and the dividend paid in the performance period.

The standard amount for the 2012 tranche was € 600k for Markus Pinger, € 373k for Stephan Borchert and € 335k for Dr Marion Helmes. The standard amount for Wolfgang Mähr (until 30 September 2012) was € 425k.

2012	Fair value of performance share plan on the date of issue € k	Number of phantom shares on the date of issue	Total expense arising from share-based payments € k
Markus Pinger (Chairman)	600	46,058	298
Stephan Borchert	373	28,595	184
Dr Marion Helmes	335	25,716	166
Wolfgang Mähr (until 30/09/2012)	425	32,625	323
Total	**1,733**	**132,994**	**971**

2011	Fair value of performance cash scheme on the date of issue € k	Total expense arising from share-based payments for the performance cash scheme € k
Markus Pinger (Chairman since 15/08/2011)	12	4
Dr Fritz Oesterle (Chairman until 30/06/2011)	102	/
Stephan Borchert (since 01/08/2011)	17	4
Dr Christian Holzherr (until 30/11/2011)	51	/
Dr Michael Lonsert (until 31/12/2011)	125	/
Wolfgang Mähr	51	12
Total	**358**	**20**

Total remuneration

The total remuneration of the Management Board came to € 7,578k in the 2012 fiscal year (previous year € 4,968k). This breaks down into € 2,643k for the basic component (previous year € 2,756k including fringe benefits), € 2,292k for the portion of bonuses payable immediately (single year variable component; previous year € 1,727k) and € 2,643k for the value of the 2012 tranche of the performance share plan and the value of retained bonuses on the date of issue (multiple-year variable component; previous year € 485k).

Total remuneration breaks down by member as follows:

2012

Markus Pinger (Chairman)
Stephan Borchert
Dr Marion Helmes
Wolfgang Mähr (until 30/09/2012)
Total

2011

	Basic component € k	Single-year variable remunera-tion € k
Markus Pinger (Chairman since 15/08/2011)	341	58
Dr Fritz Oesterle (Chairman until 30/06/2011)	371	/
Stephan Borchert (since 01/08/2011)	417	/
Dr Christian Holzherr (until 30/11/2011)	487	779
Dr Michael Lonsert (until 31/12/2011)	600	400
Wolfgang Mähr	474	490
Total	**2,690**	**1,727**

	Basic component € k	Single-year variable re-muneration € k	Multiple-year variable remuneration € k: Performance cash scheme value added	Multiple-year variable remuneration € k: Total share-based payment	Total multiple-year variable re-muneration	Fringe benefits € k	Total € k
	934	800	/	917	917	21	2,672
	600	493	/	568	568	16	1,677
	600	445	/	511	511	13	1,569
	450	554	/	647	647	9	1,660
	2,584	**2,292**	**/**	**2,643**	**2,643**	**59**	**7,578**

	Multiple-year variable remuneration € k						
		Share-based payment					
	Performance cash scheme value added	Performance cash scheme increase in share price	Share deferral	Total share-based payment	Total multiple-year variable re-muneration	Fringe benefits € k	Total € k
	/	12	85	97	97	9	505
	/	102	/	102	102	12	485
	/	17	/	17	17	5	439
	/	51	/	51	51	17	1,334
	/	125	/	125	125	11	1,136
	/	51	42	93	93	12	1,069
	/	**358**	**127**	**485**	**485**	**66**	**4,968**

Post-employment expenses

2012	Service cost € k	Defined benefit obligation 31/12 € k	Expense from pension obligations (HGB) € k	Fair value (HGB) 31/12 € k
Markus Pinger (Chairman)	369	551	372	455
Stephan Borchert	225	384	228	295
Dr Marion Helmes	280	280	223	223
Wolfgang Mähr (until 30/09/2012)	227	/	172	/
Total	**1,101**	**1,215**	**995**	**973**

2011	Service cost € k	Defined benefit obligation 31/12 € k	Expense from pension obligations (HGB) € k	Fair value (HGB) 31/12 € k
Markus Pinger (Chairman since 15/08/2011)	140	140	141	141
Dr Fritz Oesterle (Chairman until 30/06/2011)	135	/	132	/
Stephan Borchert (since 01/08/2011)	93	93	94	94
Dr Christian Holzherr (until 30/11/2011)	255	/	241	/
Dr Michael Lonsert (until 31/12/2011)	207	/	197	/
Wolfgang Mähr	217	2,698	209	2,707
Total	**1,047**	**2,931**	**1,014**	**2,942**

Post-employment benefits

Management Board members benefit from a defined contribution plan. An amount of € 220k is added each year to the retirement accounts of Stephan Borchert, Wolfgang Mähr (until 30 September 2012) and Dr Marion Helmes. A payment of € 300k each year was agreed for Markus Pinger's retirement account. The contribution is determined by the Supervisory Board regardless of salary and adjusted as part of the regular remuneration review process. A contractual trust arrangement (CTA) is generally used to insure any claims not already insured against insolvency by Pensions-Sicherungs-Verein a.G., Cologne.

The contribution is made for the period of office as Management Board member. The company adds interest of 6% p.a. to the amount on the basic pension account at the beginning of each calendar year until the benefits can be claimed, plus the pro rata share for the final year until benefits can be claimed. Pensions can be claimed after leaving the company and from the age of 60 years. In the case of invalidity or death, the contributions that would have been payable until the age of 63 are credited to the pension account which is then paid out.

The Management Board contracts amended in 2012 provide for severance pay to be capped in accordance with the recommendations of the German Corporate Governance Code. Accordingly, any payments granted to a member of the Management Board upon premature termination of office without due cause are capped at the higher of the remuneration due from the remaining term of the service agreement or two years' annual remuneration. If there are any tranches outstanding from the performance cash scheme/performance share plan when a member of the Management Board leaves the company before the end of the performance period and the targets are met in full, these are settled on a pro rata basis using the standard amount.

In the event of a change of control associated with significant disadvantages for the Management Board, the following applies: Management Board members can terminate their contracts giving three months' notice to the end of the month. In this case, the severance payment would be the total of all remuneration outstanding until the end of the contract, including the standard bonus and the fixed standard amount from the performance cash scheme/performance share plan, but capped at 150% of the ordinary severance pay cap.

Benefits to members of the Management Board that left the company in the reporting period

Wolfgang Mähr prematurely left the Management Board of Celesio AG in the 2012 fiscal year. His contract ended on 30 September 2012.

Wolfgang Mähr received the following benefits in connection with his exit from the Management Board and in accordance with the contractual arrangements for premature termination of office:

	Wolfgang Mähr € k
Remuneration settlement	3,528
Other benefits	62
Contribution commitment to the retirement account	389
Total	**3,979**

In 2011, benefits of € 16,867k were payable in connection with members of the Management Board that left the company in the reporting period.

Other notes

Former members of the Management Board and their surviving dependents received remuneration of € 4,308k in the reporting period (previous year € 17,245k). Celesio AG has set up pension provisions of € 15,249k (previous year € 12,898k) for this group of persons. In the 2012 fiscal year, no loans were granted to members of the Management Board, nor did the company enter into any contingent liabilities in favour of these persons. The figures above include the benefits paid in connection with terminating Wolfgang Mähr's Management Board contract.

Total remuneration and compensation structure of the Supervisory Board

The remuneration paid to the Supervisory Board is defined in Art. 5 of the articles of association of Celesio AG. In addition to reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive fixed 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 issued capital entitled to dividends. These payments are net of VAT. The chairman receives twice the standard amount paid to the other members of the Supervisory Board and the deputy chairman receives one and a half times the standard amount. Each member of a committee – with the exception of the committee founded to satisfy Sec. 27 (3) Mitbestimmungsgesetz (MitbestG, German Co-determination Act) – receives € 2,000 for each committee membership, with the chairman of a committee receiving € 4,000.

The total remuneration of the Supervisory Board came to € 512.8k in 2012 (previous year € 491.1k). Of this, € 67.5k (previous year € 67.5k) pertained to fixed remuneration for membership of the Supervisory Board. The variable components pegged to dividend pay-outs for membership of the Supervisory Board came to € 421.2k (previous year € 399.6k). The variable components pegged to dividend payouts for serving on committees came to € 25.0k (previous year € 24.0k). The following table shows the remuneration of each Supervisory Board member:

2012	Fixed component € k	Variable component € k	Remuneration for committee work € k	Total € k
Stephan Gemkow (Chairman since 19/12/2012)	0.4	2.2	0.3	2.9
Prof Dr Jürgen Kluge (Chairman until 18/12/2012)	9.6	60.1	7.7	77.5
Ihno Goldenstein (Deputy Chairman)	7.5	46.8	2.9	56.3
Klaus Borowicz	5.0	31.2	2.0	38.2
Prof Dr med. Julius Michael Curtius	5.0	31.2	0.0	36.2
Dr Hubertus Erlen	5.0	31.2	4.0	40.2
Dr Florian Funck (since 16/05/2012)	3.1	19.6	1.3	24.0
Dirk-Uwe Kerrmann	5.0	31.2	0.0	36.2
Jörg Lauenroth-Mago	5.0	31.2	0.0	36.2
Susan Naumann	5.0	31.2	0.0	36.2
Ulrich Neumeister	5.0	31.2	2.0	38.2
W. M. Henning Rehder	5.0	31.2	3.3	39.5
Hanspeter Spek	5.0	31.2	0.0	36.2
Prof Dr Klaus Trützschler (until 16/05/2012)	1.9	11.7	1.5	15.0
Total	**67.5**	**421.2**	**25.0**	**512.8**

2011	Fixed component € k	Variable component € k	Remuneration for committee work € k	Total € k
Prof Dr Jürgen Kluge (Chairman)	10.0	59.2	8.0	77.2
Ihno Goldenstein (Deputy Chairman)	7.5	44.4	2.0	53.9
Klaus Borowicz	5.0	29.6	2.0	36.6
Prof Dr med. Julius Michael Curtius	5.0	29.6	0.0	34.6
Dr Hubertus Erlen	5.0	29.6	4.0	38.6
Dirk-Uwe Kerrmann	5.0	29.6	0.0	34.6
Jörg Lauenroth-Mago	5.0	29.6	0.0	34.6
Susan Naumann	5.0	29.6	0.0	34.6
Ulrich Neumeister	5.0	29.6	2.0	36.6
W.M. Henning Rehder	5.0	29.6	2.0	36.6
Hanspeter Spek	5.0	29.6	0.0	34.6
Prof Dr Klaus Trützschler	5.0	29.6	4.0	38.6
Total	**67.5**	**399.6**	**24.0**	**491.1**

In the 2012 fiscal year, no loans were granted to members of the Supervisory Board, nor did the company enter into any contingent liabilities in favour of these persons.

Internal control system

With effect as of 2012, our earnings management is based on the EBIT (earnings before interest and taxes). Compared to our previous indicator EBITDA (earnings before interest, taxes, depreciation and amortisation), EBIT allows us to consider additional depreciation and amortisation and, as a result, to measure our business performance more comprehensively. EBIT also improves comparability with other international companies and is overall a better measure of the operating result.

Furthermore, EBIT is an important input parameter for determining ROCE (return on capital employed) and value added. ROCE and value added consider capital employed and therefore expresses the performance of the group, our divisions and our investments. ROCE reflects the total return on equity and shows the ratio of EBIT to tied capital. Value added is calculated as follows:

Value added = Earnings before interest and taxes (EBIT) –
tied capital × weighted average cost of capital (WACC)

Value added expresses the absolute net profit after deducting the cost of capital. The group's operating management and therefore the operating indicators focused on continuing operations in 2012.

Tied capital is calculated as the total of all non-interest-bearing assets (except tax items) less non-interest-bearing liabilities (except tax items), measured at carrying amounts. WACC (before tax) is the weighted average market cost of debt capital and equity and came to 11.0% as of 31 December 2012 compared to 10.9% in the previous year. Value added came to € –62.4m in the reporting period compared to € –253.7m in the previous year. The year-on-year increase is primarily attributable to the impairment of goodwill in 2011, but also reflects effects from portfolio optimisation and strategic initiatives (including the Operational Excellence Program (OEP)).

We also plan and measure a number of other financial and non-financial key performance indicators on a monthly basis. We continue to disclose EBITDA to allow comparability with previous years.

Notes on capital and shareholder structure

Secs. 289 (4) and Sec. 315 (4) HGB require additional information in the management report and group management report on certain features of the capital and shareholder structure as well as certain arrangements which might be of significance in the event of an acquisition:

1. The share capital of Celesio AG amounts to € 217,728,000 and is divided into 170,100,000 no-par registered shares. The proportionate nominal value per share is € 1.28.
2. Each share in Celesio AG is given one vote. There are no shares with multiple, preferential or maximum voting rights. No limitations of voting rights arising from shares exist nor is Celesio aware of any limitations on the transferability of shares.
3. The current shareholding of Franz Haniel & Cie. GmbH, Duisburg, was 50.01% at the end of the reporting period. We are not aware of any other shareholding of a direct or indirect nature in the capital of Celesio AG of a magnitude of more than 10.0%.
4. There are no shareholders with special rights.
5. Employees with shares in the capital of the company may directly exercise their control rights.
6. a) Members of the Management Board are appointed by the Supervisory Board for a maximum term of office of five years. A reappointment or extension to the term of office is permitted for a maximum of five years in each case. Reappointment 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 the end of the previous term of office. In the event of the death of a member of the Management Board or if members leave the Management Board due to their appointment being revoked or through resignation from office, the court must, in urgent cases, appoint a member at the request of one of the parties involved if the absent Management Board member is required for a representation or managerial measure. The Supervisory Board may revoke the appointment of a member of the Management Board and the Management Board's nomination for chairman for good cause. Good cause is specifically gross breach of duty, incapability of proper management or a vote of no confidence by the annual general meeting, unless the vote of no confidence was on clearly unjustified grounds.

b) Any amendment of the articles of association requires a resolution to be taken at the annual general meeting. For such a resolution, a majority is required of at least three quarters of the share capital represented at the time the resolution is passed. The Supervisory Board is only authorised to make amendments to the articles of association to the extent that they merely affect the wording and do not bring about any changes to content. For this resolution, a majority of the votes cast suffices.

7. a) By resolution of the annual general meeting of 17 May 2011, the Management Board is authorised to increase the share capital of the company on or before 16 May 2016 with the consent of the Supervisory Board by issuing new no-par registered shares in return for cash contributions or contributions in kind on one or more occasions by a maximum of € 65,318,400 (authorised capital 2011).

   The shareholders are to be granted subscription rights if the share capital is increased by cash contribution. Pursuant to Sec. 186 (5) AktG, the new shares may also be offered for acquisition by a bank under the obligation of offering them for sale to the shareholders. The Management Board is permitted, however, to exclude shareholders' subscription rights with the consent of the Supervisory Board in the following circumstances (I) for fractional amounts; (II) to the extent necessary to enable the holders of bonds with option or conversion rights or bonds with subscription or conversion obligations previously issued by the company or its dependent group companies to exercise such rights to the extent they would have such rights as shareholders after exercising the option or conversion rights or fulfilling the subscription or conversion obligation; (III) if the issue price of the new bonds is not materially lower than their listed price and the shares issued excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed 10% of the share capital on the date of becoming effective or on the date of exercising this authorisation. This limitation includes the number of treasury shares sold excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG during the term of the authorisation. This limitation also applies to shares issued to serve bonds with options or conversion rights or obligations in the case of bonds issued during the term of this authorisation excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG. The Management Board is further authorised, with the consent of the Supervisory Board,

to exclude subscription rights in the case of a capital increase in return for contributions in kind. The Management Board is also authorised, with the consent of the Supervisory Board, to define further details of the capital increase and its execution, in particular the content of the share rights and the conditions governing the issue of shares.

b) By resolution of the annual general meeting of 16 May 2012, the Management Board is authorised to increase the share capital of the company on or before 15 May 2017 with the consent of the Supervisory Board by issuing new no-par registered shares in return for cash contributions on one or more occasions by a maximum of € 43,545,600 (authorised capital 2012). In this respect, the shareholders are to 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.
   Pursuant to Sec. 186 (5) AktG, the new shares may also be offered for acquisition by a bank under the obligation of offering them for sale to the shareholders (indirect subscription right).
   The Management Board is also authorised, with the consent of the Supervisory Board, to define further details of the capital increase and its execution, in particular the content of the share rights and the conditions governing the issue of shares.

c) By resolution of the annual general meeting of 8 May 2009, the Management Board was authorised, with the consent of the Supervisory Board, to issue registered option bonds or convertible bonds (together: bonds) with a total nominal value of up to € 500m on or before 7 May 2014 and to grant the holders of option rights and the holders of convertible bond options and conversion rights, respectively, for registered shares in the company with a share in the share capital of the company of up to € 21,772,800 in accordance with the precise conditions of the registered option bonds or convertible bonds, and to exclude shareholders' subscription rights in certain cases. In accordance with Art. 3 No. 4 of the articles of association of Celesio AG, the share capital of Celesio AG is conditionally increased by up to € 21,772,800.00 (conditional capital 2009) and the Management Board is authorised, with the authorisation of the Supervisory Board, to define the further conditions of the conditional capital increase and its execution pursuant to the conditions of consent. The Management Board made some use of this authorisation

in issuing the convertible bond on 29 October 2009. To the extent that the authorisation had not been fully exercised, it was withdrawn by resolution of the annual general meeting on 6 May 2010.

d) By resolution of the annual general meeting of 6 May 2010, the Management Board is authorised, with the consent of the Supervisory Board, to issue registered option bonds and/or convertible bonds (together: bonds) on one or more occasions with a total nominal value of up to € 500m on or before 5 May 2015 and to grant the holders of registered option bonds and the holders of convertible bonds options and conversion rights, respectively, for registered shares in the company with a share in the share capital of the company of up to € 21,772,800 in accordance with the precise conditions of the options or convertible bonds, and to exclude shareholders' subscription rights in accordance with the resolution of the annual general meeting. In accordance with Art. 3 (5) of the articles of association, the share capital can be contingently increased by up to € 21,772,800, split into 17,010,000 no-par registered shares (contingent capital 2010). The conditional capital increase is only carried out to the extent that (I) the holders of option or conversion rights or those obliged to exercise options or conversion rights from registered option bonds or convertible bonds issued or guaranteed by Celesio AG, or another company in which Celesio AG has a direct or indirect majority in the voting rights and equity, pursuant to the resolution on the authorisation passed at the annual general meeting on 6 May 2010, make use of their option or conversion rights, or, to the extent that they are obliged to convert or exercise their options, that they meet this obligation, and (II) no cash settlement is granted and no treasury shares or shares in another listed company are used to service the obligation. The new shares will be issued at an option or conversion price based on the provisions of this authorisation. The new shares participate in profit from the beginning of the fiscal year in which they are issued based on options or conversion rights being exercised or the obligations to exercise options or conversion rights being met. The Management Board is authorised, with the consent of the Supervisory Board, to define the further conditions for executing a conditional capital increase. The Management Board made partial use of this authorisation in issuing the convertible bond on 7 April 2011.

e) In the event of the share capital being increased, the distribution of profits may be determined in derogation of Sec. 60 AktG.
f) The company may acquire treasury shares with the intention of offering them as part of the employee share programme to persons who are or were employed by the company or an affiliate.
g) By resolution of the annual general meeting of 16 May 2012, the company was authorised until 15 May 2017 to purchase treasury shares totalling up to 10% of the share capital on the resolution date or the share capital on the date this authorisation is exercised, if lower.
   The resolution of the annual general meeting determines the rights of the individual Management Board members in connection with the acquisition and use, including exclusion of put options upon acquisition or subscription rights upon use.
h) The 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 are determined by the Management Board, with the consent of the Supervisory Board.

8. Pursuant to the terms of the convertible bonds issued on 29 October 2009 and 7 April 2011, the bond creditors are entitled in the event of a change of control to terminate prematurely or convert at an adjusted price all or some of the convertible bonds. The terms of the bond issued by Celesio Finance B.V. on 26 April 2010 and guaranteed by Celesio AG also provide for premature termination by the bond creditors of all or some of the convertible bonds in certain circumstances. A change of control is deemed to occur when a third party's interest reaches more than 50% of the shares in Celesio AG as a result of a takeover bid. In connection with convertible bonds, a change of control can also occur independently of a takeover bid in scenarios including but not limited to when a third party acquires direct or indirect control over at least 30% of the shares in Celesio AG.
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 bid.

Pursuant to Sec. 120 (3) AktG the Management Board has considered the mandatory information pursuant to Secs. 289 (4) and 315 (4) HGB. It confirms the regulations in place at Celesio and sees no reason for any change. The mandatory information pertaining to features of the capital and shareholder structure reflects the main current content of the articles of association of Celesio AG.

Dependent company report

Franz Haniel & Cie. GmbH, Duisburg, has a majority shareholding in Celesio AG. Celesio has therefore prepared a report on relationships with affiliates as required by Sec. 312 AktG. The report concludes as follows: "We hereby declare in summary that in the legal transactions listed in the dependent company report, and according to the circumstances that were known to us when those legal transactions were performed, Celesio AG, Stuttgart, and its subsidiaries, received appropriate consideration in each legal transaction."

Market and strategy

Megatrends boost global pharmaceutical markets

The global pharmaceutical and healthcare markets will continue to grow in the years to come, driven by several global megatrends:

- The global population will continue to expand by around 80 million people per year.
- The average age is expected to increase by more than five years or 20% by 2030.
- The number of people with chronic conditions is soaring. Estimates based on studies in 91 countries suggest that the number of diabetics (currently around 285 million) will rise by 7.7% per year to 439 million people by 2030.
- These developments will push up global pro capita spending on healthcare by 5% per year – that is significantly more than the rate of population growth.

The global pharmaceutical and healthcare markets are forecast to grow by 4.8% per year on average until 2016 when the total volume will reach USD 1.2 trillion.

Emerging and developing countries will account for almost 50% of the global growth. An efficient healthcare system is a priority in these countries in light of rising affluence and higher expectations as to quality of life. East and Southeast Asia as well as Latin America will be the main growth drivers, with annual increases of 13% and 15%, respectively.

Competition restructures European pharmaceutical markets

In the advanced and highly regulated markets of Europe, moderate growth of 0.7% per year is expected. This situation is likely to fuel competition on the European pharmaceutical and healthcare markets.

The ever wider chasm between growing healthcare spending and government funding possibilities is a significant factor. The recent financial and debt crisis intensified pressure on already strained national budgets in Europe. Markets will see the following main effects:

- Cuts in government spending on healthcare at the expense of market participants
- Trend towards deregulation, especially of pharmaceutical retail, to relieve national budgets further
- Mandatory use of less expensive generic products once pharmaceutical patents expire

The developments will trigger tougher competition for margins and market shares, with market structures increasingly shifting to the demand side. The pharmaceutical retail business will gain ground on manufacturers, and particularly on wholesalers, in terms of significance and market power. In increasingly deregulated markets, chains of drugstores will drive this development forward through concentration and consolidation.

From the perspective of the pharmaceutical wholesale business, a process of forward integration towards retail is underway on the markets. This has two main consequences. For one, the trade margins will see something of a shift away from wholesale and towards retail, putting pressure on costs. Secondly, wholesalers will face increasing demand from pharmacies and manufacturers for tailored logistics solutions. This will be associated with new compensation models. As the market adapts to these changes, the pharmaceutical wholesale business will increasingly be transformed from the traditional middleman between pharmacies and manufacturers into a provider of services and logistics for manufacturers and pharmacies.

Growing health consciousness buoys pharmaceutical retail

The rising significance of pharmaceutical retail is promoted on the consumer side by greater health consciousness. Patients and consumers are increasingly playing an active role in their own health and wellbeing.

Greater personal responsibility fuels demand for better information, especially via digital media, as well as improved service and advice. People are increasingly prepared to spend their own money for competent pharmaceutical advice and service and for high-quality healthcare and wellbeing products.

Market studies prove that for the majority of health-conscious consumers the pharmacy is the preferred point of contact for an initial extensive consultation on health matters. By considering pharmacies as part of the healthcare system, the quality of healthcare can be increased while at the same time driving down costs.

Our guiding principles: geared towards serving customers' health

In general, it can be said that success on the pharmaceutical and healthcare markets will hinge on patients and consumers more than ever in the future. At Celesio, we address this situation in our guiding principles.

Our Vision is a healthier world where more people can live life to the fullest.

Our Mission is to effectively, efficiently and passionately deliver innovative healthcare services that equip and inspire more positive lives.

With this in mind, our guiding principles clearly emphasise the following:

- Focusing all resources on the ultimate goal of improving health and quality of life for patients and consumers
- Integrating all processes and services in pursuit of this aim
- Driving innovation and efficiency along the supply chain to constantly improve the quality of services for patients and consumers.

Our guiding principles serve as a framework and directional aid for Celesio's strategy and structure. This is the pledge of the company and its employees to customers and society as a whole. In implementing the strategic realignment, we are delivering on our promise.

The new strategy: return to profitable growth

Celesio introduced its strategic realignment at the end of October 2011 with five cornerstones aimed at stabilising earnings and improving the company's competitive position in the short term. In the medium to long term, the measures are designed to bring the company back on course for profitable growth through innovation and expansion of the core business. Two important milestones have already been reached: the successful sale of Manufacturer Solutions and the implementation of the Operational Excellence Program (OEP). This marks the realisation of our planned focus on the core business, a move of strategic importance for Celesio. Celesio is now focusing on initiatives and projects to further develop the core business in order to secure a return to positive growth. Celesio is thus pursuing a strategy of forward integration and innovation leadership in line with market dynamics.

- **Expansion of the pharmacy business:**
  In future, pharmacies will play an even more important role in individual and public healthcare for various reasons, including:
  - Shift in market structures towards retail
  - Growing healthcare needs of patients and consumers
  - Need to drive down costs in the healthcare system through efficient structures and solutions.

In light of these factors, Celesio will strengthen its focus on the pharmacy business and expand it across Europe. Celesio has already begun efforts to launch new products and services under the brand name “Lloyds” – the centrepiece of the planned European pharmacy network. Celesio’s own pharmacies and the Celesio partner pharmacies will be integrated to form a single partnership network. New concepts can be developed more quickly and times to market will be shorter. At the same time, all participants benefit from economies of scale in procurement and marketing. As a partner in the network, independent, owner-run pharmacies will also be supported in an increasingly hostile competitive environment. Pharmacies can improve their prospects by increasing their attractiveness for customers and offering higher-margin products and services. The clear advantages of the network will attract a growing number of cooperation partners.

- **End-to-end integration of retail and wholesale**
  The shift on the international pharmaceutical markets towards retail makes the compartmentalisation of wholesale and retail increasingly difficult. Seamless integration and cooperation are the key to unlocking enormous value potential. Celesio wants to be trend setter and innovation leader here as well. To do so, the wholesale business will need to evolve to offer new service and logistics solutions through integration and intelligent management of all logistics stages and processes, i.e. end to end, from the manufacturer to the pharmacy. This approach releases synergies and allows efficiency gains to be leveraged for all participants. Wholesale will thus evolve to become the preferred logistics partner, offering full service competence for pharmacies and manufacturers. New custom can be won from manufacturers and pharmacies by offering tailored logistics solutions, e.g. for special pharmaceuticals or optimised warehouse management for pharmacies. Wholesalers stand to benefit from attractive growth potential. Applying an end-to-end strategy to link retail and wholesale will also drive Celesio’s development into a company with one clear identity – One Celesio. Service processes and internal cooperation are efficiently integrated and aligned to a common goal: the wishes and needs of patients and consumers.

- **Regional expansion**
  Strong economic growth in emerging and developing economies shows no signs of slowing down over the coming years. An efficient healthcare system is of high priority in these countries. They therefore offer an attractive stage for Celesio to expand its innovative concepts. Following the successful entry to the Brazilian growth market, Celesio has since managed to achieve a strong position in this country and is now the seventh largest German company in Brazil. In the medium term, we also intend to target rapid-growth markets outside Latin America.

New group structure supports integration and cooperation

Celesio introduced a new organisational structure in mid-2012 based on the integration of processes, exchange of experience and knowledge and group-wide cooperation. The structure supports the implementation of the strategic realignment, putting Celesio on a leaner and more powerful footing and improving the company's flexibility for the future.

The organisational structure is consistent across the group and covers the following four divisions:

- Marketing and Sales
- Operations
- Governance Functions
- Support Functions

The end-to-end operating services and service processes of the Celesio Group, from manufacturer to wholesaler to pharmacy, will be effectively integrated under the new organisation for the first time. This will enable a continuous value-added process that is clearly aligned to pharmacies and pharmacy customers through the new structure. Overarching functions such as procurement and IT are concentrated centrally to boost productivity wherever this makes sense.

The new organisation is therefore an important step in driving innovation. It is also instrumental in securing efficiency gains by tapping into previously unrealised synergy potential.

Strategic roadmap: stabilisation, realignment, growth

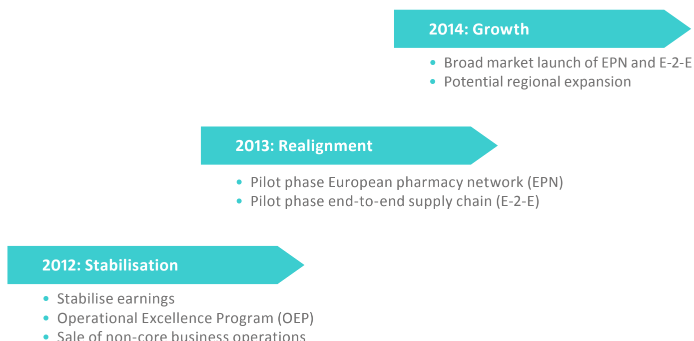
Celesio has set clear priorities for implementing the strategic realignment and these are reflected in the strategic roadmap.

In light of the negative earnings trend since 2007, it was a top priority in 2012 to stabilise the situation as quickly as possible. An important agenda item for 2012 was therefore the implementation of the Operational Excellence Program. We also examined options for the sale of Manufacturer Solutions and further divestments. Other areas of focus included finalisation of plans for the end-to-end supply chain and European pharmacy network projects as well as the introduction of our new group structure.

Under the heading "realignment", the roadmap for 2013 contains plans to pilot the end-to-end supply chain and European pharmacy network projects. 2013 will therefore be a year of innovation and development to market. The roadmap also covers the continuation of the OEP until all measures have been fully and effectively implemented.

Under the heading "growth", the roadmap for 2014 contains plans for the broad market launch of our two key strategic projects, the European pharmacy network and the end-to-end-supply chain.

STRATEGIC ROADMAP



Taking stock: agenda for 2012 successfully realised

In accordance with the strategic roadmap, we pressed ahead steadily with the OEP in 2012 in pursuit of our aim to stabilise earnings quickly and sustainably. The measures were successfully launched and most were already implemented in 2012. The key measures included reducing fixed costs, bundling procurement activities across the group, restructuring the Swedish pharmacy business and optimising our international logistics network. The measures from the Operational Excellence Program will improve our ability to compete in the medium term by installing efficient service and cost structures – the prerequisite for a return to profitable growth.

Furthermore, virtually all planned divestments were completed in 2012, well ahead of schedule. They included the sale of Manufacturer Solutions with the subsidiaries Movianto and Pharmexx, the sale of the DocMorris mail-order pharmacy and the disposal of Czech and Irish operations. The sale of the Irish operations is expected to be closed in the first six months of 2013. The divestment program was pursued in order to redirect resources towards the further development of our core business. In the case of DocMorris, the sale was an

effective solution to the channel conflict with the German pharmacies, clearing the way for new partnerships.

In the last quarter of 2012, the European pharmacy network concept was rolled out in a pilot phase. It was implemented in December 2012 at four test pharmacies in Italy and the UK and has been well received by the public so far.

The restructuring of the Celesio Group and the execution of the new organisation at the national companies was completed with few exceptions in 2012.

Judging by the business development in 2012, the measures have clearly taken hold with a positive impact as expected.

Economy

2012 – eurozone in crisis

The year 2012 was characterised by the banking and sovereign debt crisis in Europe and ongoing efforts to stem it. Forecasts for global economic development were extremely conservative. In mid-January, the International Monetary Fund (IMF) adjusted its previous forecasts for development downwards by a significant margin, agreeing with the World Bank's view that the development of the global economy in 2012 will hinge on whether the eurozone can be stabilised. Numerous measures were implemented over the course of the year to alleviate the crisis, including approval of a second rescue package for Greece following lengthy negotiations in mid-March. During the first quarter, the EU member states also topped up the European Stability Mechanism (ESM), the EU bailout fund, from € 500bn to € 800bn. However, these measures were not enough to contain the crisis, especially in the southern countries including Spain which became the fourth member to ask for a bailout in early June. Against this backdrop, the IMF expressed concern about poor global growth prospects in the middle of the year. At around the same time, the IFO Institute for Economic Research forecast a renewed downturn in the third quarter. Eurostat, the statistical office, reported that economic output had shrunk by 0.1% in the third quarter of 2012, confirming that the eurozone was in recession. Following the downturn in the wake of the global banking crisis in 2008, which spanned five quarters, fears of a double-dip recession were confirmed by this negative turn of events. As a countermeasure announced in September, ECB boss Mario Draghi pledged to buy back unlimited government bonds in the hope of turning around the euro crisis.

The banking crisis remained a hot topic in 2012, with public scrutiny directed at a number of large banks as various scandals came to light. All of these banking scandals were counterproductive to efforts to stabilise the eurozone.

The situation in 2012 was compounded by negative developments in the US, driven primarily by tough negotiations to raise the debt ceiling and the lack of a plan to reduce debt in the medium term.

Global growth drivers were once again the emerging and developing countries in 2012, although even they did not escape the problems of the major economies unscathed.

In the outlook starting on → page 176, we present our assessment of the market environment and future development of the Celesio Group.

Revenue and earnings development

Stabilisation of earnings continues

The 2012 fiscal year was all about stabilising earnings at the Celesio Group. We launched the Operational Excellence Program (OEP) in the autumn of 2011 with this in mind. The OEP was intended to lay the foundations for Celesio's strategic turnaround and focused on getting earnings stabilised and improving Celesio's ability to compete. Celesio was successful in its efforts to stabilise earnings in 2012, with both adjusted EBITDA and adjusted EBIT up on the previous year.

Celesio continued to implement the OEP measures steadily in 2012. Highlights include:

- Bundling procurement activities (top-in-class procurement)
- Restructuring and strengthening the market position in Sweden
- Optimising the logistics network
- Reducing administrative costs

Celesio is well on track with its procurement optimisation plans. A special procurement programme – top-in-class procurement (TIC) – was launched and has already been embedded in our company's organisational structures. The procurement function was realigned across the group as part of this program. In the course of optimising and bundling procurement activities, we have begun the process of examining every cost item and renegotiating all our agreements with suppliers. Our efforts have paid off, contributing to more effective procurement processes at Celesio already in the reporting period. We are already seeing the first signs of success and evidence of the promising future potential of the initiative.

Optimising the pharmacy portfolio was at the heart of our measures in Sweden in 2012. Celesio closed a further four pharmacies in the past fiscal year and revised past plans to open new pharmacies following detailed assessments and cost-benefit analyses. At the same time, twelve new pharmacies were opened at promising locations – a move that has brought about considerable operating improvements in the Swedish pharmacy business.

Optimising our international logistics network is another significant component of the OEP. To do so, Celesio is committed to investing in the European network of wholesale branches. This will realise efficiency gains, while more competitive and efficient branches and logistics networks will contribute to service improvements, enabling Celesio to offer customers optimum support.

In 2012, the program to optimise administration costs was also continued throughout the group, especially at the head offices in the UK, Germany and Belgium. Efforts focused on driving down both personnel and non-personnel costs and optimising processes.

Celesio implemented the OEP as planned in the past fiscal year, with great success. We managed to realise a considerable portion of the earnings contribution planned from 2013 already in the past fiscal year.

The year 2012 also saw the Celesio Group restructured in line with our "One Celesio" philosophy – to put the company on a leaner and more powerful footing. The new structure aims to secure efficient, cross-border integration of activities and processes and is consciously geared towards customer needs. The new organisation has also created uniform leadership structures which in future will apply equally for the Celesio head organisation and all national companies across the group.

Celesio has already successfully implemented the new group structure in the UK, where pharmacy and wholesale activities are now integrated. This involved merging the headquarters of Lloydspharmacy and the pharmaceutical wholesaler AAH. Combined with further cost-cutting measures, this merger will lead to clear efficiency gains, improve our competitive position and leverage synergies. Indeed, in 2012 the positive impact of the measures was already plain to see in the business development in the UK.

As part of the radical strategic realignment, Celesio decided in the reporting period to initiate the sales process for a number of companies and activities that no longer constitute the company's core business. This marks a conscious departure from decisions made in the past. Celesio is systematically parting with operations that are not compatible with the new corporate strategy. Following careful scrutiny and analysis of the strategic options, the Management Board of Celesio passed a resolution at the end of March 2012 to dispose of the business units Movianto and Pharmexx and the mail-order pharmacy DocMorris (including the brand).

Since the decision was taken, these entities have been classified as discontinued operations. The previous-year figures for 2011 were restated to allow comparison. When calculating the value of discontinued operations, Celesio tested them for impairment and recognised impairment losses where necessary. Unless stated otherwise, the following comments on revenue and earnings development pertain to continuing operations.

The resolution mentioned above also includes the strategic decision to withdraw from the Czech market completely and therefore to sell the wholesale and pharmacy operations in this country. In the reporting period, the Management Board also decided to dispose of the Irish wholesale business in line with strategic portfolio considerations. Accordingly, the corresponding assets and liabilities were classified as held for sale.

As of 31 December, all divestments had been completed with the exception of the sale of the Irish wholesale business which we expect to close in the first half of 2013.

After negotiating with the non-controlling interests, the Management Board of Celesio AG passed a resolution on 26 April 2012 to acquire the remaining 49.9% of the shares in Panpharma prematurely.

The transaction was closed in May 2012. The consideration amounted to € 258.2m, of which € 253.3m was in cash.

We disclose certain non-recurring expenses and income as a special effect in earnings before interest and tax (EBIT) in the income statement. These are expenses and income resulting from the OEP as well as impairment losses recorded on non-current assets and revaluations pursuant to IFRS 5, including the effect of deconsolidation. Special effects in the financial result relate or related to non-recurring expenses from settlement and unwinding as well as currency effects from the purchase price liability for Panpharma, the sale of derivatives and unwinding effects from the convertible bond.

After incurring expenses of € 80.6m (of which € 76.2m for continuing operations) in connection with the OEP in the fourth quarter of 2011, the programme, together with the strategic realignment, led to additional non-recurring expenses of € 44.2m in the reporting period. These mainly relate to employment termination agreements and contractual claims of a former member of the Management Board as well as impairment of intangible assets, including but not limited to IT systems, totalling € 16.4m. The expenses in connection with the OEP are thus final. In the reporting period, there were further special effects in connection with revaluing assets held for sale to reflect the expected loss on sale of € 10.6m for the Irish wholesale business in accordance with IFRS 5, a loss on the sale of the Czech wholesale business of € 5.4m and a gain of € 6.6m on the sale of the Czech pharmacies. Further impairment of goodwill was recorded in the reporting period, with the wholesale business in Slovenia particularly affected (€ 20.9m; previous year € 44.3m).

Celesio defines its organic change as the change adjusted for the special effects described above as well as currency effects, changes in the consolidated group and gains/losses on the disposal of fixed assets.

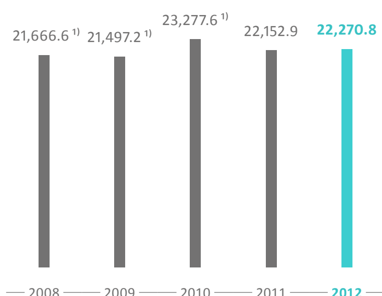
Celesio has decided to early adopt the revised standard IAS 19 – Employee Benefits for the 2012 fiscal year in line with the majority of its peers in order to record the full amount of its defined benefit obligation (DBO) in its statement of financial position. This led to significant effects on the assets position in particular.

These are explained in the notes together with the impact on earnings and financial position. The previous-year figures for 2011 were restated to allow comparison.

Revenue

Group revenue came to € 22,270.8m in the 2012 fiscal year, an increase of 0.5% on the previous year. The rise is due to the fact that Oncoprod was fully consolidated for an entire year for the first time as well as exchange rate gains. Celesio's business was otherwise negatively affected by the tense budget situation that continues in many countries against the backdrop of the European banking and sovereign debt crisis and the associated austerity measures affecting healthcare policy in Europe. This was compounded by the loss of patent protection on a number of important blockbuster pharmaceuticals in the UK, triggering fierce competition with less expensive generic products and clearing the way for these to be used instead of the originals. Prices for pharmaceuticals sank as a result, with wholesale worst affected but the pharmacy business also hit.
Furthermore, the French market declined as a result of smaller volumes.
Organic revenue fell by 1.6%.

GROUP REVENUE
€ M



1) The figures presented for the reporting periods 2008 to 2010 reflect the values reported in the respective financial statements.

As one of the leading trading companies and service providers, the Celesio Group once again generated most of its revenue on the European markets. As in previous periods, France once again made the largest contribution to revenue (28.9%; previous year 29.7%), followed by the UK (20.6%; previous year 20.9%) and Germany (18.1%; previous year 18.0%).

For further information, we refer to the relevant sections on Patient and Consumer Solutions and Pharmacy Solutions.

REVENUE BY COUNTRY	2011 € m	% of total revenue	2012 € m	% of total revenue	Change on a € basis %	Change in local currency %
France	6,580.3	29.7	**6,441.8**	28.9	−2.1	−2.1
United Kingdom	4,626.0	20.9	**4,598.5**	20.6	−0.6	−7.1
Germany	3,976.8	18.0	**4,022.1**	18.1	1.1	1.1
Brazil [1]	1,648.4	7.4	**1,875.7**	8.4	13.8	22.4
Austria	1,072.2	4.8	**1,086.1**	4.9	1.3	1.3
Norway	1,061.3	4.8	**1,170.6**	5.3	10.3	5.8
Other	3,187.9	14.4	**3,076.0**	13.8	−3.5	−3.4
Group	**22,152.9**	**100.0**	**22,270.8**	**100.0**	**0.5**	**0.4**

1) Includes Oncoprod since 2011.

Gross profit

Gross profit (revenue less cost of goods sold) was up 3.9% in the fiscal year to € 2,425.1m. Adjusted for special effects, gross profit also saw an improvement of 3.6% to € 2,423.4m. Accordingly, the adjusted gross profit margin increased in the past fiscal year to 10.9% compared to 10.6% in the previous year. This increase was first and foremost attributable to the strong development of the pharmacy business in the UK and our German wholesale subsidiary, while the top-in-class procurement program also had a positive impact on the development of gross profit. Gross profit saw a decrease of 1.0% in organic terms.

More detailed information on the development of gross profit in the 2012 fiscal year is presented in the reports on the divisions, starting on → page 122.

Other income

Other income fell by a slight 0.9% in the past fiscal year from € 249.4m to € 247.1m. Adjusted for special effects, the decrease would have come to 3.6%. The development is mainly attributable to the fact that the income from the sale

of the warehouse in Oslo in the previous year was no longer included as well as lower income from receivables that had been written off. Other income fell by 0.5% in organic terms.

Other expenses

At € 858.8m, other expenses increased 2.8% compared to the previous year. Adjusted for special effects, they were up 4.5%. The development of other expenses is primarily attributable to exchange rate effects and the fact that Oncoprod was fully consolidated for an entire year for the first time. In addition, rental expenses and IT and communication costs increased. Transport costs were also up on account of the fuel price developments in the reporting period. Furthermore, Celesio reported higher expenses for consulting services which were mainly in connection with the group's strategic realignment. Other expenses increased 0.8% in organic terms.

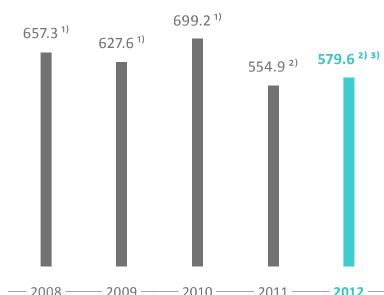
Personnel expenses

At € 1,270.9m, personnel expenses were up 1.4% year on year. Adjusted for special effects, personnel expenses increased 1.2%. The rise in personnel expenses is primarily attributable to exchange rate effects, annual salary increases and the fact that Oncoprod was fully consolidated for an entire year for the first time. Personnel expenses were actually down 3.2% in organic terms due to the cost-cutting measures implemented under the OEP, particularly in the UK and Germany, as well as lower pension expenses.

EBITDA

In 2012, EBITDA (earnings before interest, taxes, depreciation and amortisation) increased by 9.5% on the previous year to € 542.5m. Adjusted for special effects, EBITDA increased by 4.5% to € 579.6m compared to € 554.9m in the previous year. In the reporting period, Celesio managed to compensate for the negative development – primarily austerity measures in the healthcare sector – by increasing its gross profit and implementing a strict cost-cutting policy. In this way, the company was able to not only stabilise earnings, but actually achieve growth. The adjusted EBITDA margin came to 2.6% in the reporting period, compared to 2.5% in the previous year. EBITDA increased by 1.7% in organic terms.

GROUP EBITDA
€ M



1) The figures presented for the reporting periods 2008 to 2010 reflect the values reported in the respective financial statements.
2) Adjusted for non-recurring expenses and income from the Operational Excellence Program (including tax effect).
3) Adjusted for special effects from revaluations pursuant to IFRS 5 as well as deconsolidation effects (including tax effect).

The foreign currency share in EBITDA dropped one percentage point, with currencies other than the euro contributing 72.3% to group EBIDTA overall. Contributions include the Brazilian subsidiaries Panpharma and Oncoprod. Income in pounds sterling accounted for 47.8% of EBITDA compared to income in euro of 27.7%.

EBITDA
BY CURRENCY

		2011	%	2012	%
Group total	**€ m**	**495.4**	**100.0**	**542.5**	**100.0**
EUR	€ m	132.3	26.7	**150.2**	**27.7**
GBP	€ m	240.2	48.5	**259.2**	**47.8**
Other	€ m	122.9	24.8	**133.1**	**24.5**

Depreciation, amortisation and impairment

Amortisation of intangible assets and depreciation of property, plant and equipment came to € 134.8m, an increase of 7.7% on the figure for 2011. The rise is primarily attributable to exchange rate effects, the fact that Oncoprod was fully consolidated for an entire year for the first time and high IT capital expenditures in the fourth quarter of 2011. Depreciation and amortisation increased by 7.0% in organic terms.

Furthermore, impairment losses of € 37.6m (previous year € 62.3m) were recorded in the past fiscal year, particularly in connection with a goodwill adjustment for the Slovenian wholesale business and expenses from the OEP. In the previous year, impairment losses were recorded on the business operations in Portugal and Denmark and for expenses from cancelling IT projects.

EBIT

EBIT (earnings before interest and tax) saw a marked increase of 20.2% to € 370.1m. Adjusted for special effects, EBIT was up 3.5% to € 444.8m compared to € 429.8m in the previous year. EBIT increased by 0.2% in organic terms.

Investment result

Starting in the past fiscal year, the investment result (comprising the result from associates accounted for using the equity method as well as the result from other investments) is no longer being included in EBIT. Instead it is disclosed separately below this item. This change in disclosure reflects the new structure of internal reporting and the management system and is in line with the general practice of our peers. The previous year's figures were restated to allow comparison.

At € 8.1m, equity was down 1.5% on the previous-year level of € 8.3m. The primary reason for this was the poor development of Brocacef in the weak market environment, even though no further start-up losses were incurred from the joint venture Medco Celesio that was terminated in 2011.

Financial result

The financial result, the balance of the items interest expense, interest income and other financial result, dropped to € –163.5m in the reporting period, compared to € –139.4m in the same period of the previous year. This development was primarily attributable to the acquisition of the remaining Panpharma shares. Adjusted for special effects, the financial result came to € –119.8m compared to € –118.2m in the previous year. Adjusted accordingly, the interest coverage ratio was 3.7 (previous year 3.6). This performance indicator reflects the mathematical number of times that the adjusted financial result – if negative – could be covered by adjusted EBIT. The unadjusted interest coverage ratio came to 2.3 (previous year 2.2).

Profit before tax

Profit before tax was up 21.4% to € 214.7m in the past fiscal year. Adjusted for special effects, profit before tax came to € 333.1m compared to € 319.9m in 2011, an increase of 4.1%.

Income taxes

The special effects described in this annual report gave rise to tax effects of € 13.8m (previous year € 19.1m). Income taxes increased by 4.8% to € 105.1m in the fiscal year (previous year € 100.2m). This gives an effective tax rate of 48.9% (previous year 56.7%). The year-on-year decrease is primarily due to lower expenses from the OEP, some of which were not tax-deductible. Adjusted for special effects, the tax rate would have been 35.7% compared to 37.3% in 2011.

Despite a tax rate increase in France, the changed earnings mix of countries with different tax rates as well as smaller losses within the German tax group gave rise to a positive overall effect on the tax rate.

Net profit from continuing operations

The net profit from continuing operations at the Celesio Group came to € 109.6m, an increase of 43.0% on 2011 (previous year € 76.7m). Adjusted for special effects, net profit from continuing operations was up 6.8% on the previous year to € 214.2m. The Celesio Group's basic earnings per share increased from € 0.43 in the previous year to € 0.60. Diluted earnings per share also came to € 0.60 because potentially dilutive ordinary shares are not included pursuant to IAS 33.41.

Net loss from discontinued operations

The net loss incurred by discontinued operations came to € 258.6m compared to a net loss of € 70.9m in the previous year. The basic and diluted earnings per share therefore came to € –1.52 compared to € –0.42 in the same period of the previous year. The decrease is mainly attributable to carrying amount adjustments and the net result of deconsolidation for the DocMorris mail-order pharmacy, Pharmexx and Movianto, which were written down by a total of € 251.9m to the expected or actual amount of net sales proceeds.

Net profit/loss

Adjusted for special effects, the net loss from continuing and discontinued operations came to € 149.0m compared to a net profit of € 5.8m in the previous year. Accordingly, basic and diluted earnings per share came to € –0.92 compared to € 0.01 in the previous year.

REVENUE AND EARNINGS DEVELOPMENT CELESIO GROUP	2011		2012		Change on a € basis	Organic change [2)]
	€ m	% of revenue	€ m	% of revenue	%	%
Revenue	22,152.9	100.0	22,270.8	100.0	0.5	–1.6
Gross profit	2,335.0	10.5	2,425.1	10.9	3.9	/
adjusted [1)]	2,339.0	10.6	2,423.4	10.9	3.6	–1.0
EBITDA	495.4	2.2	542.5	2.4	9.5	/
adjusted [1) 3)]	554.9	2.5	579.6	2.6	4.5	1.7
EBIT	308.0	1.4	370.1	1.7	20.2	/
adjusted [1) 3) 4)]	429.8	1.9	444.8	2.0	3.5	0.2
Profit before tax	176.9	0.8	214.7	1.0	21.4	/
adjusted [1) 3) 4) 5)]	319.9	1.4	333.1	1.5	4.1	/
Net profit/loss of continuing operations	76.7	0.3	109.6	0.5	43.0	/
adjusted [1) 3) 4) 5)]	220.6	0.9	214.2	1.0	6.8	/
Net profit/loss of discontinued operations	–70.9	–0.3	–258.6	–1.2	≥100	/
Net profit/loss of continuing and discontinued operations	**5.8**	**0.0**	**–149.0**	**–0.7**	**/**	**/**

1) Adjusted for non-recurring expenses and income from the Operational Excellence Program (including tax effect).
2) Organic change is defined on page 112.
3) Adjusted for special effects from revaluations pursuant to IFRS 5 as well as deconsolidation effects (including tax effect).
4) Adjusted for impairment losses recognised on non-current assets (including tax effect).
5) Adjusted for special effects in the financial result (including tax effect).

Investments and capital expenditures

Investments and capital expenditures of continuing operations recognised in the statement of financial position dropped significantly in the 2012 fiscal year to € 121.8m (previous year € 237.1m). In line with the company's internal reporting guidelines, Celesio differentiates between investments in acquisitions and new pharmacies and capital expenditures on the operating business.

Furthermore, the purchase price payment was made in the reporting period for the outstanding shares in Panpharma, which is already fully consolidated. The payment came to € 258.2m of which € 253.3m has a cash impact.

Investments in acquisitions and opening new pharmacies

At € 18.5m, investments in acquisitions and new pharmacies fell considerably short of the previous-year level of € 85.5m. This is primarily due to the purchase of Oncoprod in 2011 and the fact that investments in expanding the pharmacy portfolio in Sweden were scaled back. Investments in acquisitions and new pharmacies accounted for 12.2% of the total investment volume (previous year 32.2%). Accordingly, the number of pharmacies acquired was much lower than in the previous year. Celesio bought five existing pharmacies and opened 25 new ones.

Capital expenditures on operating business

In the past fiscal year, Celesio's capital expenditures on operating business totalled € 103.3m, representing a significant 31.9% fall in the investment level compared to the previous year. This development primarily reflects the decrease in IT projects. A uniform IT landscape across the group can only be introduced and implemented once the organisational structure has also been fully and finally implemented.

Patient and Consumer Solutions

Market environment and business development

Focusing on the patients and consumers, our Patient and Consumer Solutions division serves these customers through pharmacies of our own as well as partnership pharmacies. As an innovative service provider operating in the healthcare sector, we offer a wide range of non-prescription products (OTC products) and medical services at our pharmacies besides the traditional prescription pharmaceuticals.

Celesio is one of the largest pharmacy operators in Europe, with 2,177 pharmacies of its own in six countries. For us, providing our customers with the best possible pharmaceutical care and advice is an absolute priority. In selecting the location of our pharmacies, proximity to our customers, doctors' surgeries and health centres is a particularly important criterion. In the past fiscal year 2012, we opened 25 new pharmacies, acquired five, closed 40 and sold 93.

The success of Celesio's pharmacy business hinges on our pharmacists' ability to focus on the needs of our customers and offer quality advice. We provide pharmaceutical services such as blood pressure, cholesterol or diabetes testing as well as comprehensive advice on medicines and the potential side-effects of their interaction. Besides the obvious benefit for customers, Celesio considers these preventive care measures an important contribution to the ongoing improvement of the healthcare system.

Our pharmacy services are tailored to the varying customer needs and conditions prevailing in each country. In the UK, for instance, we have already successfully launched efforts to branch out and serve institutional clients such as retirement and nursing homes or correctional facilities.

In December of the past fiscal year, Celesio unveiled the main features of its new pharmacy concept, the European pharmacy network, at the opening of its redesigned pilot pharmacy in Bicester, UK. The concept will be thoroughly tested at pilot pharmacies in the UK and Italy in 2013 before being rolled out across Europe from 2014 onwards. All Celesio pharmacies that were previously operated under other names will then be converted to one single brand, "Lloyds".

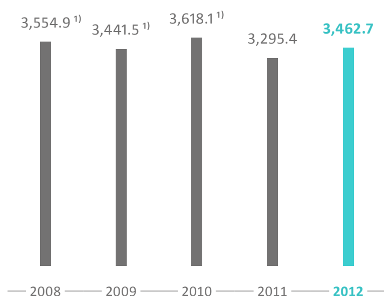
Operations in Patient and Consumer Solutions developed well in the 2012 fiscal year despite the tense budget situation that continues in many countries against the backdrop of the European banking and sovereign debt crisis and the associated austerity measures affecting healthcare policy in Europe. The good performance was primarily attributable to an improved margin mix as well as cost-cutting measures from the OEP and the merger of Celesio's pharmacy and wholesale business in the UK.

Revenue and earnings development

Revenue

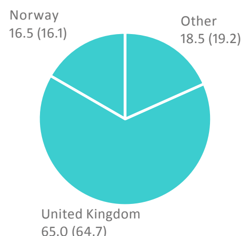
Revenue increased by 5.1% to € 3,462.7m in the Patient and Consumer Solutions division in the 2012 fiscal year. The rise is primarily attributable to exchange rate effects and the positive development in Sweden and Norway in particular. Falling prices in the UK had a negative effect as expected, however, following the loss of patent protection on key blockbuster products and the consequent substitution with less expensive generic products. In organic terms, revenue fell slightly by 0.2%.

REVENUE
PATIENT AND CONSUMER SOLUTIONS
€ M



1) The figures presented for the reporting periods 2008 to 2010 reflect the values reported in the respective financial statements

REVENUE, PHARMACIES BUSINESS AREA,
BY COUNTRY 2012, %,
PREVIOUS-YEAR FIGURES IN BRACKETS



Gross profit

The division's gross profit improved in the 2012 fiscal year, climbing 6.7% to € 1,198.8m. Adjusted for special effects, gross profit increased by 6.2% to € 1,197.0m. The adjusted gross profit margin increased from 34.2% in the previous year to 34.6% in the past fiscal year. This was primarily due to the positive development in the British and Norwegian pharmacy markets where the share of higher-margin generic pharmaceuticals increased following the expiry of patents on blockbuster products. The improved margin mix and optimised procurement processes also helped boost the profit margin, although price cuts in the UK impeded the positive development. Gross profit was up 0.9% in organic terms.

Other income

Other income increased by 34.7%, reaching € 62.9m in the reporting period compared to € 46.7m in 2011. Adjusted for special effects, other income was up 20.6%. This is attributable above all the higher gain on the sale of pharmacies in the UK as well as higher advertising subsidies. In organic terms, the increase came to 4.6%.

Other expenses

Other expenses dropped 3.1% to € 372.0m. Adjusted for special effects, other expenses increased by 3.6%, primarily due to exchange rate effects. Cost-cutting measures from the OEP helped counter this development. Other expenses increased slightly by 0.2% in organic terms.

Personnel expenses

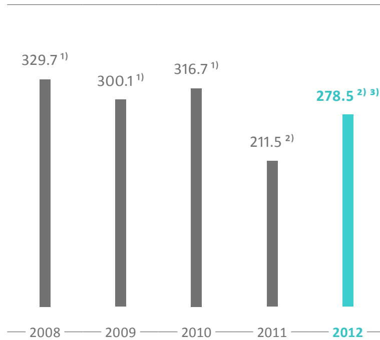
Personnel expenses increased by a slight 0.5% to € 614.6m in the reporting period. Adjusted for special effects, personnel expenses fell slightly. Positive effects from the OEP and lower pension expenses in Norway helped compensate for exchange rate effects in the reporting period. In organic terms, personnel expenses were down 4.8% in the past fiscal year.

EBITDA

The division's EBITDA (earnings before interest, taxes, depreciation and amortisation) climbed 57.9% in a year-on-year comparison to € 275.1m. Adjusted for special effects, EBIDTA saw an improvement of 31.7% to € 278.5m. Despite a slight fall in revenue in organic terms, we were able to increase EBITDA as expected thanks to a significant improvement in the gross profit margin as well as cost-cutting measures from the OEP, including the effect of integration in the UK.

Adjusted for special effects, the EBITDA margin increased by 1.6 percentage points to 8.0% in light of the factors described. EBITDA increased by 18.5% in organic terms.

EBITDA PATIENT AND CONSUMER SOLUTIONS
€ M



1) The figures presented for the reporting periods 2008 to 2010 reflect the values reported in the respective financial statements.
2) Adjusted for non-recurring expenses and income from the Operational Excellence Program (including tax effect).
3) Adjusted for deconsolidation effects (including tax effect).

EBIT

The division's EBIT (earnings before interest and tax) amounted to € 208.1m, an increase of 93.2% compared to the previous year (previous year € 107.7m). Adjusted for special effects, EBITDA increased by 38.8% to € 215.0m. EBIT increased by 21.5% in organic terms.

REVENUE BY COUNTRY – PATIENT AND CONSUMER SOLUTIONS	Revenue 2011 € m	% of total revenue	**Revenue 2012 € m**	% of total revenue	Change on a € basis %	Change in local currency %	Retail pharmacies 31/12/2012
United Kingdom	2,133.7	64.7	**2,251.2**	65.0	5.5	–1.4	1,577
Norway	531.5	16.1	**572.8**	16.5	7.7	3.3	190
Italy	209.0	6.3	**203.3**	5.9	–2.7	–2.7	163
Ireland	134.6	4.1	**132.6**	3.8	–1.5	–1.5	73
Belgium	138.5	4.2	**129.4**	3.7	–6.5	–6.5	97
Sweden	87.8	2.7	**122.7**	3.5	39.7	34.6	77
Czech Republic [1)]	56.8	1.7	**47.7**	1.4	–15.9	–14.0	0
Germany	3.5	0.1	**3.0**	0.1	–13.0	–13.0	0
Total	**3,295.4**	**100.0**	**3,462.7**	**100.0**	**5.1**	**–0.2**	**2,177**

1) Until November 2012.
We also operated one retail pharmacy in the Netherlands until November 2012 in connection with the DocMorris mail-order pharmacy.

Lloydspharmacy

The UK remains Celesio's most important market for Patient and Consumer Solutions. Lloydspharmacy accounts for 65.0% of the business volume, a slight increase on the previous-year figure of 64.7%.

As expected, Lloydspharmacy enjoyed a positive operating development in the past fiscal year 2012, driven primarily by procurement process improvements and successful exploitation of market opportunities. Furthermore, Celesio merged the headquarters of Lloydspharmacy and the pharmaceutical wholesaler AAH in a move that will significantly boost the efficiency and competitiveness of the business and also leverage synergy effects.

Earnings at Lloydspharmacy were negatively affected by the austerity measures in the UK. However, we are able to report a slight increase in supply agreements with public institutions such as hospitals, health centres or correctional facilities. We are consciously responding to the operating principles of the National Health

Service in the UK, which is driving outsourcing and privatisation of services in order to cut healthcare costs. According to these principles, private companies can also play a role in the healthcare system as operators or service providers. The "Health and Social Care Bill" provides for equal status of state-run, charitable and private providers in the healthcare market.

International Retail

All of the Patient and Consumer Solutions division's operations outside the UK were combined in International Retail until the end of the 2012 fiscal year.

For Celesio, Norway is the most important pharmacy market in International Retail. The Norwegian business developed well in the past fiscal year, as expected, generating revenue growth of 7.7%. Business with over-the-counter (OTC) products developed particularly well, with positive effects also observed in the business with prescription medicines.

The Italian market was weaker than in the previous year for all market players, primarily due to government measures which triggered a slight decline in business with prescription-only products. The OTC business in Italy enjoyed a strong development, however, reporting slight growth in the past fiscal year. Unfortunately this was not sufficient to compensate for the decline in revenue from prescription medicines following regulatory intervention.

Thanks to better procurement processes and marketing income, earnings from our Irish pharmacy business increased in 2012 despite the continued weak economic environment. As in the previous year, the declining consumer climate continued its negative impact on the business with OTC products. Thanks to solid growth in the volume of prescription pharmaceuticals, Celesio almost managed to compensate for lower reimbursement prices for prescription medicines and reduced pharmacy compensation introduced by government measures.

In 2012, Celesio's pharmacy business in Belgium also suffered as a result of government austerity measures in healthcare policy which were introduced at the end of 2011. Business with prescription medicines was particularly hard hit by state intervention in this country. Celesio remains firmly committed to optimising its Belgian pharmacy portfolio in this difficult market environment. Furthermore, Celesio merged the headquarters of the pharmacy and the pharmaceutical wholesale business in a move that will boost the efficiency and competitiveness of the business and also leverage synergy effects.

The Swedish pharmacy business developed well. The operating business exhibited a particularly strong performance and start-up losses were reduced considerably in accordance with our expectations. The positive effects of the restructuring measures launched with the OEP at the end of 2011 were plain to see. We are constantly working to optimise and expand our pharmacy portfolio. With profitable growth in mind, some existing pharmacies were closed and new ones opened on the Swedish market following a phase of detailed evaluation and assessment of long-term prospects. This lays the groundwork for the further expansion of our business in Sweden.

As in the previous year, the Czech pharmacy business once again struggled in a weak market environment. Business with prescription pharmaceuticals fared particularly badly in the 2012 fiscal year. As part of the 2012 divestment programme, Celesio successfully disposed of its operations in the Czech Republic with effect as of November 2012.

The investment result from our holding in Brocacef has not been included in the operating result since the beginning of the 2012 fiscal year. We therefore no longer include a separate section on the company in our report on Patient and Consumer Solutions; the investment result is disclosed within the financial result and therefore below EBIT with effect as of 2012.
The previous year's figures were restated to allow comparison.

Pharmacy Solutions

Market environment and business development

Celesio's Pharmacy Solutions division focuses on the pharmaceutical wholesale business, offering pharmacists all the products and services they need to satisfy patients and consumers. Pharmaceutical wholesale has always been a major cornerstone of our core business.

In the Pharmacy Solutions division, Celesio with its wholesale subsidiaries functions as that vital link between manufacturers and pharmacies in supplying medicines to patients. In the pharmaceutical wholesale business, Celesio generally procures the medicines approved in each country as well as other products sold in pharmacies directly from the manufacturers. Celesio then stores them at regional wholesale branches with the support of our efficient warehousing management system. With a refined distribution system that has been tried and tested over many years, Celesio then ensures rapid and reliable delivery directly to our pharmacy customers nationwide. Celesio generally receives a price and country-specific margin for wholesale services. The margin on prescription pharmaceuticals is often government-regulated. With its subsidiaries, Celesio AG is represented in 13 European countries and Brazil. Celesio leads the market in France, Norway and Austria, among other countries, and is one of the market leaders in all other countries, with the exception of Italy, where we only operate regionally. A total of 136 wholesale branches supply around 65,000 pharmacies every day.

Celesio also operates in Brazil with Oncoprod, one of the leading providers in the rapid-growth market specialty pharmacy. This segment includes oncology products and other medicines for the treatment of complex diseases. Furthermore, the wholesale subsidiaries in all our markets are steadily extending their range. For instance, Celesio offers supplementary services for pharmacists such as the organisation and management of pharmacy cooperation programmes in Germany, France, Belgium and Austria. Partners benefit from Celesio's package of solutions and can select the modules they require in the areas of marketing, warehouse management, product range design or tailored financing services. Within the framework of these cooperation programmes, we also support our business partners with offers and campaigns and provide platforms to facilitate the exchange of information. For example, GEHE introduced WAWI Top in Germany, an inventory control system offering customised solutions for the various aspects of pharmacy stockkeeping.

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

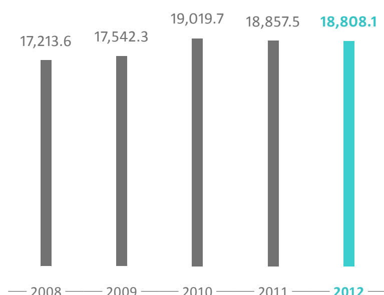
wholesale nevertheless felt the effects of the weak financial position of national budgets and the banking and government debt crisis in Europe, especially the associated austerity measures affecting healthcare policy in many countries.

Celesio's Pharmacy Solutions therefore struggled in the fiscal year ended 31 December 2012, as expected. In terms of revenue, the development on the UK market was particularly weak because patent protection expired on a number of blockbusters. Pharmacy Solutions also saw business burdened by impaired prospects on the French wholesale market following government measures. Celesio's wholesale subsidiaries in Austria and Denmark enjoyed robust development, however.

Revenue and earnings development

Revenue

The Pharmacy Solutions division generated revenue of € 18,808.1m in the 2012 fiscal year, a slight decrease of 0.3% on the previous year. The negative trend was mainly due to the fact that patents expired for several blockbuster products in the UK, coupled with a generally weak market development in France. The inclusion of revenue from Oncoprod in its first full year of consolidation and the strong performance in our Austrian and Danish markets were not sufficient to completely compensate for this negative effect. In organic terms, revenue fell by 1.8%.



Gross profit

The division's gross profit improved in the 2012 fiscal year, climbing 1.2% to € 1,226.3m. Adjusted for special effects, gross profit still increased by 1.2% compared to the previous year. The adjusted gross profit margin increased in the past fiscal year to 6.5% compared to 6.4% in the previous year. The rise in the gross profit margin despite the difficult conditions caused by the margin system in France is mainly attributable to the strong performance in Germany and the purchase of Oncoprod, Brazil, which by the nature of its business generates a higher gross profit margin than the other business units. Gross profit saw a decrease of 2.7% in organic terms.

Other income

Other income fell by 2.1% to € 268.9m in the past fiscal year. The development is mainly attributable the fact that the previous-year figure had contained no income from the sale of the warehouse in Oslo as well as lower income from receivables that had been written off. There were also positive influences from the full consolidation of Oncoprod for an entire year as well as exchange rate effects. In organic terms, the increase came to a slight 1.2%.

Other expenses

Other expenses increased by 10.1% to € 530.2m. Adjusted for special effects, other expenses increased by 7.6%. This was first and foremost due to the fact that Oncoprod was fully consolidated for a full year for the first time as well as exchange rate effects and a general increase in costs at Panpharma. Measures from the OEP to cut operating costs helped counter this development. Other expenses increased 2.5% in organic terms.

Personnel expenses

Personnel expenses increased by 4.6% to € 613.8m in the reporting period. Adjusted for special effects, personnel expenses were up 3.8%. This development is attributable to the fact that Oncoprod was fully consolidated for an entire year for the first time, exchange rate effects and general salary increases, especially in Brazil. Measures from the OEP to cut operating costs helped counter this development. In organic terms, personnel expenses were down 0.5% in the past fiscal year.

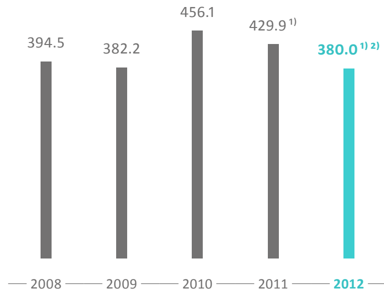
EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortisation) dropped 16.0% in a year-on-year comparison to € 351.0m. Adjusted for special effects, EBITDA came to € 380.0m, a fall of 11.6% compared to 2011. This decline was partly due to the poor development of the wholesale business in France, as expected, where the French wholesale subsidiary OCP was hard hit by the new margin system introduced by the government in 2011. Other negative effects on the development of the division's EBITDA include the fact that the previous-year figure contained income from the sale of the warehouse in Oslo in 2011 as well as costs incurred in the past fiscal year in connection with relocating to the new wholesale warehouse in Oslo. Furthermore, it was not possible to compensate for the rising costs in Brazil described above due to reductions in some order volumes from a major customer, coupled with the fact that cost-cutting structural adjustments had not yet been implemented.

The decrease in EBITDA is also reflected in the development of the EBITDA margin adjusted for special effects, which fell from 2.3% in the previous year to 2.0% in the past fiscal year. It was not possible to fully compensate for the decrease in revenue through short-term cost-cutting measures. EBITDA fell by 9.5% in organic terms.

EBITDA PHARMACY SOLUTIONS

€ M



1) Adjusted for non-recurring expenses and income from the Operational Excellence Program (including tax effect).
2) Adjusted for special effects from revaluations pursuant to IFRS 5 as well as deconsolidation effects (including tax effect).

EBIT

The division's EBIT (earnings before interest and tax) decreased by 15.6% to € 261.5m in the past fiscal year. Adjusted for special effects, EBIT fell by 13.7% from € 371.1m in the previous year to € 320.1m in the 2012 fiscal year. EBIT decreased by 11.5% in organic terms.

REVENUE BY COUNTRY – PHARMACY SOLUTIONS	Revenue 2011 € m	% of total revenue	**Revenue 2012 € m**	% of total revenue	Change on a € basis %	Change in local currency %	Branches 31/12/2012
France	6,580.3	34.9	**6,441.8**	34.2	–2.1	–2.1	44
Germany	3,973.3	21.1	**4,019.1**	21.4	1.2	1.2	20
United Kingdom	2,492.3	13.2	**2,347.3**	12.5	–5.8	–12.0	18
Brazil [1]	1,648.4	8.7	**1,875.7**	10.0	13.8	22.4	24
Austria	1,072.2	5.7	**1,086.1**	5.8	1.3	1.3	7
Norway	529.8	2.8	**597.8**	3.2	12.8	8.2	2
Belgium	518.0	2.7	**495.6**	2.6	–4.3	–4.3	6
Denmark	448.1	2.4	**483.5**	2.6	7.9	7.8	2
Portugal	456.1	2.4	**434.1**	2.3	–4.8	–4.8	7
Czech Republic [2]	388.3	2.1	**316.4**	1.7	–18.5	–16.7	0
Ireland	311.7	1.7	**282.8**	1.5	–9.3	–9.3	3
Slovenia	284.4	1.5	**271.7**	1.4	–4.4	–4.4	2
Italy	154.6	0.8	**156.2**	0.8	1.0	1.0	1
Total	**18,857.5**	**100.0**	**18,808.1**	100.0	**–0.3**	**–0.4**	**136**

1) Includes Oncoprod since October 2012.
2) Until November 2012.

France

Celesio's most important wholesale market France remained a battlefield as in previous years. The tense situation was intensified further following the introduction of a new margin system by the government in 2011. The pharmaceutical wholesale business was particularly disadvantaged by the new rules in the mid-price segment in which Celesio's French wholesale subsidiary OCP has a particularly wide range of products for its pharmacy customers. OCP managed to retain its market share in the reporting period.

Germany

In the past fiscal year, the German pharmaceutical and healthcare market was once again dominated by the Gesetz zur Neuordnung des Arzneimittelmarktes (AMNOG, Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance). A further change affecting compensation of pharmaceutical wholesalers was implemented as a result of AMNOG. Instead of receiving a percentage-based mark-up, as was previously customary, pharmaceutical wholesalers now receive a fixed amount of 70 cents plus a variable percentage-based mark-up of up to 3.15% on the manufacturer sales price, effective as of 1 January 2012. This change lays the foundation for profitable business operations in the German market. This, coupled with cost savings achieved through the OEP, meant that Celesio's wholesale subsidiary GEHE was able to increase its contribution to earnings as forecast despite the fact that discounting competition picked up again towards the end of 2012.

United Kingdom

As expected, the development of the wholesale market in the UK was weak. Celesio's British wholesale subsidiary AAH saw revenue fall in the 2012 fiscal year due to the expiry of patent protection on a number of profitable blockbuster products in particular. This fuelled competition from less expensive generic products, and their use in the place of originals for prescription products led to a sharp decline in pharmaceutical prices to the detriment of AAH. This effect was partially compensated in gross profit thanks to a better margin realised on products sold. Celesio's new group structure "One Celesio" also positively influenced the wholesale business in the UK. For instance, the merger of the headquarters of AAH and the British pharmacy business Lloydspharmacy secured clear cost savings.

Brazil

Celesio built on its market leadership in Brazil by acquiring the remaining 49.9% of shares in Panpharma in the second quarter of 2012. This also represents an important step in our endeavours to expand in promising regional growth markets – one of the cornerstones of the strategic realignment.

From this position, we were able to increase revenue significantly once again in Brazil in the past fiscal year, primarily thanks to the fact that Oncoprod was for the first time fully consolidated for the whole year. While Oncoprod enjoyed a positive development, earnings at Panpharma fell significantly,

due partly to a slow response to changed conditions as well as smaller order volumes of a major customer. Countermeasures were already launched at the end of the 2012 fiscal year.

Austria

Our Austrian wholesale subsidiary Herba Chemosan performed well in 2012, thanks mainly to the improvement in the gross profit margin and cost savings from the OEP. The logistics and marketing activities of what used to be Movianto in Austria are carried under the operating segment Wholesale Austria with effect as of the past fiscal year 2012.

Norway

The business development of our Norwegian wholesale subsidiary Norsk Medisinaldepot (NMD) was stable in the past fiscal year. In line with restructuring plans, the infrastructure and warehouse logistics of NMD's new warehouse in Oslo went into full operation at the beginning of 2012. NMD's efforts focused on getting efficient processes and workflows up and running in the 2012 fiscal year which was associated with overtime and weekend work.

Belgium

The restructuring programme announced by the government in December 2011 had a marked impact on the healthcare sector in Belgium in the past fiscal year. The market contracted as a direct result of government measures. Celesio's Belgian wholesale subsidiary Pharma Belgium managed to hold on to its market position despite this difficult market situation. Furthermore, Celesio merged the headquarters of the pharmacy and the pharmaceutical wholesale business in a move that will boost the efficiency and competitiveness of the business and also leverage synergy effects. The Belgian pharmacy cooperation programme Pharmactiv also once again delivered positive effects.

Portugal

Portugal is one of the countries hardest hit by the banking and sovereign debt crisis in Europe and this was reflected in tough conditions in the Portuguese pharmaceutical and healthcare sector. Our wholesale business held its own in the reporting period and even managed to gain significant ground in the market. However, earnings of our Portuguese wholesale subsidiary OCP Portugal were burdened by the government's drastic austerity measures and the allowances that had to be recognised on uncollectible receivables.

Slovenia

A difficult market environment emerged in Slovenia in 2011 and this situation deteriorated dramatically in 2012. Our pharmaceutical wholesaler Kemofarmacija was unable to escape the negative development, reporting a fall in revenue. Kemofarmacija's situation is exacerbated by the fact that a former major customer has fuelled the competition by setting up its own pharmaceutical wholesale operation. Although no major effects were apparent in the 2012 fiscal year, they will be seen in the coming fiscal year. Goodwill was impaired by € 20.0m to reflect this.

Denmark

Despite the negative market development, our Danish wholesaler Tjellesen Max Jenne managed to boost earnings by securing further market shares. Efforts to step up marketing and sales activities in 2011 paid off with positive effects once again in the reporting period.

Ireland and the Czech Republic

Ireland and the Czech Republic were both burdened by difficult markets in 2012. In the third quarter of 2012, Celesio successfully disposed of its operations in the Czech Republic with effect as of November 2012 in line with the planned divestment programme for 2012. The Irish operations were also sold in November 2012 and the transaction is expected to be closed in the first six months of 2013.

Discontinued operations

Following Celesio's radical strategic realignment, the sales process was initiated for a number of companies and activities that no longer constitute the company's core business. The Management Board of Celesio passed a resolution at the end of March 2012 to dispose of the business units Movianto and Pharmexx and the mail-order pharmacy DocMorris (including the brand). These overarching resolutions went hand in hand with the decision to part with Manufacturer Solutions completely. This allows us to devote our full attention to our priority core business which we believe has a promising future. Structural and organisational amendments were a natural consequence of this.

The Management Board of Celesio also decided to resolve the channel conflict with the pharmacies that arose specifically in Germany when we bought the DocMorris mail-order pharmacy in 2007. Celesio therefore took the decision to sell the mail-order pharmacy, including the DocMorris brand.

Following the decision to realign the corporate strategy, the corresponding entities have been classified as discontinued operations. The previous year's figures were restated to allow comparison.

This reflects the fact that Celesio is closely following the new strategy, focusing fully on the promising and priority core business of Patient and Consumer Solutions and Pharmacy Solutions.

On 23 July 2012, Celesio announced the planned sale of Movianto to Owens & Minor, Inc., a leading US wholesaler of medical products and provider of logistics services. This transaction was closed on 31 August 2012. The purchase price came to € 130.0m; including operations in Ireland, which were disposed of together with the wholesaler, the sale had a negative effect on earnings of € 64.9m.

The sale of Pharmexx to the Irish company United Drug, which was announced on 26 July 2012, went through on 12 September 2012 following approval from the antitrust authorities. The purchase price came to € 35.0m; as a result, earnings were negatively impacted by € 41.3m.

On 25 October 2012, Celesio announced the sale of the mail-order pharmacy DocMorris N.V., Heerlen, together with the DocMorris brand to the Swiss company Zur Rose AG. A purchase price of € 25.0m was originally agreed; overall, earnings were negatively impacted by € 145.7m. Transitional periods have been agreed for continuing the current use of the DocMorris brand at Celesio's own and brand partnership pharmacies.

Discontinued operations generated revenue of € 663.4m in the 2012 fiscal year, a decrease of 24.1% on the previous-year figure of € 873.5m.

Gross profit of discontinued operations fell by 35.4% to € 268.2m compared to € 414.9m in 2011.

The discontinued operations' EBITDA (earnings before interest, taxes, depreciation and amortisation) dropped by 76.7% in a year-on-year comparison to € 4.7m (previous year € 20.2m), while EBIT (earnings before interest and tax) improved to € 0.3m compared to € –70.4m in the previous year. In the previous year, earnings were significantly impacted by the impairment losses of € 72.0m recorded on goodwill at Pharmexx. The net loss incurred by discontinued operations thus increased to € 258.6m compared to € 70.9m in the same period of the previous year. The deterioration is mainly attributable to carrying amount adjustments and the net result of deconsolidation for the DocMorris mail-order pharmacy, Pharmexx and Movianto, which were written down by a total of € 251.9m to the expected or actual amount of net sales proceeds.

Movianto

Movianto's gross profit and EBITDA declined in the past fiscal year, driven mainly by tough economic conditions in Spain, a less profitable order portfolio on the Belgian market and some idle capacity at new facilities in Denmark. Business in the UK performed well, however, thanks to positive effects from restructuring started in 2011. Business in France also enjoyed a strong development. Earnings were burdened in the reporting period by a total of € 64.9m in connection with an impairment loss charged on Movianto to adjust the carrying amount to the expected or actual sales proceeds less transaction costs as well as deconsolidation effects.

The lower sales proceeds reflect the fact that the business development failed to meet expectations throughout the second half of 2012, mainly as a result of the feeble market development. A negative development was also seen from April 2012 onwards in the assets and liabilities of relevance for the purchase price, while the increase in costs of disposal also had an effect – primarily due to the legal separation and extraction of integrated IT systems.

Pharmexx

At Pharmexx, the EBITDA before non-recurring effects failed to match the level of the previous year. The negative development was mainly driven by the lower volume of business in Germany and the poor economy in Spain and Portugal. In contrast, business fared well in Turkey where the restructuring measures launched in the past fiscal year already began to take hold. The business volume was also significantly increased in the UK. An impairment loss totalling € 41.3m was charged on Pharmexx in the past fiscal year to adjust the carrying amount to the actual amount of sales proceeds less transaction costs. In the same period of the previous year, goodwill impairment totalling € 72.0m was recognised. The French activities of RepscoPharmexx were already sold in the first quarter of 2012.

DocMorris

EBITDA of the DocMorris mail-order pharmacy decreased in 2012, dropping to € 0.8m compared to the previous-year level of € 8.5m. Although DocMorris managed to keep revenue stable compared to the previous year, it nevertheless fell well short of expectations. Logistical problems in rolling out the new software were mainly to blame for this, along with the effects of regulatory measures and concrete changes to the law announced in October 2012. These factors were increasingly significant for the actual amount of net sales proceeds. The carrying amount of DocMorris had to be adjusted by € 145.7m in the past fiscal year to reflect the expected amount of sales proceeds less transaction costs.

Statement of cash flows

For continuing operations, the net cash flow from operating activities totalled € 432.9m in the 2012 fiscal year compared to € 578.1m in the previous year. This development is primarily attributable to the change in net operating assets where trade payables were affected by the reporting date. The effect was counterbalanced by a decrease in inventories. At € –10.8m, the net cash flow from operating activities for discontinued operations improved on the figure of € –18.8m reported in the previous year.

Net cash flow from investing activities for continuing operations increased from € –165.8m in the previous year to € –292.9m in the reporting period. The increase in cash outflow was driven primarily by payments made in connection with the acquisition of the remaining 49.9% of shares in Panpharma in the second quarter of 2012. In contrast, the disposal of the Czech wholesale and pharmacy business led to an increase in proceeds from the sale of subsidiaries, while the smaller investment volume, particularly for IT applications, saw capital expenditure decrease.

For discontinued operations, net cash flow from investing activities came to € 131.0m compared to € –34.6m in the previous year, which mainly reflects the purchase price payments received for Movianto, Pharmexx and DocMorris.

Cash and cash equivalents came to € 523.9m as of 31 December 2012, an increase of € 75.6m compared to the end of 2011.

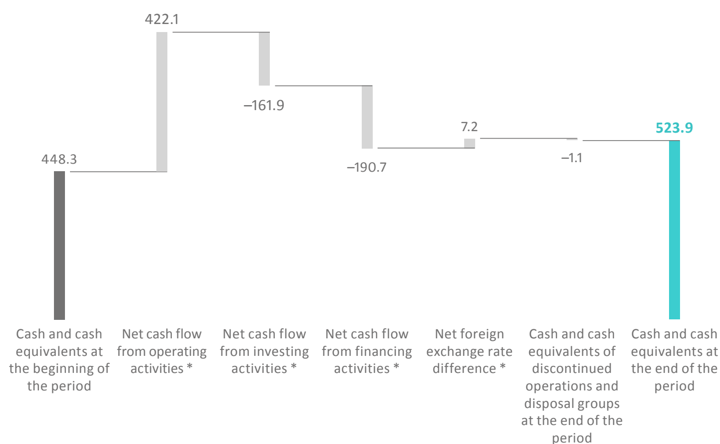
Free cash flow, the balance of net cash flow from operating activities, net cash flow from investing activities and interest paid and received, totalled € 37.5m for continuing operations in the 2012 fiscal year compared to € 290.8m in the previous year. The purchase price payment made for the remaining shares in Panpharma largely explains the decrease in free cash flow. The improvement in earnings, proceeds from the disposal of the Czech operations and the lower investment volume compensated for the change in net operating assets due to reporting date effects.

	2011 € m	2012 € m	Change € m
Net cash flow from operating activities – continuing operations	578.1	**432.9**	–145.2
Net cash flow from investing activities – continuing operations	–165.8	**–292.9**	–127.1
Interest paid and received	–121.5	**–102.5**	19.0
Free cash flow	**290.8**	**37.5**	**–253.3**
Payments made to shareholders (including non-controlling interests)	–86.6	**–43.9**	42.7
Cash flow from change in borrowings	96.6	**–43.5**	–140.1
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	–0.5	**–1.1**	–0.6
Net change in cash and cash equivalents	**300.3**	**–51.0**	**–351.3**
Net foreign exchange rate difference	3.2	**7.2**	4.0
Change in cash and cash equivalents	**303.5**	**–43.8**	**–347.3**

Net debt decreased from € 1,618.7m as of 31 December 2011 to € 1,559.0m towards the end of 2012. The key performance indicator net debt/EBITDA (adjusted) was successfully lowered from 2.9 as of 31 December 2011 to 2.7 as of the reporting date.

Net cash flow from financing activities for continuing operations increased from € –112.0m in the previous year to € –191.0m in the reporting period. This was mainly the result of high repayments for promissory notes. The net cash flow from financing activities came to € 0.3m for discontinued operations. This compared to the figure of € –2.6m reported in the previous year.

CHANGE IN CASH AND CASH EQUIVALENTS
IN THE 2012 FISCAL YEAR, IN € M



* continuing and discontinued operations

Net working capital amounted to € 1,172.9m as of 31 December 2012, a decrease on the previous-year figure of € 1,370.7m. The decrease was the result of operating improvements in receivables management in Germany in particular as well as the deconsolidation of discontinued operations.

	31/12/2011 € m	**31/12/2012 € m**	Change in statement of financial position € m	Change in income statement for continuing operations € m
Inventories	1,791.5	**1,582.0**	–209.5	58.5
Trade receivables	2,529.4	**2,096.1**	–433.3	74.2
Trade payables	2,799.4	**2,325.0**	–474.4	–168.0
Other net operating assets	150.8	**180.2**	29.4	35.0
Net operating assets	**1,370.7**	**1,172.9**	**–197.8**	**–0.3**
Other operating assets and liabilities	**–478.4**	**–402.0**	**76.4**	**–91.3**
Net cash flow from change in net working capital				**–91.6**

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

Financing strategy and financial management

Our financing strategy is founded on the following principles:

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

Celesio consistently pursues a conservative financing strategy that is aligned to our long-term needs. With this in mind, we once again continued efforts to further diversify the group's financing structure in the 2012 fiscal year. For example, we placed another corporate bond on the capital market in October 2012. This, together with the convertible bond issued in 2009, the first corporate bond in 2010 and another convertible bond offered in 2011, reflects our efforts to maintain an ideally balanced and staggered maturity profile.

FINANCIAL LIABILITIES	31/12/2009 € m	31/12/2010 € m	31/12/2011 € m	**31/12/2012 € m**
Liabilities to banks	1,022.7	418.2	254.9	**145.5**
Promissory notes and bonds	1,091.8	1,464.1	1,779.4	**1,912.4**
Lease liabilities	21.1	19.2	20.1	**14.8**
Other financial liabilities	32.5	21.8	12.6	**10.2**
Group/total	**2,168.1**	**1,923.3**	**2,067.0**	**2,082.9**

The lending business is exposed to growing capital adequacy requirements, which are emerging in particular in the context of current discussions surrounding the Basel III reform. Celesio is driving efforts to limit bank financing to no more than a quarter of our financial liabilities as a way of addressing these effects.

Major financing transactions are processed via Celesio AG and the group's internal financing company Celesio Finance B.V. Local credit lines are only used where it is not possible or not practical to draw on central sources such as in Brazil.

Celesio is not rated by an external agency. However, third parties regularly assess our credit standing on the basis of selected KPIs and Celesio keeps a very close eye on these. The net debt to adjusted EBITDA ratio is of particular importance here. It is our long-term aim to keep the ratio of net debt to adjusted EBITDA below 3.

	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Net debt/ adjusted EBITDA	3.3	2.5	2.9	**2.7**

We also place particular emphasis on building long-term and sustainable relationships with our banks and debt investors. Our creditor relations activities comprise an annual bankers' day, international roadshows and numerous personal meetings to report promptly and in detail on current developments at the company. We will continue to pursue this communication policy in future.

Financial instruments

Credit lines

Long-term bilateral credit lines approved by banks are a major component of our financing portfolio. As the credit lines are confirmed for up to five years, it is extremely important to maintain a particularly trusting and cooperative working relationship with our banks. We review our bank portfolio continuously and terminate business relationships if we determine that continuation would no longer make sense for either party. Celesio has committed credit lines totalling more than € 1bn. Some of these have been drawn and some are undrawn. The credit lines are provided by numerous international banking groups, most have remaining terms of between two and five years and some can be drawn in a range of currencies.

Bonds

We placed a second corporate bond on 10 October 2012. The bond was issued by Celesio Finance B.V. With a term to maturity of four years, the bond has a nominal volume of € 350m in denominations of € 1,000. Interest is charged at a fixed coupon rate of 4.0% per annum. The bond was oversubscribed by several times the volume issued.
Celesio has four bonds outstanding at present:

	31/12/2011 € m	31/12/2012 € m	Coupon %	Due
Convertible bond 2014	350	**350**	3.75	29/10/2014
Corporate bond 2016	/	**350**	4.00	18/10/2016
Corporate bond 2017	500	**500**	4.50	26/04/2017
Convertible bond 2018	350	**350**	2.50	07/04/2018
Total €	**1,200**	**1,550**		

The bond agreements did not contain any financial covenants.

Promissory notes

Celesio did not issue any new promissory notes in the past fiscal year. One promissory note of € 27.5m was extended until September 2016, while a portion of another (€ 53.0m) due in December 2013 was paid back ahead of schedule. In addition, promissory notes totalling € 185.8m expired in 2012.

	31/12/2011 € m	31/12/2012 € m	Due
	100	**/**	15/06/2012
	5	**5**	16/09/2013
	105	**25**	15/12/2013
	30	**30**	15/03/2014
	150	**150**	15/06/2014
	25	**25**	15/03/2016
	/	**27**	15/09/2016
Total €	**415**	**262**	

	31/12/2011 £ m	31/12/2012 £ m	Due
	70	/	17/12/2012
	60	60	15/03/2013
	80	80	15/06/2014
Total £	**210**	**140**	

As of 31 December 2012, promissory notes had an equivalent value of € 434.0m (previous year € 666.9m), of which 39.5% (previous year 37.7%) was issued in pounds sterling.

Factoring

In 2012, we once again sold receivables of our UK subsidiary Lloydspharmacy from the National Health Service in England as well as the devolved administrations of Scotland and Wales. The receivables sold had a total volume of € 156.6m as of year-end (previous year € 177.8m). Our Norwegian subsidiary Norsk Medisinaldepot also continued factoring its receivables from public-sector hospital pharmacies. The receivables sold in Norway had a volume of € 92.3m as of year-end (previous year € 40.8m).

This factoring reduces both our refinancing risk in the respective currencies and our counterparty risk. The very good credit rating of the governments that act as guarantors for the receivables minimises our interest expense. The receivables sold are not recognised in our statement of financial position; this reflects the fact that the significant risks and rewards have been transferred to the purchaser.

Investments

In the past fiscal year, we made overnight deposits with banks. The credit standing was the main selection criterion for banks. We define maximum investment amounts for each bank to minimise the risk of default.

Financing costs

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

On 31 December 2012, Celesio AG and its group companies had met all loan obligations and other obligations arising from financing agreements. More detailed information on our financial liabilities in the 2012 fiscal year is provided on → page 198 of the notes to the consolidated financial statements.

Assets position

The Celesio Group had total assets of € 7,928.7m as of 31 December 2012, a decrease of € 898.1m compared to 31 December 2011. This development reflects the significant impact of disposing of and deconsolidating Movianto, Pharmexx, the Czech operations and the DocMorris mail-order pharmacy. The gearing, which expresses the ratio of net debt to equity, deteriorated as of 31 December 2012 to 0.71 compared to 0.66 as of 31 December 2011. This was principally attributable to the decrease in equity as a result of losses incurred on the disposal of discontinued operations.

Non-current assets came to € 3,179.9m as of the reporting date, a decrease of € 453.9m compared to 31 December 2011. The reclassification of assets held for sale to current assets is particularly clear for intangible assets and property, plant and equipment. Intangible assets decreased from € 2,637.2m as of 31 December 2011 to € 2,297.2m as of the reporting date, a drop of € 340.0m. Property, plant and equipment totalled € 529.7m, down € 78.6m on the end of the previous year (31 December 2011: € 608.3m). Netting effects from deferred taxes and reclassifications of assets held for sale led to a € 57.5m decrease in deferred tax assets to € 111.1m as of 31 December 2012 (31 December 2011: € 168.6m). Currency effects of € 25.2m and the recognition of a claim in connection with acquiring the remaining shares in Panpharma had a contrasting effect. The claim relates to tax and legal risks to be borne by the former owners and was previously netted with the purchase price liability.

Current assets decreased to € 4,748.8m as of the reporting date, a drop of € 444.2m compared to 31 December 2011. Reclassification of certain assets held for sale also had an impact on current assets, especially with regard to inventories and trade receivables. Inventories fell by € 209.5m in total to € 1,582.0m. Besides the reclassification effects mentioned above, the decrease is mainly the result of lower stock levels at year-end 2012 than in the previous year. Trade receivables fell by € 433.3m to € 2,096.1m. In addition to the reclassification mentioned above and reporting date effects, this positive development is attributable to an operating improvement in receivables management, especially in Germany. Cash and cash equivalents were up from € 448.3m as of 31 December 2011 to € 523.9m as of the reporting date, a total increase of € 75.6m. Various contrasting effects were observable: the decrease was driven primarily by the reclassification to assets held for sale, the purchase price payment for the remaining shares in Panpharma, the settlement of financial liabilities and the dividend payment but was more than compensated by proceeds from entities sold and the cash generated from the bond issued. On 31 December 2012, the Celesio

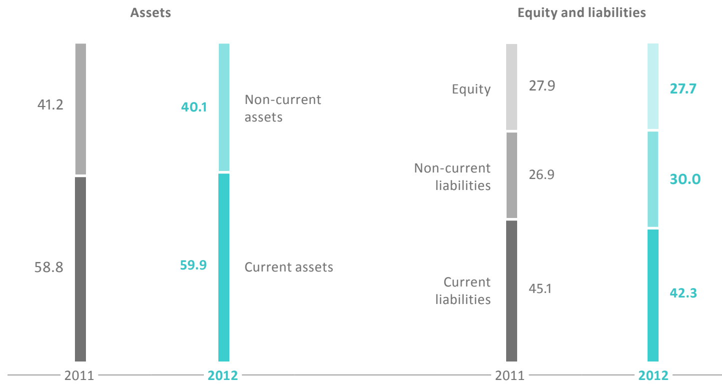
Group disclosed total assets held for sale of € 103.0m following the disposal of assets held for sale of € 597.5m in connection with deconsolidating Movianto, Pharmexx, the Czech operations, the DocMorris mail-order pharmacy and the warehouse in Denmark.

Equity stood at € 2,195.9m as of the reporting date, a decrease of € 270.7m compared to the € 2,466.6m disclosed at the end of 2011. This development is above all due to the € 200.3m decrease in revenue reserves to € 1,091.2m as of 31 December 2012. They were negatively affected by the net loss for the year 2012 of € 149.0m and the dividend payment for the previous year of € 42.5m. Furthermore, equity was heavily burdened by the € 72.5m fall in revaluation reserves to € –333.3m as of the reporting date, mainly in connection with the adoption of IAS 19 (revised) as well as currency translation effects. The equity ratio came to 27.7% as of 31 December 2012, a decrease of 0.2 percentage points compared to the end of December 2011. The movements above were to a large extent compensated by the reduction in total assets associated with the sale of entities.

Non-current liabilities increased by € 3.3m compared to the end of 2011 to € 2,379.1m (31 December 2011: € 2,375.8m). Non-current financial liabilities were up € 140.5m to € 1,916.0m as of the reporting date. The rise in non-current financial liabilities due to the placement of a second corporate bond was offset to some extent by the early settlement of financial liabilities and reclassification to current financial liabilities. Pension provisions were also up, increasing € 68.8m to € 345.1m on account of lower interest rates in particular. In contrast, other non-current liabilities fell by € 112.7m to € 8.2m as of 31 December 2012, primarily as a result of settling the purchase price liability for Panpharma.

Current liabilities came to € 3,353.7m as of the reporting date and thus fell € 630.7m short of the level at year-end 2011. Current financial liabilities decreased by € 124.6m to € 166.9m, mainly as a result of reclassifications to liabilities held for sale as well as the settlement of current financial liabilities. The reclassification of liabilities held for sale also had a significant effect on trade payables and other liabilities, which decreased from € 2,799.4m to € 2,325.0m and € 662.6m to € 573.1m, respectively, between 31 December 2011 and 31 December 2012. Other liabilities also decreased due to the settlement of the purchase price liability for the remaining shares in Panpharma. On 31 December 2012, the group disclosed total liabilities held for sale of € 76.6m following the disposal of liabilities held for sale of € 316.1m in connection with deconsolidating Movianto, Pharmexx, the Czech operations and the DocMorris mail-order pharmacy.

STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION OF THE CELESIO GROUP
AS OF 31/12, %



Celesio AG financial statements (holding)

The financial statements of Celesio AG reflect its activities as a management holding. Celesio AG holds investments in the national companies – most of which are operating companies – either directly or indirectly via national holdings. Furthermore, the financing of working capital required by the operating companies is provided to a large extent via Celesio AG. The financial statements of Celesio AG were prepared in accordance with Sec. 242 et seq. and Sec. 264 et seq. of the Handelsgesetzbuch (HGB, German Commercial Code) as well as the relevant provisions of the Aktiengesetz (AktG, German Stock Corporations Act).

Total assets increased by € 265.5m to € 3,410.9m as of 31 December 2012. Non-current assets decreased slightly by € 79.4m while current assets were up € 350.3m, driven by the increase in receivables from affiliates and cash and cash equivalents.

The equity of Celesio AG decreased by € 32.4m to € 1,796.7m because the net profit for 2012 of € 10.1m was significantly lower than the dividend for the 2011 fiscal year of € 42.5m that was paid in 2012. The equity ratio dropped to 52.7% (previous year 58.2%) as a result of the increase in net assets in particular. Compared to 2011, Celesio AG's net profit for the year decreased by € 161.8m. The drop is largely attributable to losses on divestments in connection with the Celesio Group's strategic realignment. It relates to earnings effects at Celesio AG as well as profits and losses absorbed from subsidiaries. The net profit for the year mainly comprises investment result, interest result and the management holding's net expenses.

The investment result comprises the profit transferred or loss absorbed from subsidiaries in Germany as well as profit distributions from foreign subsidiaries and changes in the value of financial assets. The year-on-year decrease in the investment result of € 117.5m to € 127.4m is due to the increase in expenses from absorbing losses of € 164.5m, the decrease in profit distributions from foreign subsidiaries (down € 17.7) and the € 15.8m rise in write-downs of financial assets. The latter primarily reflect adjustments to the carrying amounts of the Irish wholesale business as part of the sales process and the Slovenian wholesale business following the loss of a customer.

Reverse effects were seen as a result of write-ups of financial assets in light of an improved outlook for the Irish pharmacy business (€ 61.2m) as well as the € 19.2m increase in income from profit and loss transfer agreements following the upturn in the earnings situation of the German wholesale business.

Write-downs and write-ups relate to interests in various foreign equity investments.

The management holding's net expenses primarily consist of personnel expenses and other expenses. The € 13.1m drop in personnel expenses compared to the previous-year period is attributable to the lower headcount on the one hand and the fact that the previous-year figure was affected by obligations to settle contractual claims in connection with the departure of former members of the Management Board. This was offset by higher expenses for bonuses, up € 3.6m on the previous year. The average headcount fell from 312 in the previous year to 296.

Other income increased by € 20.1m compared to 2011. The development is mainly connected to higher cost allocations (up € 14.8m) for IT services rendered to group companies, particularly in connection with the HP outsourcing agreement, as well as the rise in corporate income tax allocated within the consolidated tax group (€ 7.2m)

Profit available for distribution amounts to € 53.5m and comprises the net profit for the year of € 10.1m and the profit of € 43.4m carried forward from the previous year. A proposal will be made to the annual general meeting to distribute € 51.0m of the profit available for distribution as a dividend of € 0.30 per ordinary share and to carry forward the remainder of € 2.5m to new account.

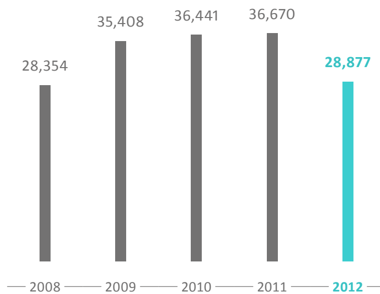
The business and earnings development of Celesio AG as management holding is closely connected to that of the Celesio Group. In 2013 and 2014, the earnings development of Celesio AG will once again depend to a large extent on the distributions of foreign subsidiaries, profits transferred to and losses absorbed from German subsidiaries and the results of the financing function. Over the next two years, investing activities will continue to focus on software.

Employees

Our employees are the foundation of our success

To live up to our vision and our mission and translate our top ideas into action we rely on having the best possible teams with the best possible people. We promote personal development among our employees by recognising different strengths early, offering targeted support and practical opportunities to build on our people's existing skills. Celesio's success is supported by a framework of modern human resources management for sustainable performance, a strong focus on employee development and efforts to be an attractive employer.

CELESIO GROUP EMPLOYEES
31/12 (FULL-TIME EQUIVALENTS)



CELESIO GROUP EMPLOYEES	Full-time equivalents		Full-time equivalents		Employees	
	annual average		as of 31/12		as of 31/12	
	2011	**2012**	2011	**2012**	2011	**2012**
Continuing operations Patient and Consumer Solutions	15,319	**15,279**	15,744	**14,977**	23,330	**22,602**
Continuing operations Pharmacy Solutions	14,093	**13,819**	14,172	**13,582**	16,548	**15,971**
Group holding	283	**251**	283	**253**	317	**299**
Discontinued operations	6,857	**4,339**	6,471	**65**	6,782	**68**
Continuing and discontinued operations	**36,552**	**33,688**	**36,670**	**28,877**	**46,977**	**38,940**

Employee figures [1)]

As of 31 December 2012, 28,877 full-time equivalents worked for Celesio – a decrease of 21.3% on the end of the previous-year period. This was mainly attributable to the sale of business operations as well job cuts in the operating units.

A total of 14,977 employees were employed in the Patient and Consumer Solutions division (continuing operations) at the end of the reporting period, a decrease of 4.9% year-on-year. This division accounted for the largest share of employees in the group at 52.0% (previous year 52.1%). The Pharmacy Solutions division had 13,582 employees as of year-end, a year-on-year decrease of 4.2%. There were 253 employees working at group level as of the 2012 reporting date (previous year 283). The remaining 65 employees (previous year 6,471) were employed in discontinued operations. Most of our employees worked outside Germany. With 93.3% of employees located abroad (previous year 92.2%), we are one of the most international German groups.

1) Unless otherwise indicated, the employee figures relate to full-time equivalents.

Modern personnel management for sustainable success

Our structure:

Our personnel management is designed to support our strategic goals.

As a group operating in various service areas and countries, we take on a central leadership role for our subsidiaries while at the same time allowing them the latitude they need to structure their personnel work according to local needs.

Our human resources department is committed to sustainable leadership development in all our markets.

Our human resources department creates and coordinates international executive development initiatives. This approach is a way of identifying and nurturing people's skills and talents at an early stage. We target high-potential individuals at the level of the group and subsidiaries and help them build successful careers though targeted action.

Launched in 2012, our leadership development programme GROW! is a modular course for international middle management and one example of the international management training on offer to our high-potential employees. Building on our leadership culture will be an important milestone for 2013.

Our aim: in future we hope to fill even more key positions, especially international ones, with candidates from within our own ranks and give our employees even better prospects for international careers. The cross-border exchange of know-how and leadership not only strengthens links throughout the entire group; it epitomises the concept of "One Celesio", our team spirit.

Recruitment

Our recruitment aim is to attract qualified employees to work at Celesio and retain them at the company long-term.

We once again received recognition on numerous occasions for being a high-quality and attractive employer. For instance, our Irish pharmacy chain DocMorris/Unicarepharmacy won Best Employer and Company of the Year for the fourth time in a row at the Retail Excellence Ireland Awards 2012. Unicarepharmacy also retains its place in the ranking by Great Place to Work Institute, after once again being identified as one of "Ireland's Best Large Workplaces 2012" and collecting the prestigious "Speaking Award".

We also work hard to raise our profile as an attractive employer beyond the realm of the pharmacy. That is why we send representatives to universities or job fairs in addition to holding our own information events for students. On our website, we provide detailed information about career options in each of our divisions. Candidates get a genuine impression of what it is like at Celesio thanks to employee profiles where individuals share their experiences – also an effective way to promote contact. The information is available on video and in written content on our website www.celesio.com.

Personnel development

Employee development is one of our priorities at Celesio. Our varied education and training programmes give our employees the skills and know-how they need to perform tasks within the group. For instance, we give young people the opportunity to complete a vocational training course at the company in wholesale and export trade or warehouse logistics. In Germany we work together with the Cooperative State University Stuttgart, adding an option in 2010 to study Business Information Technology in addition to the dual-track International Business course. Our finance trainee programme is a roaring success and a good opportunity for launching a career at Celesio. Exciting and varied tasks introduce participants to our multi-faceted company. They have the security of a permanent, unlimited employment contract and spend three months at a foreign subsidiary to familiarise themselves with Celesio's operating business and broaden their horizons.

We develop individual personnel development plans to nurture high-potential employees on every rung of the career ladder, incorporating various international leadership development programs tailored to different needs.

At our pharmacies, we offer patients and consumers consistently reliable, high-quality advice. We therefore prioritise regular and structured further education and training of pharmacists and pharmaceutical technicians. In addition to deepening pharmaceutical knowledge, training sessions deal with issues such as advising customers, communication skills and organisation in the workplace. We also regularly offer preparatory courses for pharmacy graduates wishing to be admitted to the relevant professional organisation.

Remuneration

In addition to their salary, which is regulated by collectively bargained agreements or individual employment agreements, employee remuneration also often contains other components. These are linked to the duties of the individual employees and usually include performance-related elements.

Research and development

As a trading company and service provider, we have no need to pursue research and development activities in the course of our business. We of course also develop our range of services and our IT infrastructure on a rolling basis. You can read more about this in sections on the development of each division.

Overall picture of the economic situation

The pharmaceutical and healthcare markets in which we operate as a leading service provider are characterised by good long-term prospects for development. Growth is driven by global megatrends such as the rising population, higher life expectancy and people's increased willingness to invest in their health beyond the confines of state-run health and social care systems. Improved patient and consumer access to therapies boosts growth on the pharmaceutical and healthcare markets as do advances in medicine and pharmaceuticals.

In contrast, government intervention in pricing and margin-setting is associated with negative effects for Celesio in many of the European markets. Budget bottlenecks in these countries force many governments to take such measures. With operations in 16 countries and a broad portfolio of services that spans the entire pharmaceutical supply chain and is geared towards expansion in non-price-regulated segments, Celesio is able to spread its business risks and participate in market growth.

We consider the economic situation of the Celesio Group to be positive. Backed by extensive expertise, innovative concepts and a very solid, increasingly diversified financing structure, we are well equipped to actively counter and in some cases compensate for the government measures in many European countries.

Risk and opportunities report

As an international company, we encounter various risks and opportunities in the course of our varied business operations. We consciously weigh these up before taking any corporate decision and employ risk systems to identify, evaluate and, if necessary, counter risks in good time. At Celesio, we have a risk management system in place to control risks. The system is regularly reviewed for adequacy. Our risk activities are carried out with the aim of responding rapidly to any changes in the environment and containing the negative influences on our company.

Risk management

Celesio has a well established risk management system across the group that is governed by our risk management policy. We conduct a group-wide risk inventory twice a year in which we analyse and evaluate the probability of occurrence and potential losses of all risks identified and present the results in our risk report. The Management Board receives regular updates on the current risk situation as part of the standardised notification and reporting system. Audit, Consulting and Risk Management is responsible for coordinating this process, while Finance and Treasury is responsible for managing the group's financial risks.

Opportunity management

Besides risk management, opportunity management is also an important component of the group-wide planning and controlling systems. For us, opportunities are internal and external factors and events with the potential to exert a positive influence on our business. The healthcare market is a dynamic one overall, with opportunities opening up all the time. To manage opportunities successfully we therefore observe the corporate environment very carefully, using market research and pursuing active dialogue with various market players. This enables us to identify concrete market opportunities, which are considered by the Management Board in consultation with operational management for planning purposes. The implementation of our new strategic projects will dominate in 2013 – you can read more about the business opportunities that we have identified starting on → page 163.

Significant specific risks and opportunities

Environment/market risks and opportunities

Economic risks and opportunities

In principle, our activities in the healthcare market are less dependent on economic cycles. However, demand for over-the-counter (OTC) medicines, cosmetics or care products tends to dip when the economy takes a turn for the worse and purchasing power is down. Our modern shop concepts throughout the European pharmacy network create new incentives to buy. Direct effects could have a more significant impact on our business development, however, including the development of interest rates, customer solvency and in particular financing issues and cost pressure in national healthcare systems.

Regulatory risks and opportunities

The pharmaceutical and healthcare markets are subject to regulatory intervention in the form of numerous different measures. Growing demand for healthcare services – driven by demographic change – often collides with the interests of squeezed healthcare systems whose financial difficulties are only heightened by the weak economic development in Europe. Governments respond through intervention, adjusting compensation structures to cut spending as seen recently in France, Portugal and Slovenia. Such measures directly affect our business development and earnings and therefore constitute a major risk for Celesio. Besides lean cost management, we rely on a range of strategic projects including our European pharmacy network and the end-to-end supply chain to compensate for this risk (read more about our strategy on → page 102).

Specific market risks and opportunities

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

- **New wholesale distribution models**
  Manufacturers are increasingly keen to reduce the role of the wholesaler and are turning instead to models such as direct-to-pharmacy (DTP) supply by the manufacturer or reduced wholesale where the manufacturer maintains exclusive agreements with just a few wholesalers. This actually constitutes both a risk and an opportunity because Celesio's strong market position makes it a popular partner for these exclusive distribution models. Celesio is sharpening its focus on communication with manufacturers to position itself as an attractive business partner with new offerings for manufacturers. For instance, our end-to-end supply chain initiative sees us extend our logistics competence to the entire fully-integrated supply chain, allowing us to leverage synergy effects and providing a basis for future growth potential.

- **Tougher competition**
  Our line of business is an extremely competitive one. Besides attempts from traditional logistics firms to encroach on the pharmaceutical distribution business, our competitors' activities can also squeeze earnings. The French market was a good example of this as was Germany in the fourth quarter of 2012. We aim to counter this trend by improving services for our customers and by running customer loyalty programs.

- **Removal of pharmacy-only status**
  The question of whether pharmacy-only status should be lifted for certain OTC products, enabling them to be sold freely in supermarkets, for example, is a recurring topic of political debate. We hope to make pharmacies more appealing and improve their position compared to other outlets by offering our pharmacists regular training and implementing innovative shop concepts.

- **Patent expiry**
  Patent protection has recently run out or will do so over the coming years on a number of blockbusters. This will push up the market share of cheaper generics, impacting our revenue and, depending on the local reimbursement system, our earnings in the medium term. We endeavour to compensate for this by carefully monitoring patent expiry dates around the world and, if necessary, working closely with manufacturers to come up with more efficient models.

Corporate strategy risks and opportunities

Portfolio optimisation measures will remain an important component of our strategy in the future. As decisions of this kind are also associated with risk, acquisition and investment plans are examined in a due diligence process and analysed in terms of return on risks. Our M&A and Market Intelligence department coordinates closely with the relevant departments in the case of complex acquisition projects. There is also a clearly defined review and authorisation process for smaller acquisitions, such as individual pharmacies, using local resources and expertise on the market and competition. Changes in the market environment could block or hinder original targets, despite extensive due diligence procedures. We therefore conduct annual impairment tests, which can lead to an adjustment of goodwill. We are also exposed to potential risks from the integration of the acquired operations or from interests in companies in which our responsibility for the company is shared or limited.

On the positive side, regional expansion – especially in developing and emerging growth markets – offers further development potential for Celesio.

Operating business risks

There are a number of special risks relating to the safety and quality of pharmaceuticals supply in all countries.

- **Interruption of operating business**
  Our operating processes, especially transport, storage and dispensing, demand a mature infrastructure and are also highly dependent on IT. We have contingency plans in place in all divisions to safeguard continued business operations and an uninterrupted supply to our customers in case of unexpected events. We are also insured against business interruptions.

- **Incorrect handling of medicines in the logistics chain**
  Medicines need to be handled with particular care, bearing in mind the special challenges associated with products such as vaccines which require strict maintenance of a cool chain. If the cool chain is broken during storage or transport, such products have to be destroyed. We address this risk through a range of preventive measures such as round-the-clock temperature monitoring at warehouses and insulated transport containers. We have also implemented various quality control mechanisms to counter further risks such as counterfeit pharmaceuticals.

- **Dispensing errors**
  Dispensing the wrong medicines is an inherent risk at pharmacies. We minimise this risk through detailed process definitions and regular training for our pharmacists and pharmaceutical technicians.

Financial risks

Currency risks

Due to the international nature of our business, we operate in various currency areas. The associated currency risks are systematically reduced based on our internal guidelines. We distinguish between transaction risks and translation risks:

Transaction risks

Exchange rate fluctuations can lead to changes in the value of assets bought or sold in a foreign currency. We enter into hedging agreements with banks as a way of minimising these by compensating any changes in values. This risk is low at Celesio because the individual subsidiaries primarily operate in their own currency areas.

Translation risks

Items of the statement of financial position (e.g. equity) of subsidiaries outside the eurozone are translated into € for consolidation purposes. This leads to changes in value due to exchange rate fluctuations. We aim to reduce associated risks by ensuring that funds are sourced and used in the same currency. This avoids unequal changes in the statement of financial position.
Translation risks can also arise in connection with income statement items.

Owing to the large share in earnings contributed by our business in the UK, the largest currency risk is in pound sterling. Other currencies of significance to Celesio are the Brazilian real and the Norwegian krone.

Risk of default on receivables

We generally set customers payment terms for goods supplied and services rendered. The associated risk – also known as the risk of bad debt – depends significantly on the customer structure. We benefit from a low risk of default thanks to our diversified customer portfolio. Government or equivalent payers in the healthcare system are monitored using publicly available credit ratings. Our lean and proactive receivables management system captures other risks of default on receivables. Our risk mitigation approach primarily consists of monitoring our customers' payment patterns on an ongoing basis, testing creditworthiness and adjusting payment terms and conditions as necessary.

The tense budget situation in many countries and a suppressed economy can lead to a slip in the quality of individual receivables. In light of these factors, we have sharpened our focus on both central and local credit risk management. Factoring is used in the UK and Norway to reduce the risk further. We were recently able to extend existing agreements.

Liquidity and financing risks

The aim of our systematic liquidity management is to ensure that Celesio is in a position to meet its obligations at any time. A variety of different financing sources afford the company long-term financial flexibility. For instance, another corporate bond was issued in October 2012 to complement the existing capital market instruments. Further liquidity sources include promissory notes, corporate bonds and convertible bonds as well as bilateral credit lines. In 2012 we also still had access to a syndicated loan of € 600m, which we did not draw on, as in previous years. This syndicated loan expired in February 2013 but was replaced seamlessly by a new instrument with a volume of € 500m and a term expiring in 2018 (also see → page 175). When selecting which instruments to use, we ensure that our portfolio of debt investors is well diversified. The bilateral credit lines and syndicated loan mentioned above were concluded with international banks. An evenly distributed maturity structure means that refinancing risks are kept to a minimum; no extraordinarily high cash repayments are made in a single year. In our day-to-day operations, liquidity risks are reduced by making use of a cash pool and adopting a strict approach to net working capital management.

Interest rate risks

The price payable on the financial markets for floating-rate liabilities changes regularly. We largely cover the associated risk of changing interest rates by issuing a high volume of financial liabilities with a fixed coupon. Furthermore, we hold long-term interest rate derivatives, ensuring that the derivatives in question have a straightforward and transparent structure. We use these derivatives to swap floating-rate interest payments for fixed ones.

Counterparty risks from derivatives

Derivatives are used to hedge interest and currency items. We conclude such transactions with banks from our portfolio of approved banks. If the counterparty were to default, there is a risk that we would have to restore current items to the market at less favourable conditions (replacement risk). We apply strict standards when selecting counterparties to avoid this risk. For instance, transactions are only entered into with business partners that exhibit a pre-defined minimum credit rating. A limit system is in place to block transaction orders past a pre-defined maximum volume. Our internal risk department is responsible for monitoring whether limits are observed as well as how the market value of individual derivatives develops.

Measurement risks

International financial and capital markets are subject to fluctuations that are reflected in volatile securities prices. One of the potential effects is a change in the measurement of investments held to cover pension obligations.

Information technology risks

Celesio relies on IT systems for a considerable portion of its business processes. In order to ensure smooth operations, various data security and availability measures are used including redundant computer centres for key applications.

Regular investments are needed to keep up with and quickly implement changing business processes. Investments are made with standardisation of the group-wide IT structure in mind. As a general rule, there is a high risk of unforeseeable events occurring when rolling out new systems or converting existing ones. Regular project monitoring and the involvement of internal and external expertise minimises the likelihood of such events.

The Europe-wide outsourcing of our IT infrastructure to an external service provider, a process launched in 2009, presents opportunities, particularly in the form of synergy effects from standardisation. On the other hand, there are also certain risks. The IT infrastructure and services might not be available on time or might be lacking in quality. It might not be possible to realise planned reductions in operating costs. We address these risks through continuous monitoring, the regular exchange of information with our service provider and security mechanisms in the contractual framework.

Personnel risks

Celesio, like all companies, relies on competent and committed employees. Unless we manage and implement our human capital effectively across the international group, our operations could suffer and with them our earnings. Attracting and retaining qualified employees is therefore essential for the continued success of the company. Celesio competes with rivals for the best candidates by offering comprehensive training and further education programmes, attractive development prospects and incentives.

Higher employee turnover is a particular risk during periods of restructuring, which can lead to a loss of know-how. Succession planning and substitution policies are in place to minimise this risk. We also cultivate a culture of open communication in the form of regular international "town hall meetings", lunch dialogues with the Management Board and our employee magazine, to name but a few.

Legal risks

In principle, legal risks are inherent in every operating activity, and Celesio is no exception. At present, however, the Celesio Group is not involved in any legal proceedings which could have a significant impact on our results of operations, financial position and assets position. Panpharma, Brazil, is exposed to tax risks in connection with VAT payables. In the course of acquisition, contingent liabilities were recognised for tax risks already in existence at that time. To cover these legal and tax risks, an agreement was entered into with the former owners to cap the maximum amount of reimbursement payable and limit the risks to the level prior to the majority takeover in 2009. The reimbursement claims are an asset in their own right following the early acquisition of outstanding shares in Panpharma in May 2012. To secure these claims, Celesio has access to assets of the former owners held in trust and other possibilities to offset the claims as well as the collateral granted. Celesio assesses its legal and tax risks at regular intervals, consulting external lawyers where necessary.

There is a general risk that future changes in the tax law landscape, particularly in Brazil, could impact our operations and earnings.

Control and risk management system with regard to the group accounting process

Pursuant to Sec. 315 (2) No. 5 Handelsgesetzbuch (HGB, German Commercial Code), the main features of the internal control and risk management system with regard to the group accounting process are described below. Our understanding of a control and risk management system with regard to the group accounting process is a comprehensive system to ensure the appropriateness and effectiveness of the accounting process as well as compliance with applicable legal

requirements. With regard to group accounting, the risk management system is designed to detect any risk of misstatement in group accounting and is in line with financial reporting. It is intended to ensure the reliability of financial reporting and minimise the risk of inaccurate external or internal group reporting. Not even an appropriate and functioning internal control and risk management system can identify and manage all risks with absolute certainty, however. In line with the requirements of Gesetz zur Modernisierung des Bilanzrechts (BilMoG, German Accounting Law Modernisation Act) which entered into force in 2009, the group-wide internal control and risk management system has been refined and made more systematic on an ongoing basis.

The following structures and processes are a fixed component of the group accounting process:

- The Management Board bears overall responsibility for the internal control and risk management system. All business units included in the consolidated financial statements are incorporated via a defined management and reporting organisation. The Supervisory Board – and its Audit Committee in particular – as well as the internal audit department are responsible for monitoring the effectiveness of the system independently of the process. The Audit Committee therefore regularly addresses the topic of the internal control and risk management system.
- Our group guidelines and organisational instructions set out the principles governing the structures and procedures of the internal control and risk management system relating to group accounting. In particular, these include the group accounting manual pursuant to uniform International Financial Reporting Standards (IFRSs) to be employed across the group, guidelines governing the scheduling and procedural process for consolidated and interim financial statements, a uniform group chart of accounts and standardised forms for recording notes disclosures at the level of the divisions included in the consolidated financial statements. We revise our guidelines at regular intervals and in urgent cases to reflect current external and internal developments and provide ongoing training for the employees responsible for the financial statements.
- The consolidated financial statements are based on the separate financial statements prepared by the subsidiaries' bookkeeping departments. In some cases, these are directly prepared in accordance with uniform group accounting standards, otherwise they are reconciled to them from locally prepared accounts. Various decentralised IT systems are in use at the subsidiaries.

Data reporting for the consolidated financial statements is carried out using a centrally managed group reporting and consolidation package as well as an IT platform for preparing the disclosures in the notes. Inclusion in the consolidated financial statements generally takes the form of subgroup financial statements for business areas at the country level, with several legal entities combined. In addition to an internal review, data reporting is also subject to a statutory audit or review by independent auditors. The group accounting department is responsible for further consolidation into the consolidated financial statements. The group accounting department monitors reporting deadlines and the quality of data reported, ensuring that this complies with group provisions. It also serves as a central contact for any accounting or consolidation queries. The process of preparing the consolidated financial statements is divided into hard close as of 30 September of a given year, almost equivalent to preparing consolidated financial statements in terms of nature and scope, and the fast close as of 31 December.

In connection with the group accounting process, we attach particular importance to the following components of the internal control and risk management system – these safeguard group accounting and the overall picture conveyed by the consolidated financial statements as well as the group management report:

- Identification by the group accounting department of the significant areas of risk and control relevant for the group accounting process. In particular, this includes unusual and complex business events as well as non-routine transactions.
- Judgements in recognition and measurement of assets and liabilities. There is an inherent risk here that they may not be presented correctly in the consolidated financial statements. Our group accounting department regularly reviews the significant areas of risk based on findings arising in the course of preparing the consolidated financial statements as well as the ongoing assessment of special accounting questions. Through the hard close and other interim financial statements, we can identify any new critical issues at an early stage and deal with these before year-end.
- Preventive control measures in the finance and accounting departments of the group and divisions included in the consolidated financial statements. Operating and business processes are also included since these generate important information for the preparation of the financial statements of the divisions incorporated as well as for the consolidated financial statements including the group management report. In this respect, we would like to highlight the segregation of functions in group accounting and at the business units incorporated, the principle of dual control and the predefined approval processes in the relevant areas. This approach is supported by the IT system in place across the group as well as the later preparation of the consolidated financial statements. We perform an annual check to verify that processes and systems are operating effectively.
- Monitoring of the group accounting process and its findings at the level of the Management Board or relevant departments and at the level of the business units. In particular, this consists of monitoring the accounting on a rolling basis by submitting monthly reports to the Management Board, performing quality control on reported data in group accounting and group controlling as well as assessing the significant accounting judgements made by the divisions included in the consolidated financial statements.

- Measures to safeguard the appropriate use of computer-assisted processing of issues and data relating to group accounting, including but not limited to centrally managed user access to the group reporting package, access controls on accounting-related IT systems as well as automated validation of reported data applying centrally defined controls prior to further processing by the group accounting department.
- Selective measures for monitoring the internal control and risk management system relating to group accounting, especially by the internal audit department.
- If necessary, consulting external experts for specific accounting and measurement questions relating to preparation of the financial statements, for example, when preparing pension appraisals or appraisals on purchase price allocation in the event of business combinations.

Overall assessment of risks and opportunities by management

Based on the information collected in our risk management system, the Management Board of Celesio AG is currently not aware of any risks that could jeopardise the company's ability to continue as a going concern. Going forward, the primary – but not sole – risk to our business operations will remain potential regulatory activities in state-run healthcare systems.

Subsequent events

On 12 February 2013, Celesio entered into a new syndicated loan agreement for € 500m with a syndicate of of 15 banks. The new agreement replaces the previous syndicated loan of € 600m that had expired. The new rolling line of credit with a term to maturity of five years was met with interest by the banks invited to participate. The loan volume was considerably oversubscribed. As in the past, Celesio will service the new syndicated loan from the approved liquidity reserves. The loan can be used for general business purposes.

Outlook

Overall economic prospects

Experts are currently cautiously predicting a recovery of the global economy for early 2014. Nevertheless – or precisely for this reason – economic conditions will remain challenging in 2013. Recent forecasts clearly reveal that the issues affecting the overall economy in the past fiscal year will prevail in 2013 and remain a key area of focus, with efforts centred on ways to contain the banking and sovereign debt crisis in Europe, as well as a long-term solution to budget difficulties in the US. How the economic situation develops in 2013 will depend heavily on political measures and discipline in implementing reforms. In this context, it can be expected that public spending will face new challenges from further government-initiated structural reforms such as targeted austerity measures.

The International Monetary Fund (IMF) anticipates global economic growth of 3.5% in 2013, with the world's economy gaining strength in the second half of the year in particular.

In its outlook for 2013, the IMF predicted a negative development of –0.2% in the eurozone. Clear signals from the European Central Bank (ECB) in support of the euro coupled with strict continuation of measures launched in 2012 to resolve the banking and sovereign debt crisis in Europe should bring about gradual improvements and help the eurozone return to strength from 2014 onwards.

The International Monetary Fund expects slight growth overall in Celesio AG's core European markets. Current forecasts for Germany anticipate growth of 0.6%. The IMF retains its opinion that action is required to boost investor confidence in Germany and improve the domestic economic climate by introducing further structural reforms. Growth of 1.0% is expected for the UK. However, the IMF believes that the UK needs to take decisive action in the form of austerity measures and tax reforms in order to maintain and drive further growth. Growth in France is anticipated at a rate of 0.3%. According to the IMF, the key challenge for the French market will be implementing further austerity measures to meet the Maastricht targets without curbing economic growth.

Even though the slump in the industrialised countries is impacting development in emerging economies, the BRIC nations, Brazil, Russia, India and China, continue to exhibit growth as the engine of the global economy. The IMF anticipates average growth of 3.5% for Brazil, Celesio AG's most important growth market.

There are no signs that the European Central Bank will cut interest rates in 2013 despite the ongoing recession. Experts forecast a recovery of the real economy, buoyed by favourable conditions on the financial markets, and do not expect any noticeable response from the ECB.

Our industry – megatrends shape healthcare and pharmaceutical markets

The global pharmaceutical markets will expand considerably in the coming years. IMS Health forecasts average annual growth of 4.8% in the global pharmaceutical markets until 2016. This development will mainly be the result of the double-digit growth in most of the Asian and Latin American markets, driven by steady population growth and rising income levels. IMS Health expects growth until 2016 of 13.2% for Brazil, 13.7% for India and 16.9% for China. IMS Health's growth forecast for Europe and the US comes to 0.7% and 1.5%, respectively.

The aging population is a significant change shaping the landscape of the healthcare and pharmaceutical market in the long run as a result of demographic change. The over-64s account for just 8% of the global population at present. However, this figure is set rise sharply over the next decades, with this generation predicted to increase from 17.4% to 28.6% of the total EU population between 2010 and 2050. In China, the share of over 64 year-olds will increase from 8.2% to 25.6% in the same period. New and more complicated requirements for patient and consumer care will emerge in light of this development.

Another significant factor will be evolving consumer behaviour patterns. Changing behaviour is at the root of increasing rates of typical lifestyle diseases such as cardiovascular disorders and diabetes in the industrialised nations of the West. In Germany, for instance, the number of diabetics increased from 5.2% of the population in 1997 to 7.2% in 2010. The need for medical care increases as a result and with it the demand for medicines.

Growing health consciousness of consumers in industrialised nations is a further factor that will be instrumental in sustainable success. Changing health attitudes and the trend towards a healthy and active old age lay the foundations for increased care needs and buoy demand for products and services in the pharmaceutical and healthcare sector.

There is a wealth of opportunity in the rapid-growth pharmerging markets such as Brazil, Russia, India and China in which the prospects for profitable growth

are supported by strong economic development, rising spending on health care and increasing disposable incomes for growing segments of the population.

Robust growth in the comparatively expensive specialty pharmaceuticals segment for medicines with specific transport requirements pose completely new and increasingly complex challenges for the pharmaceutical supply chain. In light of this, new and innovative service concepts need to be developed for manufacturers. IMS anticipates average growth of around 8% between 2010 and 2020 for specialty pharmaceuticals in the eight most mature pharmaceutical markets compared to 4% for traditional medicines.

Additionally, Celesio has identified the following key challenges for the healthcare and pharmaceutical industries and for the pharmaceutical distribution markets in particular:

- Continued government price regulation along the entire pharmaceutical supply chain
- Effects as increasing numbers of patents expire on blockbuster medicines and the associated growth in comparatively less expensive generic products
- Trend toward professionalisation and internationalisation of procurement in wholesale and large international pharmacy chains
- Market access barriers for new products due to stricter requirements to analyse the benefits compared to treatments already licensed
- Wave of consolidation in the pharmerging markets as well as continued consolidation in established markets, driven by government price regulation.

Divisions

Patient and Consumer Solutions

We anticipate a continuation of the positive development in Patient and Consumer Solutions in 2013. Despite government intervention in many markets, we expect to achieve slight earnings growth in the 2013 fiscal year compared to the past fiscal year. We anticipate further positive effects from 2014 onwards from the implementation of our new European pharmacy network.

In the UK, we expect a positive development for Lloydspharmacy. In 2013 Lloydspharmacy stands to benefit in terms of costs and earnings from closer cooperation with Celesio's UK wholesaler AAH, thanks to "One Celesio", our new group structure to strengthen the integration of the pharmacy and wholesale business. The OEP and the related top-in-class procurement initiative will also have a positive impact on our pharmacy business. The development will be curbed somewhat by the price cuts announced by the British government and effective as of 1 October 2012, however. Some precautionary measures were already taken in 2012.

In the other countries represented in this division we expect a positive development in revenue overall.

We also anticipate a positive development of revenue in Norway, particularly from the sale of OTC products. Higher pension expenses will burden earnings in 2013.

We anticipate a renewed significant decrease in start-up expenses in Sweden in 2013, supported by countermeasures already taken such as the closure of unprofitable pharmacies and downsizing of administrative functions. We will cautiously press ahead with efforts to expand our presence in Sweden.

The Irish and Italian markets remain tense in light of these countries' economic situation and the austerity measures affecting the healthcare sector. In the past, our pharmacies in both countries have demonstrated that they were more resilient to the strain of government measures than the market in general.

The Belgian market remains tough. Management expects significant synergy effects from cost optimisations achieved by One Celesio as well as closer cooperation with the wholesale business. The impact of these synergies will be weakened by government measures, however.

Pharmacy Solutions

Despite the continuing difficult economic environment and the strain of government austerity packages, Celesio's Management Board expects to stabilise earnings in 2013, above all thanks to the optimisation measures implemented as well as moves to cooperate more closely with the pharmacy business. Revenue will decline in 2013 due to the deconsolidation of the Czech and Irish operations. As in the Patient and Consumer Solutions divisions, the OEP will continue to exert a positive influence on earnings in Pharmacy Solutions. We also anticipate additional positive effects from 2014 onwards from our new European pharmacy network and optimised end-to-end supply chain.

We expect to stabilise revenue and earnings in France despite further government measures and ongoing competition.

In 2013, further important pharmaceuticals will lose their patent protection in the UK with negative consequences for revenue. However, our budget for AAH assumes a slight increase in earnings thanks to synergy effects released from closer cooperation with Lloydspharmacy.

Despite the fact that discounting competition has picked up since the end of 2012, Celesio's wholesale subsidiary GEHE is in a position to hold on to its market share and maintain revenue at a stable level in Germany, although a decrease in earnings is inevitable.

Moderate revenue growth is anticipated for Norway following completion in 2012 of the restructuring measures at the new warehouse in Oslo. Earnings are also set to rise.

In Brazil we expect further growth for Oncoprod and, once the cost-cutting structural changes are completed, Panpharma and should be able to participate in the opportunities that emerge on the Brazilian market. The Management Board predicts an increase in revenue and earnings as early as 2013.

The Management Board forecasts solid revenue and earnings for Austria in the coming fiscal year on account of the stable market.

Revenue and earnings in Slovenia will be burdened once again in 2013 by the loss of a major customer.

The remaining countries are expected to exhibit a largely solid revenue and earnings development.

Investments and capital expenditures

We anticipate a higher investment volume for 2013 than the relatively low level of the 2012 fiscal year, particularly as a result of larger investments in wholesale branches, pharmacy refurbishments, IT projects and other initiatives. We then expect a stable level for 2014.

Depreciation and amortisation

Depreciation and amortisation should increase slightly in the 2013 and 2014 fiscal years compared to the level of the previous year.

Financial result

We do not reckon with any major changes in the adjusted financial result in 2013 or 2014 but expect it to stay more or less at the 2012 level. As in the previous year, this assumption applies only on the promise that interest rates remain stable.

Tax rate

The adjusted tax rate may be influenced by a change in the earnings mix returned by the different countries in which the group operates or a change in the specific effective tax rates in each country. The adjusted figure is likely to fall short of the 2012 rate by one to two percentage points. We expect a further improvement in the tax rate for 2014.

Employees

No further material decrease in the headcount is expected for 2013 and a similarly stable development should continue in 2014 as well.

Revenue and earnings forecast

The following statements on future business development and assumptions as to how the market and industry will evolve are estimates that the Management Board considers realistic based on the information currently available. However, the future development of our divisions depends on various factors beyond Celesio's sphere of influence so forecasts can only be made with a limited degree of accuracy. Examples of factors beyond our control are the future economic and regulatory environment, the conduct of competitors and other market participants as well as government intervention in healthcare and social systems. Competition in Germany, which has picked up again since the end of the 2012 fiscal year, is a critical factor and our earnings forecast depends significantly on how this situation develops. The following forecasts by the Management Board of Celesio AG are based on the assumption that exchange rates, interest rates and the consolidated group will remain stable.

Building on our success in stabilising earnings – the main focus of efforts in 2012 – Celesio aims to take a new direction in 2013 in a major step towards profitable growth from 2014 onwards.

Celesio's Management Board assumes that we will return an adjusted EBIT of between € 445m and € 475m in the 2013 fiscal year and, accordingly, an adjusted EBITDA of between € 580m and € 610m. This positive development will be driven significantly by the better integration of our pharmacy and wholesale business and cash effects from optimised procurement processes. This clearly shows that our OEP and improved cost awareness throughout the group are effective.

In terms of revenue development for 2013, the Management Board of Celesio AG anticipates a slight decrease following the expected sale of discontinued operations in Ireland in the first half of 2013 and the sale of discontinued operations in the Czech Republic that was already completed in November 2012. Revenue is expected to rise again in 2014.

From today's perspective, the Management Board of Celesio AG expects earnings to increase further in 2014 as the European pharmacy network and optimised end-to-end supply chain initiatives take hold and deliver positive results.

The Management Board does not expect any significant special effects in the next two fiscal years.

The Management Board and Supervisory Board will propose to the annual general meeting a dividend payment of € 0.30 per share for the 2012 fiscal year, an increase of 20% on the previous year. Over the coming years, Celesio AG will examine the possibility of gradually raising its dividend distribution rate.

More Positive Lives

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Consolidated financial statements and notes, information

Celesio AG

2012

Consolidated financial statements

Celesio AG 2012

Group income statement for the 2012 fiscal year

	Notes No.	2011 € m	2012 € m
Revenue	1	**22,152.9**	**22,270.8**
Own work capitalised		0.1	0.0
Total operating performance		**22,153.0**	**22,270.8**
Cost of materials		–19,818.0	–19,845.7
Gross profit		**2,335.0**	**2,425.1**
Other income	2	249.4	247.1
Other expenses	3	–835.2	–858.8
Personnel expenses	4	–1,253.8	–1,270.9
EBITDA		**495.4**	**542.5**
Amortisation of non-current intangible assets and depreciation of property, plant and equipment	5	–125.1	–134.8
Impairment losses recorded on intangible assets and property, plant and equipment	5	–62.3	–37.6
EBIT		**308.0**	**370.1**
Result from associates accounted for using the equity method	6	0.2	2.8
Result from other investments	6	8.1	5.3
Interest expense	7	–162.9	–178.0
Interest income	7	7.5	10.6
Other financial result	7	16.0	3.9
Profit before tax from continuing operations		**176.9**	**214.7**
Income taxes	8	–100.2	–105.1
Net profit/loss from continuing operations		**76.7**	**109.6**
Net profit/loss from discontinued operations	16	**–70.9**	**–258.6**
Net profit/loss		**5.8**	**–149.0**
Of which attributable to non-controlling interests		3.9	7.1
Of which attributable to shareholders of Celesio AG		**1.9**	**–156.1**
Earnings per share – basic (€)			
Net profit/loss from continuing operations	9	0.43	0.60
Net profit/loss from discontinued operations		–0.42	–1.52
Net profit/loss		0.01	–0.92
Earnings per share – diluted (€)			
Net profit/loss from continuing operations	9	0.43	0.60
Net profit/loss from discontinued operations		–0.42	–1.52
Net profit/loss		0.01	–0.92

Group statement of comprehensive income for the 2012 fiscal year

	2011 € m	2012 € m
Net profit/loss	**5.8**	**–149.0**
Losses from the current year	–0.9	–0.2
Less reclassification to profit and loss	–1.5	–0.2
Gains from marking available-for-sale financial assets to market	**0.6**	**0.0**
Of which income taxes	0.0	0.0
Losses from the current year	–24.2	–7.4
Less reclassification to profit and loss	–18.3	–11.8
Gains/losses from derivative financial instruments to hedge cash flows	**–5.9**	**4.4**
Of which income taxes	–5.2	–1.9
Revalution of defined benefit pension plans	**–15.3**	**–61.5**
Of which income taxes	6.4	24.2
Foreign currency translation	3.7	–18.1
Release to profit or loss due to loss of control	0.0	3.7
Exchange differences	**3.7**	**–14.4**
Share in other comprehensive income attributable to associates accounted for using the equity method	**–1.1**	**–4.8**
Other comprehensive income	**–18.0**	**–76.3**
from continuing operations	–21.4	–79.6
Of which attributable to non-controlling interests	0.6	–3.4
from discontinued operations	3.4	3.3
Of which attributable to non-controlling interests	0.0	0.0
Comprehensive income	**–12.2**	**–225.3**
from continuing operations	55.3	30.0
Of which attributable to non-controlling interests	4.1	3.7
from discontinued operations	–67.5	–255.3
Of which attributable to non-controlling interests	0.4	0.0

Group statement of financial position as of 31 December 2012

ASSETS	Notes No.	01/01/2011 € m	31/12/2011 € m	31/12/2012 € m
Non-current assets		**3,486.1**	**3,633.8**	**3,179.9**
Intangible assets	11	2,545.9	2,637.2	**2,297.2**
Property, plant and equipment	12	592.3	608.3	**529.7**
Associates accounted for using the equity method	13	80.6	81.4	**71.7**
Other financial assets	13	107.6	116.6	**98.0**
Other non-current assets		0.0	19.2	**69.9**
Income tax receivables		3.1	2.5	**2.3**
Deferred tax assets	14	156.6	168.6	**111.1**
Current assets		**4,951.9**	**5,193.0**	**4,748.8**
Inventories	15	1,688.1	1,791.5	**1,582.0**
Trade receivables	17	2,522.0	2,529.4	**2,096.1**
Income tax receivables		28.9	28.9	**36.1**
Other receivables and other assets	17	365.5	392.7	**407.7**
Cash and cash equivalents	18	200.8	448.3	**523.9**
Assets held for sale	16	146.6	2.2	**103.0**
Total assets		**8,438.0**	**8,826.8**	**7,928.7**

EQUITY AND LIABILITIES	Notes No.	01/01/2011 € m	31/12/2011 € m	31/12/2012 € m
Equity	19	**2,506.6**	**2,466.6**	**2,195.9**
Issued capital		217.7	217.7	**217.7**
Capital reserves		1,145.2	1,186.0	**1,186.0**
Revenue reserves		1,374.0	1,291.5	**1,091.2**
Revaluation reserves		–242.2	–260.8	**–333.3**
Equity attributable to shareholders of Celesio AG		**2,494.7**	**2,434.4**	**2,161.6**
Non-controlling interests		11.9	32.2	**34.3**
Liabilities		**5,931.4**	**6,360.2**	**5,732.8**
Non-current liabilities		**2,422.4**	**2,375.8**	**2,379.1**
Financial liabilities	23	1,789.6	1,775.5	**1,916.0**
Pension provisions	20	271.7	276.3	**345.1**
Other non-current provisions	21	120.3	92.5	**71.0**
Other liabilities	22	154.3	120.9	**8.2**
Deferred tax liabilities	14	86.5	110.6	**38.8**
Current liabilities		**3,509.0**	**3,984.4**	**3,353.7**
Financial liabilities	23	133.7	291.5	**166.9**
Trade payables	24	2,514.6	2,799.4	**2,325.0**
Other current provisions	21	162.0	176.2	**156.4**
Income tax liabilities		72.3	54.7	**55.7**
Other liabilities	24	584.9	662.6	**573.1**
Liabilities held for sale	16	41.5	0.0	**76.6**
Total equity and liabilities		**8,438.0**	**8,826.8**	**7,928.7**

Group statement of cash flows for the 2012 fiscal year

	2011 € m	2012 € m
Net profit/loss from continuing operations	**76.7**	**109.6**
Amortisation, depreciation and impairment of non-current intangible assets and property, plant and equipment	187.4	**172.4**
Result from associates accounted for using the equity method and other equity investments	–8.3	**–8.1**
Dividends received	9.1	**9.9**
Financial result	139.4	**163.5**
Net result from the disposal of non-current assets and subsidiaries	–23.4	**–8.5**
Impairment of operating assets	61.3	**61.6**
Change in deferred taxes and income taxes	100.2	**105.1**
Income taxes paid	–132.3	**–96.1**
Other non-cash income and expenses	13.4	**15.1**
Change in net operating assets	198.0	**–0.3**
Change in inventories	–103.5	**58.5**
Change in trade receivables	58.7	**74.2**
Change in trade payables	207.4	**–168.0**
Change in other net operating assets	35.4	**35.0**
Change in other assets and other liabilities	–43.4	**–91.3**
Change in other assets	–22.9	**–57.8**
Change in other liabilities	–20.5	**–33.5**
Net cash flow from operating activities – continuing operations	**578.1**	**432.9**
Net cash flow from operating activities – discontinued operations	**–18.8**	**–10.8**
Net cash flow from operating activities – continuing and discontinued operations	**559.3**	**422.1**
Proceeds from the disposal of non-current assets	42.0	**21.1**
Capital expenditure on non-current assets	–178.1	**–120.2**
Proceeds from the disposal of subsidiaries	3.1	**64.4**
Cash paid for business combinations	–32.8	**–258.2**
Net cash flow from investing activities – continuing operations	**–165.8**	**–292.9**
Net cash flow from investing activities – discontinued operations	**–34.6**	**131.0**

	2011 € m	**2012** **€ m**
Net cash flow from investing activities – continuing and discontinued operations	**–200.4**	**–161.9**
Payments made to shareholders (including non-controlling interests)	–86.6	**–43.9**
Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control	–0.5	**–1.1**
Proceeds from borrowings	756.3	**863.6**
Repayment of borrowings	–659.7	**–907.1**
Interest paid	–128.6	**–113.6**
Interest received	7.1	**11.1**
Net cash flow from financing activities – continuing operations	–112.0	**–191.0**
Net cash flow from financing activities – discontinued operations	–2.6	**0.3**
Net cash flow from financing activities – continuing and discontinued operations	–114.6	**–190.7**
Net change in cash and cash equivalents	244.3	**69.5**
Net foreign exchange rate difference	3.2	**7.2**
Cash and cash equivalents at the beginning of the period	200.8	**448.3**
Cash and cash equivalents at the end of the period	448.3	**525.0**
Cash and cash equivalents of discontinued operations and disposal groups at the end of the period	/	**1.1**
Cash and cash equivalents at the end of the period (according to the group statement of financial position)	**448.3**	**523.9**

Please refer to → page 315 of the notes for further explanations, especially relating to the restatement of previous-year figures in the group statement of cash flows.

Group statement of changes in equity for the 2012 fiscal year

	Issued capital € m	Capital reserves € m	Revenue reserves € m
Adjusted balance as of 1 January 2012	**217.7**	**1,186.0**	**1,291.5**
Change in capital	0.0	0.0	0.0
Dividends	0.0	0.0	–42.5
Change in ownership interests in subsidiaries that do not result in a loss of control	0.0	0.0	–1.3
Changes to the consolidated group	0.0	0.0	–0.4
Other comprehensive income	0.0	0.0	0.0
Net profit/loss	0.0	0.0	–156.1
Comprehensive income	0.0	0.0	–156.1
As of 31 December 2012	**217.7**	**1,186.0**	**1,091.2**
As of 31 December 2010	**217.7**	**1,145.2**	**1,393.7**
Revaluation of defined benefit pension plans	**0.0**	**0.0**	**–19.7**
Adjusted balance as of 1 January 2011	**217.7**	**1,145.2**	**1,374.0**
Change in capital	0.0	40.8	0.0
Dividends	0.0	0.0	–85.1
Change in ownership interests in subsidiaries that do not result in a loss of control	0.0	0.0	0.7
Changes to the consolidated group	0.0	0.0	0.0
Other comprehensive income	0.0	0.0	0.0
Net profit/loss	0.0	0.0	1.9
Comprehensive income	0.0	0.0	1.9
Adjusted balance as of 31 December 2011	**217.7**	**1,186.0**	**1,291.5**

1) Of which attributable to discontinued operations and disposal groups: € –4.1m.
2) Of which attributable to discontinued operations and disposal groups: € –7.4m.
3) Of which attributable to discontinued operations and disposal groups: € –11.5m.
4) Of which attributable to discontinued operations in the reporting period: € –0.2m (previous year € –0.2m).

Revaluation reserves								
Translation reserves € m	Revalution of defined benefit plans € m	Asset revaluation reserves € m	Available-for-sale financial assets € m	Cash flow hedges € m	Other comprehensive income from associates accounted for using the equity method € m	Equity attributable to shareholders of Celesio AG € m	Non-controlling interests € m	Equity € m
–148.4	**–90.1**	**–0.4**	**0.0**	**–20.8**	**–1.1**	**2,434.4**	**32.2**	**2,466.6**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
0.0	0.0	0.0	0.0	0.0	0.0	**–42.5**	**[4] –1.6**	**–44.1**
0.0	0.0	0.0	0.0	0.0	0.0	**–1.3**	**0.0**	**–1.3**
0.0	0.0	0.4	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
–11.0	–61.5	0.0	0.0	4.4	–4.8	**–72.9**	**–3.4**	**–76.3**
0.0	0.0	0.0	0.0	0.0	0.0	**–156.1**	**7.1**	**–149.0**
–11.0	–61.5	0.0	0.0	4.4	–4.8	**–229.0**	**3.7**	**–225.3**
[1] –159.4	**[2] –151.6**	**0.0**	**0.0**	**–16.4**	**–5.9**	**[3] 2,161.6**	**34.3**	**2,195.9**
–151.5	**0.0**	**–0.4**	**–0.6**	**–14.9**	**0.0**	**2,589.2**	**11.9**	**2,601.1**
0.0	**–74.8**	**0.0**	**0.0**	**0.0**	**0.0**	**–94.5**	**0.0**	**–94.5**
–151.5	**–74.8**	**–0.4**	**–0.6**	**–14.9**	**0.0**	**2,494.7**	**11.9**	**2,506.6**
0.0	0.0	0.0	0.0	0.0	0.0	**40.8**	**0.0**	**40.8**
0.0	0.0	0.0	0.0	0.0	0.0	**–85.1**	**[4] –1.7**	**–86.8**
0.0	0.0	0.0	0.0	0.0	0.0	**0.7**	**–1.5**	**–0.8**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**19.0**	**19.0**
3.1	–15.3	0.0	0.6	–5.9	–1.1	**–18.6**	**0.6**	**–18.0**
0.0	0.0	0.0	0.0	0.0	0.0	**1.9**	**3.9**	**5.8**
3.1	–15.3	0.0	0.6	–5.9	–1.1	**–16.7**	**4.5**	**–12.2**
–148.4	**–90.1**	**–0.4**	**0.0**	**–20.8**	**–1.1**	**2,434.4**	**32.2**	**2,466.6**

Notes to the consolidated financial statements Celesio AG 2012

Group segment reporting by division for the 2012 fiscal year

2012

Income statement
Revenue
External revenue
Inter-segment revenue
Gross profit
EBITDA
Of which other significant non-cash income
Of which other significant non-cash expenses
Amortisation of non-current intangible assets and depreciation of property, plant and equipment
Impairment losses recorded on intangible assets and property, plant and equipment
EBIT
Result from associates accounted for using the equity method
Segment assets
Of which non-current assets and disposal groups held for sale
Of which goodwill
Of which associates accounted for using the equity method
Capital expenditures
Employees
Headcount annual average
Headcount as of 31/12
Full-time equivalents annual average
Full-time equivalents as of 31/12

	Patient and Consumer Solutions € m	Pharmacy Solutions € m	Others € m	Consolidation € m	**Group (continuing operations) € m**	Discontinued operations € m
	3,463.8	**18,808.2**	**0.0**	**–1.2**	**22,270.8**	**663.4**
	3,462.7	18,808.1	0.0	0.0	**22,270.8**	663.4
	1.1	0.1	0.0	–1.2	**0.0**	0.0
	1,198.8	**1,226.3**	**0.0**	**0.0**	**2,425.1**	**268.2**
	275.1	351.0	–83.6	0.0	**542.5**	4.7
	6.2	17.9	1.0	0.0	**25.1**	0.1
	–7.3	–71.7	–1.6	0.0	**–80.6**	–4.8
	–63.5	–59.9	–11.4	0.0	**–134.8**	–4.4
	–3.5	–29.6	–4.5	0.0	**–37.6**	0.0
	208.1	**261.5**	**–99.5**	**0.0**	**370.1**	**0.3**
	2.5	0.3	0.0	0.0	**2.8**	–1.6
	1,931.2	**2,010.7**	**120.5**	**–6.0**	**4,056.4**	**3.7**
	0.6	31.3	0.0	0.0	**31.9**	0.0
	1,632.0	521.3	0.0	0.0	**2,153.3**	0.0
	68.0	3.7	0.0	0.0	**71.7**	0.0
	66.2	**48.0**	**7.6**	**0.0**	**121.8**	**21.4**
	22,989	16,220	300	0	**39,509**	4,551
	22,602	15,971	299	0	**38,872**	68
	15,279	13,819	251	0	**29,349**	4,339
	14,977	13,582	253	0	**28,812**	65

Group segment reporting by division for the 2011 fiscal year

2011

Income statement
Revenue
External revenue
Inter-segment revenue
Gross profit
EBITDA
Of which other significant non-cash income
Of which other significant non-cash expenses
Amortisation of non-current intangible assets and depreciation of property, plant and equipment
Impairment losses recorded on intangible assets and property, plant and equipment
EBIT
Result from associates accounted for using the equity method
Segment assets
Of which non-current assets and disposal groups held for sale
Of which goodwill
Of which associates accounted for using the equity method
Capital expenditures
Employees
Headcount annual average
Headcount as of 31/12
Full-time equivalents annual average
Full-time equivalents as of 31/12

1) For segment reporting purposes, the segment assets of Manufacturer Solutions and the DocMorris mail-order pharmacy are already disclosed under discontinued operations in the previous year.

Patient and Consumer Solutions € m	Pharmacy Solutions € m	Others € m	Consolidation € m	**Group (continuing operations) € m**	Discontinued operations € m
3,297.1	**18,857.5**	0.0	**–1.7**	**22,152.9**	873.5
3,295.4	18,857.5	0.0	0.0	**22,152.9**	873.5
1.7	0.0	0.0	–1.7	**0.0**	0.0
1,123.0	**1,212.0**	**0.0**	**0.0**	**2,335.0**	**414.9**
174.2	418.2	–97.0	0.0	**495.4**	20.2
8.3	18.6	0.3	0.0	**27.2**	1.1
–8.8	–72.5	–8.4	0.0	**–89.7**	–5.4
–56.6	–58.7	–9.8	0.0	**–125.1**	–18.3
–9.9	–49.6	–2.8	0.0	**–62.3**	–72.3
107.7	**309.9**	**–109.6**	**0.0**	**308.0**	**–70.4**
6.6	0.3	–6.7	0.0	**0.2**	–3.7
1,960.3	**2,008.9**	**–14.5**	**–0.4**	**3,954.3**	**368.0** [1]
0.0	2.2	0.0	0.0	**2.2**	0.0
1,604.0	539.9	0.0	0.0	**2,143.9**	211.6
74.7	4.5	0.0	0.0	**79.2**	2.2
103.9	**116.1**	**17.1**	**0.0**	**237.1**	35.6
22,591	16,549	315	/	**39,455**	7,163
23,330	16,548	317	/	**40,195**	6,782
15,319	14,093	283	/	**29,695**	6,857
15,744	14,172	283	/	**30,199**	6,471

Group segment reporting by country for the 2012 fiscal year

	Germany		France		
	2011 € m	**2012** **€ m**	2011 € m	**2012** **€ m**	2011 € m
External revenue	3,976.8	**4,022.1**	6,580.3	**6,441.8**	4,626.0
Segment assets	692.4	**658.7**	285.3	**247.2**	1,516.8
Of which non-current assets [1]	171.9	**128.8**	201.9	**193.6**	1,614.2

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

United Kingdom	Other countries		Group (continuing operations)		Discontinued operations	
2012 € m	2011 € m	**2012 € m**	2011 € m	**2012 € m**	2011 € m	**2012 € m**
4,598.5	6,969.8	**7,208.4**	22,152.9	**22,270.8**	873.5	**663.4**
1,557.5	1,459.8	**1,593.0**	3,954.3	**4,056.4**	368.0	**3.7**
1,638.0	920.3	**866.5**	2,908.3	**2,826.9**	337.2	**8.4**

Please refer to → page 317 of the notes for further explanations and comments on segment reporting and the restatement of previous-year figures.

RECONCILIATION OF SEGMENT REVENUE	2011 € m	2012 € m
Revenue of the reportable segments	**22,154.6**	**22,272.0**
Consolidation	–1.7	**–1.2**
Group revenue	**22,152.9**	**22,270.8**

RECONCILIATION OF SEGMENT EARNINGS	2011 € m	2012 € m
EBIT	**308.0**	**370.1**
Result from associates accounted for using the equity method	0.2	**2.8**
Result from other investments	8.1	**5.3**
Interest expense	–162.9	**–178.0**
Interest income	7.5	**10.6**
Other financial result	16.0	**3.9**
Profit before tax	**176.9**	**214.7**

RECONCILIATION OF SEGMENT ASSETS	2011 € m	2012 € m
Segment assets of the reportable segments [1]	**4,322.7**	**4,062.4**
Consolidation [1]	–0.4	**–6.0**
Segment assets of the group	**4,322.3**	**4,056.4**
+ Interest-bearing other financial assets	57.8	**36.7**
+ Non-current and current income tax receivables	31.4	**38.4**
+ Deferred tax assets	168.6	**111.1**
+ Other assets	4.6	**5.3**
+ Cash and cash equivalents	448.3	**523.9**
+ Assets of discontinued operations [2]	[2] n/a	**29.7**
– Other non-current provisions	92.5	**71.0**
– Other current provisions	176.2	**156.4**
– Trade payables	2,799.4	**2,325.0**
– Sundry liabilities	725.7	**574.8**
Total net assets	**8,826.8**	**7,928.7**

1) Previous-year figures restated in line with group segment reporting.
2) Segment assets contain non-current assets held for sale and disposal groups.

General disclosures

Accounting policies

Celesio is an international service provider in the pharmaceutical and healthcare markets. The consolidated financial statements of Celesio AG and its subsidiaries as of 31 December 2012 – comprising the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of cash flows, the group statement of changes in equity and the notes to the financial statements – have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, UK, as endorsed by the European Union and applicable at the end of the reporting period, and supplemented by the provisions of Sec. 315a (1) Handelsgesetzbuch (HGB, German Commercial Code).

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

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

The stock corporation is headquartered in Stuttgart, Germany. The address is Celesio AG, Neckartalstrasse 155, 70376 Stuttgart. The shares of Celesio AG are traded on the public exchange.

The consolidated financial statements were authorised for issue by the Management Board on 20 February 2013.

Basis of consolidation

The consolidated financial statements have been prepared from the separate financial statements of the consolidated group entities as of 31 December 2012. These have been prepared in compliance with the group's uniform accounting policies, based on IFRSs. The consolidated subsidiaries have reported for the same reporting period as that used for the consolidated financial statements.

Subsidiaries over which Celesio AG has either direct or indirect control as defined by IAS 27 "Consolidated and Separate Financial Statements" and SIC 12

“Consolidation – Special Purpose Entities” have been fully consolidated in the consolidated financial statements. Subsidiaries are fully included in the consolidated financial statements on the date on which control is transferred to the group. They are deconsolidated on the date on which control passes from the group. Potential voting rights that can be presently exercised or converted, including potential voting rights held by other entities, are considered when assessing whether an entity is controlled or not. In the course of business combinations, put and call options and combinations of such options have been entered into for the remaining non-controlling interests. If the risks and opportunities inherent in the options have already passed to Celesio, the entities acquired in the business combination are fully consolidated taking account of the existing shares and options. The shares attributable to the options are not treated as non-controlling interests but are recognised as a purchase price liability in accordance with IAS 32.23.

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

The consolidation of investments is performed in accordance with the acquisition method pursuant to IFRS 3. This entails revaluing assets, liabilities and contingencies that meet the recognition criteria of IFRS 3 at fair value on the date on which control passes to the group. Any difference remaining between the consideration paid and the interest in the net assets of the acquired company is recognised as goodwill. The cost of a business combination is measured at the fair value of the assets issued to make the combination less the liabilities entered into or assumed on the date of acquisition. The acquisition-related costs of a business combination are expensed at the time they are incurred and presented under other expenses. Since 1 January 2010, contingent consideration is measured at fair value in the course of purchase accounting. Later adjustments to the fair value of this contingent consideration that constitute an asset or a liability are treated in accordance with IAS 39. Differences in debt instruments are recognised through profit or loss but no adjustment is made in the case of equity instruments. For business combinations prior to 1 January 2010, any purchase price payments that were contingent on future events were only considered in the purchase accounting if they were probable and could be reliably estimated. A change in a contingent liability is recognised by adjusting the purchase price

liability and the historic acquisition cost of the business combination, which impacts on goodwill accordingly.

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

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

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

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

Associates are included in the consolidated financial statements using the equity method pursuant to IAS 28 at the time significant influence is acquired. Entities over which Celesio exercises common control together with other parties (joint ventures) are consolidated using the equity method in accordance with the option provided in IAS 31. Other investments are recognised at fair value in accordance with IAS 39 or, if no fair value is available and fair value cannot be reliably determined, at acquisition cost.

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

Currency translation

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

The table below shows the year-on-year development in exchange rates relevant for the Celesio Group:

Country	Currency	Closing rate		Average exchange rate	
		31/12/2011	**31/12/2012**	2011	**2012**
United Kingdom	GBP	0.8353	**0.8161**	0.8676	**0.8105**
Brazil	BRL	2.4159	**2.7036**	2.3240	**2.5012**
Norway	NOK	7.7540	**7.3483**	7.7927	**7.4729**
Czech Republic	CZK	25.7870	**25.1510**	24.5812	**25.1442**
Denmark	DKK	7.4342	**7.4610**	7.4506	**7.4437**
Sweden	SEK	8.9120	**8.5820**	9.0278	**8.6985**

Monetary items denominated in foreign currency in the separate statements of financial position of the consolidated companies are measured at the closing rate pursuant to IAS 21. Any unrealised gains or losses from these positions are offset against any gains or losses from marking to market any derivatives used to hedge the foreign exchange exposures in the group income statement. Non-monetary items denominated in foreign currency are recognised at their historical rates in the separate financial statements.

Adjustments to previous year disclosures

Following careful scrutiny and analysis of the strategic options, the Management Board of Celesio passed a resolution at the end of March 2012 to dispose of the business areas Movianto (excluding the marketing and logistics operation in Austria) and Pharmexx as well as the mail-order pharmacy DocMorris, and the brand name, previously presented in the Patient and Consumer Solutions segment. From this date, the operations listed above have been classified as discontinued operations pursuant to IFRS 5. As a result, the previous-year figures were restated in the group income statement and the group statement of cash flows with corresponding adjustments made to the related disclosures and explanations in the notes to allow comparison. For more detailed information and explanations, please refer to note (16).

Other adjustments to the previous year's disclosures result from the early adoption of the revised version of **"IAS 19 –Employee Benefits"** in the 2012 fiscal year, which had a significant impact on the recognition and measurement of defined benefit plans. As a result, the previous-year figures were restated in the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of cash flows and the group statement of changes in equity with corresponding adjustments made to the related disclosures and explanations in the notes to allow comparison. Detailed information and explanations are made in the accounting policies on → page 223.

Starting in the 2012 fiscal year, the investment result, comprising the result from associates accounted for using the equity method as well as the result from other investments, is no longer included in EBIT (earnings before interest and tax). Instead it is disclosed separately below this item. This change in disclosure reflects the new structure of internal reporting and the management system and is in line with the general practice of our peers. The previous-year figures were restated to allow comparison. The investment result for the 2012 fiscal year amounts to € 8.1m (previous year € 8.3m) and has a corresponding impact on both EBIT and EBITDA.

New International Financial Reporting Standards

The IASB and the International Financial Reporting Interpretations Committee (IFRS IC) have issued amendments to existing IFRSs and new standards and interpretations whose application has been mandatory since 1 January 2012. The following standards and interpretations have been applied by the Celesio Group for the first time in this reporting period:

In October 2010, IASB released supplements to **"IFRS 7 – Disclosures: Transfers of Financial Assets"**. This extends the reporting duties concerning transfers of financial assets where the transferring entity retains an exposure to the transferred assets. Also in October 2010, the IASB released supplements to **"IAS 12 – Income Taxes – Deferred Tax: Recovery of Underlying Assets"** and in December 2010, **"IFRS 1 – Removal of the Fixed Transition Dates for the First-Time Adopters of IFRSs"**. The amended standards do not have any impact on the consolidated financial statements.

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

IFRS standard/interpretation		Published by the IASB	Mandatory for fiscal years starting on or after:	EU endorsement
IAS 1	Presentation of items of other comprehensive income (OCI)	16/06/2011	01/07/2012	Yes
IAS 27	Separate financial statements	12/05/2011	01/01/2014	Yes
IAS 28	Investments in associates and joint ventures	12/05/2011	01/01/2014	Yes
IAS 32	Offsetting financial assets and financial liabilities	16/12/2011	01/01/2014	Yes
IFRS 7	Offsetting financial assets and financial liabilities	16/12/2011	01/01/2013	Yes
IFRS 7	Disclosures on transition to IFRS 9	16/12/2011	01/01/2013	No
IFRS 9	Classification and measurement	12/11/2009	01/01/2015	No
IFRS 9	Financial instruments: Classification and measurement of financial liabilities	28/10/2010	01/01/2015	No
IFRS 10	Consolidated financial statements	12/05/2011	01/01/2014	Yes
IFRS 11	Joint arrangements	12/05/2011	01/01/2014	Yes
IFRS 12	Disclosure of interests in other entities	12/05/2011	01/01/2014	Yes
IFRS 13	Fair value measurement	12/05/2011	01/01/2013	Yes
IFRIC 20	Stripping costs in the production phase of a surface mine	19/10/2011	01/01/2013	Yes

From a current perspective, none of the amendments set out above will have a material impact on the assets position, financial position and earnings of the Celesio Group, although changes in presentation will be required in isolated cases and further disclosure requirements generally. The group has not availed itself of the option to early adopt the standards and interpretations.

Accounting policies

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

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

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

Concessions, industrial rights, licences, patents and software have useful lives generally 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. This also applies to brands acquired by the group provided that there is an intention to use them for an indefinite period as they mainly pertain to company names. According to IAS 38, intangible assets with an indefinite useful life are not amortised. Rather, they are reviewed at least once annually in accordance with IAS 36 and, if there is any indication of impairment, subjected to an impairment test. Impairment losses are determined by allocating goodwill or brands at the level of the cash-generating units. The cash-generating units in the Wholesale business area correspond, as in

the previous year, to the business area of the respective country (e.g. Wholesale Germany). The goodwill attributable to the marketing and logistics activities of Movianto in Austria was allocated to the Wholesale Austria cash-generating unit. Until the end of 2012, the pharmacies in the United Kingdom were considered as a cash-generating unit within Patient and Consumer Solutions, and the pharmacies in other countries were combined in the International Retail cash-generating unit.

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 value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit concerned and is determined using the discounted cash flow method. This relies on the latest business planning approved by management for the next five years (detailed planning period). The planning projections are rolled forward to the following years using a constant growth rate. The growth rates after the detailed planning period are based on historical growth rates, independent studies on medium-term market development – comparing Celesio's projected performance to that of the market – and the expectation for long-term growth in the healthcare market in light of demographic and other developments.

The planning is based on past developments and expectations of future market developments at the level of the cash-generating unit. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period. The anticipated impact of definite or foreseeable government measures is also considered for pharmacies and the wholesale business.

During the detailed planning period for the LloydsPharmacy cash-generating unit it is assumed that the gross margin will fall slightly due to the continued expansion of service business, even though revenue is forecast to rise.

Overall, the Management Board are forecasting a rise in both revenue and earnings in the International Retail cash-generating unit existing for the countries until the end of the year. This expectation is founded on the positive development of revenue in Norway and the continuing decline in start-up losses in Sweden.

With regard to Wholesale UK, we expect revenue to remain stable despite the patent protection expiring on a number of important drugs, as the related fall in prices can be compensated by a rise in volume.

For Wholesale France, the Management Board anticipates stable gross profit margins despite growing pressure from competition and stagnating pharmaceutical markets.

The Management Board is forecasting solid revenue and earnings for Wholesale Austria in the coming fiscal years on account of the stable market.

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

Celesio conducts **scheduled impairment tests** on goodwill and brands once each year. Prior to 2011 these were performed in the third quarter of each year. In the reporting period this procedure was changed to the fourth quarter in the course of revising the internal planning cycle. The following overview summarises the parameters used in the impairment test for each division to determine the value in use.

	Goodwill		WACC [1]		Growth rate after the detailed planning period [1]	
	31/12/2011 € m	**31/12/2012 € m**	2011 %	**2012 %**	2011 %	**2012 %**
Patient and Consumer Solutions	1,673.0	**1,632.0**	9.7 – 10.6	**8.3 – 12.7**	1.9 – 2.0	**2.0**
Of which Lloydspharmacy	1,235.2	**1,263.5**	9.7	**8.6**	2.0	**2.0**
Of which DocMorris / International Retail	437.8	**368.5**	10.6	**8.3 – 12.7**	1.9	**2.0**
Pharmacy Solutions	519.1	**521.3**	9.8 – 17.9	**8.6 – 14.4**	2.0 – 3.0	**2.0 – 3.4**
Of which Wholesale UK	149.5	**153.0**	9.8	**8.6**	2.0	**2.0**
Of which Wholesale France	134.1	**134.2**	10.8	**10.0**	2.0	**2.0**
Of which Wholesale Austria	101.3	**122.2**	9.9	**8.8**	2.0	**2.0**
Of which Others	134.2	**111.9**	/	**/**	/	**/**
Manufacturer Solutions	163.4	**/**	10.3 – 11.8	**/**	2.0	**/**
Of which Pharmexx	64.8	**/**	11.8	**/**	2.0	**/**
Of which Movianto	98.6	**/**	10.3	**/**	2.0	**/**

1) Assumptions as of 31 October 2012.

Further scenarios were analysed for the critical calculation parameters to verify the values in use as of 31 October 2012. Management considers the following scenarios to be possible:

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

At the end of 2012, the International Retail cash-generating unit was split on account of a reorganisation of its organisational and reporting structure and defined by country, similar to the Wholesale unit. After the split, the larger share of € 234.6m of the goodwill was allocated to the Norwegian pharmacies unit on the basis of the relative values.

As of 31 March 2012 and 30 June 2012 the market capitalisation of Celesio AG, i.e. the value of all shares issued by the company, had fallen below the carrying amount of equity. As of 30 September 2012, and again on 31 December 2012, market

capitalisation was approximately equivalent to the carrying amount of equity. As in the previous year, the lower market capitalisation compared to book equity constituted a triggering event for another **extraordinary impairment test**. As a result, all assets that fall within the scope of IAS 36 were tested for impairment also during the course of the year. As part of impairment testing, planning was updated to reflect current events and capitalisation rates were recalculated if necessary.

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

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

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

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

	Years
Buildings	10 – 50
Plant and machinery	3 – 15
Other equipment, furniture and fixtures	3 – 10

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

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

Generally, the leases are for real estate and computer hardware. The leases for real estate have terms of up to ten years and some contain purchase options.

The leased computer hardware generally relates to equipment needed to accommodate the outsourcing of IT services that began in 2009. The leases have a residual term of up to four years. The depreciation methods and useful lives applied correspond to the lower of the term of the lease and the useful life of comparable assets acquired for a consideration. There are no significant finance leases in place that contain contingent lease instalments.

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

Borrowing costs are capitalised if they are directly related to the acquisition or construction of a qualifying asset that needs a substantial period of time to prepare it for its intended use or sale. All other borrowing costs are expensed in the period. Celesio did not capitalise any borrowing costs in either 2012 or 2011.

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

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

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

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

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

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

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

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

Interests in joint ventures are accounted for using the equity method pursuant to IAS 31. The same principles apply here as those for associates. An operation qualifies as a joint venture if Celesio can only take the strategic, financial and operating decisions relating to the activity with the unanimous consent of the parties sharing control.

Raw materials, consumables and supplies, finished goods and **merchandise** are recognised at cost based on weighted average purchase prices and the first-in-first-out method. In Patient and Consumer Solutions, the retail method is also applied. Pursuant to IAS 2 the positions are measured at the lower of cost or net realisable value (selling price less costs of completion and the estimated costs necessary to make the sale). This involves accounting for risks associated with holding and selling inventories by recognising specific valuation allowances. The company has not entered into any long-term construction contracts pursuant to IAS 11.

Non-current assets held for sale and **assets and liabilities of disposal groups and discontinued operations classified as held for sale** are measured at the lower of their carrying amount or fair value less costs to sell and are no longer

depreciated if their carrying amount is likely to be principally realised from a sale and not from their continued use. This is assumed if the sale is deemed to be highly probable and the relevant management level has agreed a plan for sale. This usually requires approval from the Management Board and, if certain thresholds are reached, also from the Supervisory Board. Further requirements are that the asset is available for immediate sale in its present condition, there is an intention to sell the asset and a sale is expected within twelve months.

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

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

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

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

All **derivative financial instruments** entered into within the Celesio Group such as forward exchange contracts, options or swaps are used solely to hedge foreign currency exposures, interest exposures and the risks of price fluctuations

inherent in our operating business and to reduce the related financing requirements. According to IAS 39 these items are initially recognised at fair value in the statement of financial position and subsequently measured at their fair value at the end of the reporting period. Depending on their fair value at the end of the reporting period, derivative financial instruments are reported under other financial assets or other financial liabilities respectively.

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

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

Currency derivatives used as hedges for fair value risks are not formally subject to the rules on hedge accounting. The changes in the fair value of these derivatives which, from an economic point of view, are effective regarding the group's hedging strategy, are recognised in profit or loss. They are offset by the contrary movements in the fair value of the hedged items.

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

The fair values of derivatives are determined by reference to capital market data at the end of the reporting period and by use of suitable valuation methods

such as the discounted cash flow method and other generally accepted option pricing models. The calculation uses the market interest rates applicable for the remaining term of the derivatives.

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

Provisions for pensions: IASB released changes to **"IAS 19 – Employee benefits"** in June 2011. This revised standard becomes mandatory for all reporting periods beginning on or after 1 January 2013. Celesio has decided to early adopt the revised standard for the 2012 fiscal year in line with the majority of its peers in order to record the full amount of its defined benefit obligation ("DBO") in its statement of financial position. The changes have a significant impact on the recognition and measurement of defined benefit plans. Actuarial gains and losses (new valuations) are now to be posted directly to other comprehensive income upon arising. The corridor method, which has been permitted to date and used by the Celesio Group, is no longer permitted under the revised standard. The new valuations previously recorded under other comprehensive income will no longer be recorded through profit or loss in subsequent periods. Rather, they will remain as components of other comprehensive income.

Another change relates to defined benefit plans which are partially or fully funded by plan assets. The interest earned on plan assets may no longer be estimated by management on the basis of the allocation to the various asset categories and their expected yields. Rather, the interest is now based on the net assets and net liabilities of the defined benefit plan. The same interest rate is used to calculate the net interest result. Thus the previous separate line items

“interest expense” and “expected return on plan assets” have now been replaced by the line item, “net interest result”.

If there is a change in the plan that affects the pension obligation arising from past service, this then results in a need to adjust past service cost. Under the previous treatment, past service cost was to be spread over the remaining period until the date on which the pension entitlements became vested. By contrast, under the new treatment past service cost is recorded in the period in which the changes to the plan are made. Thus past service cost is no longer spread over future periods. The amendments to IAS 19 also entail a change in the definition of plan curtailments. In future, a significant reduction to the number of employees participating in the plan constitutes a plan curtailment. In addition, gains or losses from plan curtailments and past service cost from other changes to the plan are treated equally.

The changes to IAS 19 also involve enhanced disclosures on defined benefit plans. In particular, the characteristics of the key benefit plans must be described in more detail and sensitivity analyses made of the relevant inputs of the calculation of the DBO including disclosure of the impact that the defined benefit plans could have on the cash flows of the reporting entity.

The basic definition of the discount rate remains unchanged. When making the calculation in the 2012 fiscal year, an adjustment was made to take account of the changes on the capital markets. Generally, management considers here the interest rates of corporate bonds with top ratings in the country in question. In Norway, the recommendations of the standards-setting organisation with regard to which discount factors should be applied were taken into account for the first time in the 2012 fiscal year.

The changes are to be applied retrospectively in accordance with **“IAS 8 – Accounting policies, changes in accounting estimates and errors”**. As a result, all unamortised actuarial gains and losses that have not been recognised to date on account of the corridor method being used will have to be offset against other comprehensive income in equity as of 1 January 2011. In addition, the amounts previously recorded through profit or loss that must now be posted to other comprehensive income under the amended standard will be reclassified to the revaluation reserves.

Due to the retrospective application of the changes, the previous-year figures were restated to allow comparison. This leads to a drop in equity of € 94.5m as of 1 January 2011 with pension provisions rising by € 129.6m and the net balance of deferred tax assets and deferred tax liabilities also rising by € 35.1m.

As of 31 December 2011 equity falls by € 111.2m and pension provisions rise by € 141.7m with deferred tax liabilities rising by € 2.0m. Deferred tax assets increased by € 43.7m, associates recorded using the equity method have decreased by € 0.9m while the net balance from measuring pension obligations fell by € 10.3m to € 0.0m. These changes have led to a rise in total assets of € 32.5m as of 31 December 2011. Due to the retrospective changes, the net income for 2011 fell by € 0.3m. This results primarily from a fall in personnel expenses of € 5.1m and an increase in interest expenses of € 5.9m. Due to the need to recognise actuarial losses, other comprehensive income fell by € 15.3m.

As of 31 December 2012, the equity reported after the first-time adoption of the revised standard is down by € 159.4m, pension provisions have risen by € 199.9m and held for sale liabilities also rose by € 3.7m. The net balance of deferred taxes increased by € 61.1m, while the net balance from the revaluation of pensions fell by € 15.6m to € 0.0m. In addition, associates measured using the equity method dropped by € 5.4m and held for sales assets have risen by € 4.1m. In the 2012 fiscal year the early adoption leads to an improvement of earnings after tax of € 17.9m. This results primarily from a fall in personnel expenses of € 20.5m and an increase in interest expenses of € 6.6m. Due to actuarial losses, other comprehensive income has fallen by € 61.5m.
The changes in IAS 19 do not have any impact on the financial position.

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

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

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

Share-based compensation programs are accounted for in accordance with IFRS 2. The programs in the Celesio Group qualify as cash-settled share-based payment transactions. The expenses generated by the programs and the obligations to settle these benefits are recognised over the vesting period. The obligation is remeasured at the end of each reporting period using a binomial model. Changes in fair value are recognised in the income statement. The resulting expense is reported as personnel expenses and the obligation is presented under other provisions.

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

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

The corporate bonds issued in 2010 and in the reporting year are measured at amortised cost using the effective interest rate method and reported as a liability.

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

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

Current portions of originally non-current assets and liabilities whose residual

terms are less than one year are reported on principle as current items in the statement of financial position.

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

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

Revenue in the Patient and Consumer Solutions and Pharmacy Solutions divisions mainly originates from the sale of merchandise and, to a lesser extent, from the provision of services and receipt of royalties. In the Manufacturer Solutions division, which is reported as a discontinued operation, revenue was also generated from services for manufacturers. Revenue and other income are recognised when the goods or services are delivered provided that the amount can be reliably measured and it is likely that economic benefits will flow to the group. Any deductions from sales such as returned goods, rebates, discounts allowed and bonuses are deducted from gross revenue.

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

If Celesio collects amounts in the interest of third parties, these do not constitute revenue as they do not represent an inflow of economic benefits for the company. Only the remuneration for arranging the transaction and not the

total proceeds are recognised as revenue of the entity. Celesio is only regarded as the principal of such agency transactions if it bears the significant risks and rewards associated with the sale of the goods or the rendering of the services. In this case, all the cash received is recognised as revenue.

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

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

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

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

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

Management estimates and judgements

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

Accounting for business combinations

Goodwill is disclosed in the course of business combinations. Upon first-time consolidation, all the identifiable assets, liabilities and contingent liabilities are carried at fair value. The carrying amounts are subject to significant uncertainty. If intangible assets are identified, the fair value of the intangible asset is determined based on the nature of the asset using appropriate valuation techniques. These measurements are closely associated with assumptions of management about the future development of the value of the asset and the discount rates used. Please refer to the disclosures on business combinations starting on → page 234.

Accounting for share swaps

In corporate transactions where shares in investments held by Celesio are swapped for shares in third parties, the fair value of the shares given and received first needs to be determined. The fair value is measured using appropriate valuation techniques and the result represents a significant business estimate. These measurements are closely associated with assumptions of management about the future development of the value of the asset and the discount rates used.

Impairment of goodwill and commercial brands

The annual impairment test of goodwill and brands with an indefinite useful life (31 December 2012: € 2,153.3m; previous year € 2,355.5m) is based on assumptions pertaining to the future. The management planning for the next five years is derived from past developments and the expectations with respect to future market developments and does not include any restructuring activities that the group is not yet committed to or any capital expenditure related to its ordinary business that will enhance the earnings of the cash-generating unit being tested. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period. Other significant assumptions include the expected impact of government measures on the healthcare sector for the pharmacy and wholesale business. The assessment of the cash flows from new business activities, on which the recoverable amount is based, is particularly reliant on management estimates of the future development of these market segments. In these cases historical information is available to a limited extent only. Moreover, unforeseen government measures could have a negative impact on future revenue and cash flows in the Wholesale business and for Pharmacies. If demand for these products and services does not develop as expected, or if

unexpected government measures are introduced, this could reduce income and cash flows and possibly lead to a need to record an impairment loss. These premises and the underlying calculation model can have a material impact on the respective values and ultimately on the amount of a possible goodwill impairment. Please also refer to the notes on impairment testing for goodwill and brands starting on → page 215.

Trade receivables and other assets

The allowance for bad debts totalling € 109.1m (previous year € 106.8m) is based to a large extent on estimates and judgements of individual receivables taking into account the creditworthiness of the respective customer, the current economic situation and the analysis of historical bad debts on a portfolio basis. To the extent that impairments are derived from historical bad debt rates on a portfolio basis, a drop in the total volume of receivables reduces such provisions and vice versa. For more information please refer to note (17).

Pension benefits

The cost of defined benefit post-employment plans and the fair value of the defined benefit obligation of € 811.5m (previous year € 712.7m) are determined using actuarial calculations. The actuarial calculation involves making assumptions about discount rates, future wage and salary increases, the mortality rate and future pension increases. All assumptions are reviewed at each reporting date. When determining the appropriate discount rate, management guides its decision on the interest rates of corporate bonds with top ratings in the country in question. In Norway the recommendations of the national standards-setting organisation with regard to the discount factors to be applied in the country were also taken into account for the first time in the 2012 fiscal year. Moreover, management carries out sensitivity analyses for the corresponding inputs and their impact on the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates for the respective country. For more information please refer to note (20).

Provisions

When measuring provisions, particularly those relating to property, litigation and tax risks, potential losses and restructuring measures, assumptions and estimates play an important role in assessing the probability of utilisation, the obligation

amount and the interest rates used for non-current provisions. The measurement is also based on past experience and takes account of future price increases. Celesio recognises provisions for current litigation if it is more likely than not that an obligation will arise that will lead to an outflow of resources embodying economic benefits and these can be reliably measured. Celesio assesses the status of current litigation at regular intervals, also with the involvement of external lawyers. The assessment may change as new information becomes available, making it necessary to adjust the provision for litigation to reflect new developments. Upon conclusion of the litigation, expenses may arise for Celesio which exceed the amount provided for. For more information please refer to note (21).

Contingent liabilities

Contingent liabilities related to legal and tax risks that are recognised in the course of a business combination are subject to a high degree of planning uncertainty. Contingent liabilities were recognised at Panpharma, Brazil, for legal and tax risks. The tax risks relate primarily to VAT liabilities towards Brazilian federal states. Due to uncertainty as to the exact outflow of cash, the risk was recognised upon initial consolidation as a contingent liability of € 113.9m, the best estimate based on external expert appraisal. The carrying amount carried forward as of 31 December 2012 comes to € 46.2m (previous year € 73.1m). These involved measuring a range of possible levels of utilisation and probabilities of occurrence. To cover these legal and tax risks, an agreement has been entered into with the former owners limiting reimbursement claims to a maximum amount. Since the acquisition of the outstanding shares in Panpharma in the reporting period, these independent claims have been recognised as assets under current and non-current assets respectively. In the previous year they were offset against the purchase price liability. Celesio assesses these legal and tax risks at regular intervals, consulting external lawyers where necessary. The assessment may change as new information becomes available, making it necessary to recognise an additional provision pursuant to IAS 37, adjust the existing provision or release the contingent liability. Upon utilisation, expenses may arise for Celesio which exceed the provision amount.

Deferred taxes

The measurement of deferred tax assets and liabilities requires management to make certain assumptions and estimates. In addition to the interpretation of the tax legislation applicable to the respective taxpayer, the calculation of

deferred tax assets on temporary differences and unused tax losses involves assessing the extent to which future taxable income will become available and how tax strategies will be implemented to exploit loss carryforwards. For more information please refer to note (14).

Contingent consideration from business combinations

The measurement of contingent consideration from business combination requires management to make certain assumptions and estimates. The measurement is based on management planning, if available. The disclosure of the possible range of contingent consideration usually assumes a hypothetical increase or decrease in the relevant underlying earnings or other performance indicators. Please refer to the disclosures on business combinations starting on → page 234.

All assumptions and estimates are based on circumstances prevailing at the end of the reporting period. Future events and changes in conditions can mean that the actual amounts differ materially from the estimated figures. In such cases, the assumptions and, if necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly. At the time of preparing the consolidated financial statements, the underlying discretionary decisions and estimates were not expected to be subject to any major changes. Based on the information available today, no significant adjustment of the carrying amounts of the assets and liabilities disclosed in the consolidated financial statements is therefore expected in the 2013 fiscal year.

Consolidated group

The consolidated group comprises 387 fully consolidated domestic and foreign companies (previous year 531). As in the previous year, this includes seven special purpose entities which are consolidated pursuant to “SIC 12 Consolidation – Special Purpose Entities”, even though Celesio does not hold the majority of the voting rights. The purpose of these companies is generally to lease properties. As of 31 December 2012 no entities (previous year nine) were consolidated on the basis of potential voting rights relating to shares not held by Celesio, although there is no longer any actual voting majority.

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

	Number
As of 1 January 2012	**531**
Acquisition of shares	5
Formations	2
Mergers with other group entities	–14
Disposals	–62
Liquidations	–75
As of 31 December 2012	**387**
Of which domestic entities	24
Of which foreign entities	363

In 2012, 75 group companies were liquidated. In most cases the companies were holding and shelf companies in the UK that were no longer needed and closed in the course of streamlining the investment structure.

In the wake of disposing of Movianto, Pharmexx, the DocMorris mail-order pharmacy, and the Czech operations, 62 legal entities left the Celesio Group.

Seven (previous year 16) associates were consolidated using the equity method. As in the previous year, there were no joint ventures in the reporting period.

The complete list of shareholdings – an integral component of the notes to the consolidated financial statements – is published in the electronic version of the German Federal Gazette and on the website celesio.com.

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

Name	Domicile
AAH Pharmaceuticals Limited	Coventry, United Kingdom
Distribuidora Farmacêutica Panarello Ltda.	Goiânia, Brazil
GEHE Pharma Handel GmbH	Stuttgart, Germany
Herba Chemosan Apotheker-AG	Vienna, Austria
Lloyds Pharmacy Limited	Coventry, United Kingdom
Norsk Medisinaldepot AS	Oslo, Norway
OCP Portugal, Produtos Farmaceuticos, S.A.	Maia, Portugal
OCP Répartition S.A.	Saint Ouen, France
Pharma BELGIUM S.A.	Brussels, Belgium
Tjellesen Max Jenne A/S	Rodovre, Denmark

Business combinations and disposals in the 2012 fiscal year

Business combinations

In the 2012 fiscal year, two retail pharmacies (previously recognised using the equity method) and two additional retail pharmacies in Norway and one retail pharmacy in the Czech Republic were fully acquired and consolidated in the Patient and Consumer Solutions division in the course of optimising the portfolio.

The purchase price allocation for the pharmacies acquired in the 2012 fiscal year has already been completed and the finalised figures as of the date of the combination are shown accordingly.

The table below provides the significant details of the companies acquired in 2012:

	Total € m
Consideration transferred	4.1
Purchase price payment	0.0
Contingent consideration	3.2
Shares previously recognised using the equity method	1.1
Remeasurement of shares previously recognised using the equity method	–0.2
Cash purchase price	–0.7
Fair value of assets and liabilities assumed	
Total assets	1.8
Inventories	0.5
Trade receivables	0.2
Cash and cash equivalents	0.7
Other assets	0.4
Total liabilities	1.2
Other liabilities	1.2
Goodwill	3.5
Non-controlling interests	0.0

No significant incidental acquisition-related costs were incurred. No equity instruments were issued to settle purchase price liabilities. Due to the fact that the fair value of the investment measured using the equity method, which was already held by the Celesio Group prior to the date on which control was obtained by the group, does not correspond to its carrying amount, a loss of € –0.2m from revaluing shares was recognised in other income / expense. An amount of € 2.8 million was already paid on contingent price components in the course of the 2012 fiscal year.

The fair value of the receivables acquired in the business combination amounts to € 0.6m and corresponds to the gross amounts of the contractual claims. These include trade receivables of € 0.2m.

The goodwill generally reflects the expected future cash flows that will be generated by the business combinations and the expertise of the employees. These elements are not tax deductible.

Revenue attributable to the entities acquired in the 2012 fiscal year amounts to € 4.6m and the net profit to € 0.3m. Had these entities been acquired at the beginning of the fiscal year, the entities would have contributed € 7.8m to group revenue and € 0.3m to the group's net profit.

Change in contingent consideration

The contingent consideration recognised for acquisitions in accordance with IFRS 3 (revised in 2008, effective since 2010) decreased by € 4.9m in the 2012 fiscal year. The change is attributable to new contingent consideration in several instances (€ 3.2m), the settlement of existing contingent consideration (€ 4.8m), the revaluation of other existing or new contingent consideration (€ –3.4m), interest (€ 0.2m) as well as reclassification to held-for-sale liabilities (€ 0.1m). The fair value of contingent consideration was in most cases determined on the basis of an earnings indicator taking long-term planning into account. This did not give rise to any major changes to the ranges applying at the end of the 2012 fiscal year.

Disposals

36 retail pharmacies in the UK were sold in the 2012 fiscal year in the course of streamlining the portfolio. Furthermore, the French company RepscoPharmexx SAS from Marketing Solutions, which has since been discontinued, was sold along with its subsidiaries. These had been consolidated until then on the basis of exercisable call options. Owing to a lack of control, CSMO pharmexx (India) Pvt. Ltd. which was not sold during the disposal of Pharmexx, was deconsolidated effective 31 December 2012. It is now carried under other (equity) investments pursuant to IAS 39 as the group does not exercise any significant influence over the entity either.

	Total € m
Consideration received	7.1
Of which cash	7.0
Costs of disposal	0.3
Gain on disposal	5.0
Total assets	25.7
Intangible assets	1.1
Property, plant and equipment	0.9
Deferred tax assets	0.0
Inventories	0.0
Trade receivables	15.9
Cash and cash equivalents	1.5
Other assets	6.3
Total liabilities	23.8
Financial liabilities	1.9
Pension provisions	0.0
Other non-current provisions	0.0
Deferred tax liabilities	0.0
Trade payables	7.5
Other current provisions	2.2
Income tax liabilities	0.7
Other liabilities	11.5

A gain of € 5.9m on the disposal is disclosed under other income while expenses of € 0.9m are disclosed in the net profit / loss from discontinued operations.

At the end of March 2012 the Management Board of Celesio AG passed a resolution to dispose of a number of business units in the course of a shift in corporate strategy. The disclosures on the deconsolidation of the entities classified as discontinued operations, Movianto (excl. Movianto Ireland), Pharmexx and Apotheke DocMorris as well as the Czech operations classified as a disposal group, all of which were deconsolidated in the reporting period, can be found in note (16) Discontinued operations and disposal groups.

Change in ownership interests in subsidiaries that do not result in a loss of control

In the 2012 fiscal year, streamlining of the portfolio led to additional share acquisitions for a number of fully consolidated entities in the Pharmexx Group, in Pharmacy Solutions in Slovenia and in Others in France. The consideration paid to the former shareholders for these acquisitions amounted to € 1.1m. The non-controlling share was reduced insignificantly but the difference did not result in any change to goodwill on account of the treatment required by IAS 27. Rather, revenue reserves were reduced by € 1.1m.

Acquisition of the remaining shares in Panpharma

After negotiating with the non-controlling interests, the Management Board of Celesio AG passed a resolution on 26 April 2012 to acquire the remaining 49.9% of the shares in Panpharma earlier than originally expected. The Supervisory Board of Celesio AG approved the transaction, also on 26 April 2012. The transaction was closed in May 2012. The consideration amounted to € 258.2m, of which € 253.3m was paid in cash. The most recent revaluation of the purchase price liability on the exercise date resulted in additional goodwill of € 7.5m. The remainder of € 26.4m left after settling the purchase price liability was recorded in interest expense. The rights to reimbursement of tax and legal risks originating from the period prior to the acquisition (August 2009) were therefore no longer offset against the purchase price liability and have instead been recognised separately under current and non-current assets respectively since May 2012. To secure these claims, Celesio has access to assets of the former owners held in trust and other possibilities to offset the claims as well as the collateral granted.

Business combinations in the 2011 fiscal year

Business combinations

Preliminary purchase price allocations were used as the basis for consolidation for business combinations in the 2011 fiscal years. They were all completed within twelve months of the acquisition date in each case. The finalisation of the purchase price allocation resulted primarily in one adjustment of € –2.3m to the customer base and an increase of € 1.7m in provisions. The final figures are presented below.

The table below provides the significant details of the companies acquired in 2011:

	Oncoprod Group € m	Other acquisitions € m	Total € m
Consideration transferred	**48.5**	**11.5**	**60.0**
Purchase price payment	45.9	7.9	**53.8**
Contingent consideration	2.6	0.1	**2.7**
Shares previously recognised using the equity method	0.0	3.5	**3.5**
Remeasurement of shares previously recognised using the equity method	0.0	0.0	**0.0**
Cash purchase price	**22.0**	**6.3**	**28.3**
Fair value of assets and liabilities assumed			
Total assets	**163.0**	**2.6**	**165.6**
Intangible assets	18.7	0.3	**19.0**
Property, plant and equipment	3.0	0.2	**3.2**
Deferred tax assets	2.9	0.0	**2.9**
Inventories	32.2	0.2	**32.4**
Trade receivables	68.1	0.1	**68.2**
Cash and cash equivalents	23.9	1.6	**25.5**
Other assets	14.2	0.2	**14.4**
Total liabilities	**117.8**	**2.0**	**119.8**
Financial liabilities	41.7	1.3	**43.0**
Deferred tax liabilities	9.1	0.0	**9.1**
Trade payables	53.7	0.1	**53.8**
Other liabilities	13.3	0.6	**13.9**
Goodwill	**21.4**	**10.9**	**32.3**
Non-controlling interests	**18.1**	**0.0**	**18.1**

The fair value of the receivables acquired in the combination amounts to € 71.1m after deducting valuation allowances of € 4.0m. The gross amount of the contractual receivables is therefore € 75.1m. The fair value contains trade receivables of € 68.2m.

The goodwill generally reflects the expected future cash flows that will be generated by the combination – including in some cases as a result of the leading market position of the acquisition – and the expertise of the employees. The full goodwill method was not applied.

Revenue in the previous year attributable to the entities acquired in the 2011 fiscal year amounts to € 117.0m and the net profit to € 0.2m. Had these entities been acquired at the beginning of the comparative period, the entities would have contributed € 414.5m to group revenue. The contribution to group earnings would have been € 1.4m.

Significant business combinations

On 7 October 2011, Celesio's Pharmacy Solutions division acquired a 60% interest in the Brazilian company MCM Medicines Holding S.A. São Paulo, the holding company of the Oncoprod Group.

The contingent consideration reflects an earn-out agreement where the settlement price depends on an earnings target and the entity's leverage. The agreement is intended to reflect the fair value of the company. At the time of acquisition, a fair value of € 2.6m was assumed for the contingent consideration on the basis of long-term planning. Assuming a fluctuation of 10% in the earnings indicator compared to the underlying planning, the undiscounted cash flows would fall within a range of € 6.1m to € 0.0m. There is basically no cap on the contingent payment. In the course of revising the long-term planning, the contingent price component was revalued in the fourth quarter of 2012. Due to the fact that the leverage was above the original assumptions in the planning, the fair value was reduced to € 0.0m.

Celesio agreed on reimbursement claims with the former owner for contractually defined risks from the period prior to acquisition. If reimbursement is claimed, these claims will initially be treated as receivables. After a period of around two years, they will then be settled by the former owner in the form of additional shares or possibly a cash payment. The reimbursement claims against the former owner are capped at BRL 130.7m (approximately € 48.3m).

The acquisition gave rise to goodwill of € 21.4m which reflects the expected future cash flows, employee expertise and a leading market position in Brazil. In the course of the purchase price allocation of the Oncoprod Group, which was finalised within twelve months, part of the debit difference arising from initial recognition of the business combination was allocated, after taking account of deferred taxes, to brands acquired (€ 4.4m) and contracts with customers (€ 13.9m) and was recognised under intangible assets.

The revenue attributable to the Oncoprod Group amounted to € 106.1m and its net loss to € 0.2m. Had the company been acquired at the beginning of the comparative period, it would have contributed € 400.7m to group revenue and € 0.9m to the group's net profit for the period. The contribution to net profit would have been € 0.8m higher without the impairment of intangible assets identified in the course of the preliminary purchase price allocation.

Notes to the group income statement

Operational Excellence Program

The final measures of the Operational Excellence Program (OEP) were carried out in the 2012 fiscal year. This program was started in the 2011 fiscal year to improve competitiveness and operating performance.

Significant expenses incurred in the reporting period in connection with the Operational Excellence Program and the strategic realignment as well as further non-recurring expenses relate to termination agreements offered to employees and contractual claims of a departing member of the Management Board and resulting obligations totalling € 25.9m (previous year € 23.2m). Expenses of € 8.8m (previous year € 24.3m) were incurred for prematurely terminating agreements, particularly rental agreements and leases. In addition, impairments of € 13.6m (previous year € 8.3m) were recorded on intangible assets, primarily for IT systems that are no longer needed, while impairments of € 2.8m (previous year 7.6m) were recorded on property, plant and equipment. Of the total expenses, € 13.5m (previous year € 46.3m) is attributable to Patient and Consumer Solutions, € 21.4m (previous year € 17.4m) to Pharmacy Solutions and € 9.3m (previous year € 12.5m) to Other.

The OEP and the strategic realignment led to net expenses of € 44.2m in the 2012 fiscal year (previous year € 76.2m). Of the total expenses, an amount of € 40.7m is likely to have an effect on cash.

In the previous year, net expenses of € 4.4m were incurred from the OEP for discontinued operations.

(1) Revenue

A breakdown of revenue by division and country is part of segment reporting. The revenue generated stems from sales of merchandise of € 22,034.0m (previous year € 22,086.9m) and services rendered of € 236.8m (previous year € 66.0m).

(2) Other income

	2011 € m	2012 € m
Advertising subsidies	72.1	**73.1**
Income from service offerings for manufacturers and pharmacists	31.2	**36.9**
Income from bad debts collected	36.5	**33.2**
Net gain on the disposal of non-current non-financial assets	25.5	**15.1**
Income from data sales	16.8	**17.6**
Income from rent and lease agreements	10.8	**11.2**
Sundry income	56.5	**60.0**
Total	**249.4**	**247.1**

Other income includes income from transactions that are not part of the core business of the Celesio Group. This includes income from marketing activities, services and data processing and IT services as well as income from letting buildings.

The advertising subsidies include income, mainly from suppliers and pharmacies for promotional activities for certain products.

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

Gains on the disposal of non-current non-financial assets mainly originate from the sale of retail pharmacies in the United Kingdom and the pharmacy business in the Czech Republic, as well as the sale of two warehouses in the Wholesale business area.

Sundry other income includes own work capitalised from IT projects of € 3.0m (previous year € 5.8m). Moreover, this item includes income of € 7.7m (previous year € 7.0m) from customers for late-payment penalties as arranged in the contracts. Likewise, other income includes € 6.3m from recognising an insurance claim for the fire losses at a warehouse operated by the Belgian Wholesale operation.

(3) Other expenses

	2011 € m	2012 € m
Transportation expenses	–180.0	**–190.9**
Building expenses	–191.6	**–211.1**
IT and communication expenses	–148.8	**–159.0**
Promotion and advertising expenses	–56.2	**–48.2**
Restructuring expenses	–32.1	**2.8**
Legal and consulting costs	–47.6	**–48.4**
Valuation allowances for bad debts	–39.2	**–43.0**
Travel expenses	–21.1	**–19.9**
Third-party personnel services	–20.4	**–14.9**
Net loss on the revaluation pursuant to IFRS 5 and disposal of non-current non-financial assets	–1.7	**–17.4**
Sundry expenses	–96.5	**–108.8**
Total	**–835.2**	**–858.8**

Building expenses include rent and lease expenses of € 124.3m (previous year € 111.4m).

Restructuring expenses have fallen by € 34.9m in comparison to the previous year. Income in the reporting period results from the release of a provision that was established in the previous year within the framework of the Operational Excellence Program.

Legal and consulting costs of € 2.5m (previous year € 0.8m) were incurred in connection with the Operational Excellence Program.

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

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

The expenses from revaluation and the disposal of non-current non-financial assets generally originate from measurements differences at the Wholesale operation in Ireland pursuant to IFRS 5 and the deconsolidation of the Wholesale operation in the Czech Republic.

Sundry other expenses relate to the general costs of administration and sales, such as the costs of customer seminars and conferences and office supplies.

The item also contains audit and advisory services, other taxes and fees and maintenance and repairs. The net currency result from operations contains exchange rate gains of € 1.4m (previous year € 0.6m) and offsetting exchange rate losses of € 1.3m (previous year € 0.6m), in both cases including the revaluation of the allocated derivatives posted through profit or loss. Income from the reversal of provisions related to other expenses has been deducted from sundry other expenses.

In the reporting period, expenses for the development of software of € 7.7m (previous year € 10.1m) were recorded under other expenses because the criteria for recognising them as assets pursuant to IAS 38 were not satisfied.

(4) Personnel expenses / employees

	2011 € m	**2012 € m**
Wages and salaries	–974.6	**–999.6**
Social security	–169.3	**–175.4**
Post-employment expenses	–25.5	**–16.4**
Personnel services	–66.2	**–61.2**
Other personnel expenses	–18.2	**–18.3**
Total	**–1,253.8**	**–1,270.9**

Wages and salaries in the reporting period include termination benefits paid to employees and expenses of € 25.9m (previous year € 23.2m) incurred in the course of implementing the Operational Excellence Program to settle the contractual claims of a former member of the Management Board.

Personnel services essentially consist of expenses for freelance locum pharmacists used by Celesio’s own pharmacies to fill in for absent employees.

Income of € 5.2m (previous year € 3.8m) from the reversal of personnel-related provisions has been offset against personnel expenses.

Personnel expenses include € 1.6m (previous year € 0.4m) from cash-settled share-based compensation programs.

At the end of the 2012 fiscal year, Celesio employed 28,877 employees (full-time equivalents). Of those, 65 (previous year 6,471) work for companies reported under discontinued operations from the first quarter of 2012 onwards. A total of 36,670 full-time equivalents were employed at the Celesio Group in the previous year.

(5) Depreciation, amortisation and impairment

	2011 € m	2012 € m
Depreciation of property, plant and equipment	–90.9	**–94.5**
Amortisation of intangible assets	–34.2	**–40.3**
Impairment losses recorded on property, plant and equipment	–7.9	**–3.1**
Impairment losses recorded on intangible assets	–54.4	**–34.5**
Total	**–187.4**	**–172.4**

Of the impairment losses recorded on property, plant and equipment, primarily in connection with pharmacy and branch closures, an amount of € 0.2m was attributable to land, land rights and buildings (previous year € 3.8m). In the reporting none of this (€ 0.0m) was in connection with the Operational Excellence Program (previous year € 3.5m). Further impairment losses in connection with implementing the Operational Excellence Program amounted to € 0.0m recorded under plant and machinery (previous year € 0.2m) and € 2.8m recorded under other equipment, furniture and fixtures (previous year € 3.8m).

Of the impairment losses on intangible assets, € 7.2m (previous year € 0.1m) relates to concessions, industrial rights and similar rights that were incurred in connection with the Operational Excellence Program.

No impairment losses were recorded on other intangible assets in the reporting period (previous year € 4.6m, of which € 3.7m related to the Operational Excellence Program). The measures connected to the Operational Excellence Program also accounted for impairment losses of € 6.4m (previous year € 4.5m) of the total impairment losses of € 6.4m (previous year € 5.4m) recorded in the reporting period on payments on account. The impairment losses related to the Operational Excellence Program relate to IT systems and licences that are no longer needed.

As a result of the annual impairment test as of 31 October 2012 impairment losses of € 20.9m were recognised on goodwill.

The Slovenian market is contracting, with fierce competition looking set to negatively impact the operating result of the local wholesale business for the future. The situation is exacerbated by the fact that a former major customer has fuelled the competition by setting up its own pharmaceutical wholesale operation. The tougher competition has squeezed margins and profits for the long term. Due to these developments, an impairment loss of € 20.0m was recorded on the goodwill.

The remaining goodwill of other segments in Wholesale was written off by € 0.9m on account of the downturn in business prospects.

The scenarios depicted in the corresponding section on accounting and valuation methods do not lead to any potential need for impairments, with the exception of Wholesale in Slovenia. On account of the impairment loss recorded here, any further deterioration of the measurement parameters would lead to further adjustments.

The impairment losses recorded on goodwill and other intangible assets with indefinite useful lives breaks down among the cash-generating units as follows:

	Impairment loss 2011 € m	WACC 2011 %	Growth rate after the detailed planning period 2011 %	Impairment loss 2012 € m	WACC 2012 %	Growth rate after the detailed planning period 2012 %
Wholesale Slovenia	/	/	/	20.0	11.1	2.0
Others	/	/	/	0.9	9.2	2.0
Wholesale Portugal	23.3	14.0	1.5	/	/	/
Wholesale Denmark	21.0	9.1	2.0	/	/	/
Of which goodwill	13.6	/	/	/	/	/
Of which other intangible assets	7.4	/	/	/	/	/

The impairment losses recorded on goodwill and other intangible assets in the previous year related to the Wholesale Portugal and Wholesale Denmark cash-generating entities. The main factors leading to the impairment losses were a constant rise in interest rates during the year, government intervention, and a weaker development on the relevant markets.

(6) Investment result

	2011 € m	**2012** **€ m**
Result from associates accounted for using the equity method	0.2	**2.8**
Result from other investments	8.1	**5.3**
Total	**8.3**	**8.1**

The result from other investments primarily comprises income from dividends from non-listed entities.

(7) Financial result

	2011 € m	**2012** **€ m**
Interest and similar expenses	–162.9	**–178.0**
Of which for affiliates	–0.1	**–0.1**
Of which for finance leases	–1.3	**–1.1**
Of which for pensions	–11.5	**–10.0**
Interest and similar income	7.5	**10.6**
Of which received from affiliates	0.0	**0.0**
Other financial result	16.0	**3.9**
Total	**–139.4**	**–163.5**

Interest and similar expenses include interest expenses totalling € 118.6m (previous year € 124.0m) for financial liabilities not measured at fair value through profit or loss.

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

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

Interest and similar income include interest income totalling € 10.6m (previous year € 7.5m) for financial assets not measured at fair value through profit or loss.

The line item other financial result includes changes in the fair value of derivatives used to hedge financial liabilities. Changes in market values of derivative exchange rate hedges in the reporting period gave rise to income of € 0.1m (previous year € 2.2m). Changes in the market values of derivative exchange rate hedges gave rise to income of € 2.3m (previous year expenses of € 8.7m). Moreover, the other financial result contains exchange rate gains of € 183.9m (previous year: € 223.2m) and exchange rate losses of € 184.8m (previous year: € 199.6m). Moreover, the other financial result contains impairment losses on loan receivables of € 0.7m (previous year € 1.3m, of which € 0.9m concerns the Organisational Excellence Program) and income of € 3.1m (previous year € 0.1m) from reversing impairments on loan receivables.

(8) Income taxes

	2011 € m	**2012** **€ m**
Current taxes	–115.4	**–95.7**
Deferred taxes	15.2	**–9.4**
Income taxes	**–100.2**	**–105.1**

Income taxes of € 3.2m relate to Germany (previous year € 2.4m), while € 101.9m relates to other countries (previous year € 97.8m).

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

Temporary differences of € 63.6m (previous year € 57.5m) arose from the retained earnings of domestic and foreign subsidiaries and associates. Deferred tax liabilities of € 5.5m (previous year € 0.0m) were recognised on these differences. No deferred tax liabilities are recorded for the retained earnings of domestic and foreign subsidiaries if they are expected to remain within the company in the long term.

In the past fiscal year, the deferred tax expense decreased due to the recognition of deferred tax assets on unused tax losses from previous periods of € 0.5m (previous year none). The utilisation of unused tax losses, which in past

periods was considered unlikely, resulted in a reduction of € 9.6m in the income tax burden in 2012 (previous year € 6.3m). At the end of the reporting period, the group carried unused tax losses of € 451.9m (previous year € 425.8m) and interest carried forward of € 98.7m (previous year € 86.3m), which from a current perspective are unlikely to be utilised. Consequently, no deferred taxes have been recognised. Of the total unused tax losses and interest expenses an amount of € 550.6m (previous year € 503.0m) can be carried forward indefinitely. Of this total, € 0.0m will lapse within the next 15 years (previous year € 9.1m).

In addition, deferred taxes totalling € 32.1m (previous year € 64.6m) were recognised on unused tax losses of € 99.6m (previous year € 200.7m).

Deferred tax assets on unused loss carryforwards were written down by € 6.1m in the reporting period (previous year none). Of the total deferred tax assets recognised on unused tax losses, an amount of € 21.8m (previous year € 43.1m) relates to the Brazilian wholesaler, Panpharma. The deferred tax assets were measured on unused tax losses of € 64.2m (previous year € 126.7m). Deferred tax assets of € 3.2m (previous year € 9.7m) were recognised on unused tax losses in Sweden. The fall on the previous year results from a reduction in the tax rate in December and an impairment loss.

Current taxes include tax income from other periods of € 1.3m (previous year tax expenses of € 1.2m). Deferred taxes on temporary differences led to total income of € 12.8m (previous year income of € 2.8m).

The table below shows a reconciliation of the differences between the current taxes reported in the income statement and the theoretical tax expenses arising from applying the tax rate of Celesio AG to the group's profit before tax. The tax rate applying to Celesio AG remains unchanged on the previous year at 30.7%:

	31/12/2011		31/12/2012	
	€ m	%	€ m	%
Profit before tax	176.9	100.0	214.7	100.0
Expected income tax expense	**54.3**	**30.7**	**65.9**	**30.7**
Effect of differing national tax rates	–3.5	–2.0	–9.9	–4.6
Tax from previous periods	1.2	0.7	–1.3	–0.6
Tax effect of non-deductible expenses and tax-exempt income	21.6	12.2	16.3	7.6
Impact of changes to tax rates on deferred taxes	–2.2	–1.2	–0.5	–0.2
Non-recognition, adjustment or utilisation of tax losses	32.4	18.3	13.6	6.3
Impact of tax-neutral amortisation of goodwill	10.1	5.7	3.9	1.8
Deferred taxes on distributable earnings	0.0	0.0	5.5	2.6
Other tax effects	–13.7	–7.8	11.6	5.4
Income tax expense	**100.2**	**56.6**	**105.1**	**49.0**

(9) Earnings per share from continuing operations

	2011	2012
Profit/loss from continuing operations attributable to shareholders of Celesio AG (€ m)	73.2	**102.5**
Weighted number of no-par shares outstanding	170,100,000	**170,100,000**
Basic earnings per share from continuing operations (€)	**0.43**	**0.60**
Profit/loss from continuing operations attributable to shareholders of Celesio AG (€ m)	73.2	**102.5**
Adjustment to interest expense for convertible bond (net, € m)	/	**/**
Net profit from continuing operations used to determine diluted earnings per share	73.2	**102.5**
Weighted number of no-par shares outstanding	170,100,000	**170,100,000**
Weighted adjustment to potentially convertible no-par shares	/	**/**
Weighted average number of shares used to determine diluted earnings per share	170,100,000	**170,100,000**
Diluted earnings per share from continuing operations (€)	**0.43**	**0.60**

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

The diluted earnings per share from continuing operations are a result of adding all options to Celesio shares associated with convertible bonds to the average number of shares outstanding. There were 31.1m in share options in the reporting period (previous year 27.0m). Because an additional convertible bond was issued during the previous year, the options arising were considered on a pro rata temporis basis (11.4m options). It is assumed that the convertible bonds will be exchanged in full for shares. The net profit from continuing operations for the year is adjusted to eliminate the related interest expense and any tax effect of the bond. In accordance with IAS 33.41, the effect of potentially dilutive ordinary shares was not included in the reporting period (as in the previous year), as these shares would improve diluted earnings per share.

(10) Components of other comprehensive income

Beginning in the annual report for 2012, the components of other comprehensive income are presented directly in the statement of comprehensive income.

Notes to the group statement of financial position

(11) Intangible assets

	2011		
	Concessions, industrial rights and similar rights € m	Goodwill € m	Other intangible assets € m
Accumulated historical cost as of 01/01	**201.2**	**2,728.8**	**170.5**
Translation differences	1.3	38.5	–3.9
Additions to the consolidated group	0.6	0.0	20.7
Additions	25.6	39.9	1.2
Reclassifications	10.5	0.0	0.0
Disposals	–0.6	–0.5	–0.1
Disposals from the consolidated group	0.0	–1.0	0.0
Reclassifications to or from assets held for sale	5.7	69.2	25.8
As of 31/12	**244.3**	**2,874.9**	**214.2**
Accumulated amortisation and impairment As of 01/01	**122.9**	**410.5**	**43.2**
Translation differences	0.7	0.0	–1.1
Additions	30.1	108.9	26.2
Reclassifications	0.0	0.0	0.0
Disposals	–0.6	0.0	–0.1
Disposals from the consolidated group	0.0	0.0	0.0
Write-ups	0.0	0.0	0.0
Reclassifications to or from assets held for sale	3.6	0.0	8.5
As of 31/12	**156.7**	**519.4**	**76.7**
Carrying amount as of 31/12	**87.6**	**2,355.5**	**137.5**

The change in goodwill is chiefly due to the reclassifications from discontinued operations and disposal groups to assets held for sale. Please also see the explanations in note (16) Discontinued operations and disposal groups.

The negative additions from changes in the consolidated group reported under other intangible assets result from the finalisation of the purchase price allocation at Oncoprod.

2011		2012				
Payments on account € m	Total € m	Concessions, industrial rights and similar rights € m	Goodwill € m	Other intangible assets € m	Payments on account € m	**Total € m**
22.0	**3,122.5**	**244.3**	**2,874.9**	**214.2**	**62.0**	**3,395.4**
0.1	36.0	2.1	29.4	−6.6	0.9	**25.8**
0.0	21.3	0.0	0.0	−2.1	0.0	**−2.1**
49.4	116.1	12.9	12.0	0.1	18.5	**43.5**
−9.9	0.6	20.3	0.0	−1.1	−19.2	**0.0**
0.0	−1.2	−1.1	0.0	−2.1	0.0	**−3.2**
−2.4	−3.4	0.0	−1.1	0.0	0.0	**−1.1**
2.8	103.5	−24.0	−348.6	−121.5	−19.1	**−513.2**
62.0	**3,395.4**	**254.5**	**2,566.6**	**80.9**	**43.1**	**2,945.1**
0.0	**576.6**	**156.7**	**519.4**	**76.7**	**5.4**	**758.2**
0.0	−0.4	1.2	0.0	−2.6	0.1	**−1.3**
5.4	170.6	38.6	20.9	11.1	6.4	**77.0**
0.0	0.0	0.5	0.0	0.0	−0.5	**0.0**
0.0	−0.7	−0.9	0.0	−1.0	0.0	**−1.9**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
0.0	12.1	−15.9	−127.0	−41.2	0.0	**−184.1**
5.4	**758.2**	**180.2**	**413.3**	**43.0**	**11.4**	**647.9**
56.6	**2,637.2**	**74.3**	**2,153.3**	**37.9**	**31.7**	**2,297.2**

Other intangible assets consist of brands with an indefinite useful life of € 11.1m (previous year € 75.3m) obtained in the course of acquisitions. In the previous year, this item included € 57.3m for the DocMorris brand and € 5.6m for Pharmexx that was reclassified to held for sale in the 2012 fiscal year and sold. The remaining € 11.1m (previous year € 12.4m) can be attributed to Wholesale Brazil and the Panpharma and Oncoprod brands.

(12) Property, plant and equipment

	2011		
	Land, land rights and buildings € m	Plant and machinery € m	Other equipment, furniture and fixtures € m
Accumulated historical cost As of 01/01	**699.1**	**292.9**	**546.1**
Translation differences	3.2	1.8	9.3
Additions to the consolidated group	0.1	0.5	1.7
Additions	19.6	20.7	66.6
Reclassifications	3.6	4.8	–1.2
Disposals	–23.3	–10.9	–33.0
Disposals from the consolidated group	–0.1	0.0	–0.8
Reclassifications to or from assets held for sale	0.0	0.0	5.7
As of 31/12	**702.2**	**309.8**	**594.4**
Accumulated depreciation and impairment as of 01/01	**351.4**	**217.7**	**384.5**
Translation differences	1.4	1.6	7.8
Additions	31.8	19.9	55.7
Reclassifications	0.0	0.7	–0.7
Disposals	–18.0	–10.7	–31.1
Disposals from the consolidated group	–0.1	0.0	–0.8
Write-ups	0.0	0.0	0.0
Reclassifications to or from assets held for sale	0.0	0.0	4.8
As of 31/12	**366.5**	**229.2**	**420.2**
Carrying amount as of 31/12	**335.7**	**80.6**	**174.2**
Of which finance leases			
Carrying amount as of 31/12	29.2	0.5	9.2

Property, plant and equipment of € 56.0m (previous year € 60.2m) was pledged as collateral.

	2011		2012				
	Payments on account and assets under construction € m	Total € m	Land, land rights and buildings € m	Plant and machinery € m	Other equipment, furniture and fixtures € m	Payments on account and assets under construction € m	**Total € m**
	7.8	**1,545.9**	**702.2**	**309.8**	**594.4**	**17.8**	**1,624.2**
	0.0	14.3	4.9	1.6	10.6	0.4	**17.5**
	0.0	2.3	0.0	0.0	0.0	0.8	**0.8**
	19.3	126.2	14.7	10.9	48.5	12.0	**86.1**
	–7.8	–0.6	6.5	6.5	2.8	–15.8	**0.0**
	–1.8	–69.0	–6.0	–3.6	–16.3	–1.1	**–27.0**
	0.0	–0.9	–0.6	0.0	–5.9	0.0	**–6.5**
	0.3	6.0	–43.8	–59.4	–30.7	–5.6	**–139.5**
	17.8	**1,624.2**	**677.9**	**265.8**	**603.4**	**8.5**	**1,555.6**
	0.0	**953.6**	**366.5**	**229.2**	**420.2**	**0.0**	**1,015.9**
	0.0	10.8	2.2	1.1	7.2	0.0	**10.5**
	0.0	107.4	29.1	16.1	54.6	0.0	**99.8**
	0.0	0.0	0.0	0.2	–0.2	0.0	**0.0**
	0.0	–59.8	–3.5	–3.3	–14.6	0.0	**–21.4**
	0.0	–0.9	–0.5	0.0	–5.0	0.0	**–5.5**
	0.0	0.0	0.0	0.0	–0.1	–0.2	**–0.3**
	0.0	4.8	–17.7	–32.6	–22.8	0.0	**–73.1**
	0.0	**1,015.9**	**376.1**	**210.7**	**439.3**	**–0.2**	**1,025.9**
	17.8	**608.3**	**301.8**	**55.1**	**164.1**	**8.7**	**529.7**
	0.0	38.9	23.6	0.4	5.5	0.0	**29.5**

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

Other financial assets mainly contain investments in entities that are not listed on a public exchange and over which the group has neither control nor the ability to exercise a significant influence.

If there is no active market for these financial assets, they are measured at amortised cost. As of 31 December 2012, investments in entities not listed on a public exchange of € 56.6m (previous year € 53.6m) were measured at amortised cost for that reason.

Associates accounted for using the equity method consist primarily of the investments in Brocacef Holding N.V., Netherlands. The reporting date of Brocacef Holding N.V. is 31 January. However, it is consolidated on the basis of profit/loss for the period from 1 January to 31 December 2012.

The share of the net profit of all associates accounted for using the equity method attributable to Celesio, including amortisation of intangible assets identified during the purchase price allocation, amounted to € 2.8m (previous year € 0.2m). The carrying amount of associates accounted for using the equity method came to € 71.7m (previous year € 81.4m).

These entities generated revenue of € 1,252.6m in the reporting period (previous year € 980.5m) and net profit of € 6.7m (previous year € 13.0m). Non-current assets totalled € 244.3m (previous year € 227.5m) while current assets came to € 218.1m (previous year € 246.3m). Total liabilities break down into non-current items of € 77.4m (previous year € 86.5m) and current liabilities of € 155.0m (previous year € 149.6m).

(14) Deferred taxes

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

	31/12/2011		31/12/2012	
	assets € m	liabilities € m	**assets € m**	**liabilities € m**
Intangible assets	0.6	92.6	**28.6**	**69.5**
Property, plant and equipment	2.0	34.3	**2.3**	**34.7**
Other non-current assets	2.5	20.7	**1.8**	**17.8**
Current assets	28.1	22.5	**23.9**	**15.6**
Financial liabilities	3.6	0.0	**4.5**	**6.6**
Provisions	87.1	2.9	**84.4**	**1.3**
Other liabilities	43.7	1.2	**41.5**	**1.3**
Sum of deferred taxes on temporary differences	**167.6**	**174.2**	**187.0**	**146.8**
Deferred taxes on unused tax losses	64.6	0.0	**32.1**	**0.0**
Less offsetting	–63.6	–63.6	**–108.0**	**–108.0**
Total	**168.6**	**110.6**	**111.1**	**38.8**

The rise in deferred tax assets recognised on intangible assets is primarily due to tax restructuring.

This involved deferred tax assets totalling € 59.7m that have been offset against other comprehensive income (previous year € 38.3m). These are a result of changes in the value of available-for-sale financial assets and derivative financial instruments used for cash flow hedges as well as the revaluation of defined benefit plans, all of which were posted directly to other comprehensive income. More information on deferred taxes can be found in note (8).

(15) Inventories

	31/12/2011 € m	31/12/2012 € m
Raw materials, consumables and supplies	2.0	**1.9**
Finished goods and merchandise	1,789.4	**1,579.5**
Payments on account	0.1	**0.6**
Total	**1,791.5**	**1,582.0**

Inventories were written down by € 32.3m in the reporting period (previous year € 29.5m). Of this, € 0.4m (previous year € 4.0m) was incurred for obsolete inventories at pharmacies and wholesale branches affected by closure as part of the Operational Excellence Program. This was offset by write-ups of inventories of € 18.1m (previous year € 15.2m) that were sold after having previously been written down. The carrying amount of inventories, measured at the lower of cost and net realisable value, came to € 49.1m (previous year € 39.8m). In addition to the customary retention of title clauses, inventories of € 99.6m (previous year € 105.2m) at Wholesale Brazil have been pledged as collateral due to pending tax litigation.

(16) Discontinued operations and disposal groups

General

As part of the radical strategic realignment and streamlining of the portfolio, Celesio announced in the reporting period that it would initiate the sales process for a number of companies and activities that no longer constitute the company's core business.

Following careful scrutiny and analysis of the strategic options, the Management Board of Celesio passed a resolution at the end of March 2012 to dispose of the business areas Movianto (excluding the logistics and marketing operations in Austria) and Pharmexx as well as the DocMorris mail-order pharmacy (including the brand) and all Czech operations (previously disclosed within the Pharmacy Solutions and Patient and Consumer Solutions segments) before the end of 2012.

One aspect of the resolution was the decision to part with Manufacturer Solutions completely. This reflects the focus on core business and the determination to take the necessary structural and organisational steps. In connection with the strategic realignment, a decision was taken to tackle the sales channel

conflict with pharmacists that arose specifically in Germany through the acquisition of the DocMorris mail-order pharmacy in 2007. The decision was therefore taken to sell the mail-order pharmacy, including the DocMorris brand. Since the decision was reached, the corresponding entities have been classified as discontinued operations. The previous-year figures were restated in the group income statement and the group statement of cash flows to allow comparison.

The resolution mentioned above also includes the strategic decision to withdraw from the Czech market completely and therefore to sell the wholesale and pharmacy operations. Since the decision was reached, the corresponding entities have been classified as disposal groups. A further decision was taken in the reporting period to dispose of the Irish wholesale business (previously disclosed within the Pharmacy Solutions segment). This has since been reclassified as a disposal group as well.

After announcing its intention to sell Movianto to the American company, Owens & Minor, on 23 July 2012, the deal was closed on 31 August 2012. The consideration received for the sale consists of a basic price component of € 130.0m which will be adjusted to reflect any changes in net working capital and net financial debt. The components of the consideration that do not currently affect cash flow primarily comprise a receivable held in trust which will affect cash within one year at the latest. Moreover, the costs incurred during the sale mainly consist of transaction costs and IT expenses to separate the heavily integrated IT systems of Movianto from those of the entities remaining in the group.

The sale of Pharmexx to the Irish company United Drug, which was announced on 26 July 2012, went through on 12 September 2012 following approval from the antitrust authorities. The consideration received for the sale consists of a purchase price component of € 35.0m which will be adjusted to reflect any changes in the net financial debt and the net profit/loss of the first nine months of 2012. Furthermore, expenses were incurred to make the sale, most of which qualify as transaction costs.

The sale of the DocMorris mail-order pharmacy to Apotheke Zur Rose AG became effective as of 30 November 2012 after being announced on 25 October 2012. The consideration received of € 19.5m comprises a purchase price payment of € 10.0m and a short-term vendor loan of € 9.5m.

The operation in the Czech Republic was sold to the Penta investment group effective 19 November 2012 as announced on 14 August 2012. An amount of € 32.2m of the total consideration of € 91.3m had not affected cash by the reporting date. Payment has been received in the meantime.

Revaluation differences and disposals

The entities classified as discontinued operations and disposal groups are measured at fair value less costs to sell. The fair value measurement for all discontinued operations and disposal groups is based on purchase agreements entered into as of 31 December 2012. In the 2012 fiscal year impairments (before and after tax) of € 47.0m were required for the Pharmexx cash-generating unit, € 61.8m for Movianto (including Movianto Ireland) and € 145.7m for the DocMorris mail-order pharmacies and brand. These losses were reported under the result from discontinued operations. The disposal of the currency translation reserve in the course of deconsolidation led to an additional loss upon disposal of € 3.1m at Movianto and a gain on disposal of € 5.7m at Pharmexx. These effects were also reported under the result from discontinued operations. In sum, the net loss from deconsolidating these business areas amounts to € 55.8m for Movianto (excluding Movianto Ireland) and € 41.3m for Pharmexx. Impairment losses of € 9.1m were incurred for Movianto Ireland, which is classified as a discontinued operation. Impairment losses on units classified as disposal groups relate to the wholesale operations in the Czech Republic (€ 6.7m) and wholesale operations in Ireland (€ 10.6m). The related expenses have been presented under the net profit/loss from discontinued operations. A gain upon disposal of € 1.3m arose from the disposal of the currency translation reserve in the course of deconsolidation, resulting in a net loss on deconsolidation of € 5.4m. A gain on sale of € 6.6m was generated upon the sale of retail pharmacies in the Czech Republic. This amount already includes the loss of € 7.6m from the disposal of the currency translation reserve. These effects were also reported under the result from continuing operations.

Due to the fact that these operations are presented in accordance with IFRS 5, the closing statements of financial position were written down by an impairment loss of € 52.7m at Movianto, € 47.0m at Pharmexx, € 145.7m at the DocMorris mail-order pharmacy and € 6.7m for the Czech operations. These impairment losses primarily concern intangible assets. Moreover, impairment losses were also recorded at the DocMorris mail-order pharmacy and the Czech operation on property, plant and equipment and inventories, after taking account of the impact on the corresponding deferred tax liabilities. The effect attributable to inventories amounted to € 7.2m at the DocMorris mail-order pharmacy and € 5.0m at the Czech wholesale operation.

	Movianto € m	Pharmexx € m	DocMorris mail-order pharmacy € m	Czech operations € m	Total € m
Consideration received	**163.2**	**47.9**	**19.5**	**91.3**	**321.9**
Of which expected to affect cash	163.2	47.9	19.5	91.3	**321.9**
Of which already cash	153.2	47.3	10.0	59.1	**269.6**
Net result of deconsolidation	**–55.8**	**–41.3**	**–145.7**	**1.2**	**–241.6**
Gain/loss on sale	–3.1	5.7	0.0	7.9	**10.5**
Impairment losses already recognised	–52.7	–47.0	–145.7	–6.7	**–252.1**
Total assets	**316.3**	**75.3**	**51.4**	**154.5**	**597.5**
Intangible assets	35.8	29.2	0.0	9.9	**74.9**
Property, plant and equipment	58.3	1.0	0.0	2.0	**61.3**
Deferred tax assets	1.2	0.8	2.9	0.1	**5.0**
Inventories	12.3	1.3	5.5	38.9	**58.0**
Trade receivables	123.3	17.7	30.9	94.0	**265.9**
Cash and cash equivalents	39.1	6.5	3.4	0.4	**49.4**
Other assets	46.3	18.8	8.7	9.2	**83.0**
Total liabilities	**166.8**	**30.2**	**39.1**	**80.0**	**316.1**
Financial liabilities	1.6	1.1	0.2	0.1	**3.0**
Pension provisions	1.2	0.0	0.1	0.0	**1.3**
Other non-current provisions	2.1	0.0	0.0	0.0	**2.1**
Deferred tax liabilities	1.3	3.0	0.4	0.2	**4.9**
Trade payables	128.3	4.0	18.2	75.2	**225.7**
Other current provisions	1.9	4.0	0.7	0.5	**7.1**
Income tax liabilities	0.4	1.2	0.7	0.1	**2.4**
Other liabilities	30.0	16.9	18.8	3.9	**69.6**

The components of the consideration already affecting cash consist of the cash and cash equivalents sold in the respective transaction.

Assets and liabilities held for sale

The main asset and liability groups held for sale at the end of the reporting period are summarised below:

	Non-current assets held for sale 31/12/2011 € m	Non-current assets held for sale € m	Disposal groups Wholesale Ireland € m	Discontinued operations Movianto Ireland € m	Assets and liabilities held for sale 31/12/2012 € m
Intangible assets	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	2.2	1.3	0.0	0.0	1.3
Inventories	0.0	0.0	25.1	7.3	32.4
Trade receivables	0.0	0.0	38.2	18.1	56.3
Cash and cash equivalents	0.0	0.0	1.1	0.0	1.1
Other assets	0.0	0.0	7.6	4.3	11.9
Assets	**2.2**	**1.3**	**72.0**	**29.7**	**103.0**
Financial liabilities	0.0	0.0	0.0	0.0	0.0
Trade payables	0.0	0.0	28.4	34.4	62.8
Other liabilities	0.0	0.0	12.9	0.9	13.8
Equity and liabilities	**0.0**	**0.0**	**41.3**	**35.3**	**76.6**

The impairment losses of € 9.1m recorded at Movianto Ireland were recorded on intangible assets, property, plant and equipment and inventories. The amount attributable to inventories amounts to € 0.8m.

Impairment losses for the Irish wholesale operations include impairments on both intangible assets and on property, plant and equipment. In addition, impairment losses of € 1.5m were recognised on inventories.

The sale of the Irish operation is expected to be fully executed in the first six months of 2013.

Real estate with a carrying amount of € 0.7m (previous year € 2.2m) held by Pharmacy Solutions is presented under non-current assets held for sale. In Patient and Consumer Solutions this item amounts to € 0.6m.

Net profit/loss from discontinued operations

2012	DocMorris mail-order pharmacy and brand	
	2011 € m	**2012** **€ m**
Revenue	327.1	**299.0**
Cost of materials	–272.6	**–251.7**
Gross profit	54.5	**47.3**
EBITDA	8.5	**0.8**
EBIT	2.8	**–0.1**
Profit/loss before tax from discontinued operations	0.1	**–1.8**
Income taxes	1.0	**–0.1**
Profit/loss after tax from discontinued operations	1.1	**–1.9**
Profit/loss after tax from the measurement and disposal of discontinued operations	0.0	**–145.7**
Net profit/loss from discontinued operations	**1.1**	**–147.6**

In the previous year, impairments of goodwill of € 72.0m were recognised at Pharmexx.

	Pharmexx		Movianto		Total	
	2011 € m	**2012** **€ m**	2011 € m	**2012** **€ m**	2011 € m	**2012** **€ m**
	203.1	**103.9**	343.4	**260.5**	873.6	**663.4**
	−5.7	**−1.8**	−180.3	**−141.7**	−458.6	**−395.2**
	197.4	**102.1**	163.1	**118.8**	415.0	**268.2**
	1.3	**0.5**	10.4	**4.4**	20.2	**4.7**
	−74.8	**−1.6**	1.6	**2.0**	−70.4	**0.3**
	−75.9	**−2.2**	2.4	**2.4**	−73.4	**−1.6**
	0.7	**−2.9**	0.8	**−2.1**	2.5	**−5.1**
	−75.2	**−5.1**	3.2	**0.3**	−70.9	**−6.7**
	0.0	**−41.3**	0.0	**−64.9**	0.0	**−251.9**
	−75.2	**−46.4**	**3.2**	**−64.6**	**−70.9**	**−258.6**

(17) Receivables and other assets

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

	31/12/2011 € m	31/12/2012 € m
Trade receivables	**2,529.4**	**2,096.1**
Income tax receivables	**28.9**	**36.1**
Receivables from affiliates	0.4	**0.1**
Receivables from associates and other investments	3.3	**4.4**
Derivative financial instruments	4.5	**5.2**
VAT and other tax receivables	105.5	**129.8**
Other assets	279.0	**268.2**
Other receivables and other assets	**392.7**	**407.7**
Total	**2,951.0**	**2,539.9**

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

Derivative financial instruments are used to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in more detail in note (25).

Receivables from affiliates, which are due from the Franz Haniel & Cie. Group, and receivables from associates and other investments were neither impaired nor past due at the end of the reporting period.

Wholesale Brazil pledged receivables totalling € 25.7m (previous year € 25.3m) as collateral for its own liabilities.

Bad debt allowances developed as follows over the reporting period:

	2011 € m	**2012** **€ m**
As of 01/01	**103.6**	**84.8**
Additions	27.2	**34.3**
Utilisation	–22.9	**–10.3**
Reversals	–15.9	**–11.7**
Currency, consolidated group and other changes	–7.2	**–7.2**
As of 31/12	**84.8**	**89.9**

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

	31/12/2011 € m	**31/12/2012** **€ m**
Trade receivables that are neither impaired nor past due	2,178.0	**1,859.6**
Trade receivables that are not impaired but are past due	287.4	**161.6**
Of which < 3 months	237.5	**120.8**
Of which 3 – 6 months	23.9	**16.6**
Of which 6 – 12 months	15.1	**11.7**
Of which > 12 months	10.9	**12.5**
Impaired trade receivables	64.0	**74.9**
Trade receivables	**2,529.4**	**2,096.1**

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

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

	2011 € m	**2012 € m**
As of 01/01	**15.3**	**22.0**
Additions	9.5	**7.2**
Utilisation	–1.7	**–1.8**
Reversals	–1.2	**–8.2**
Currency, consolidated group and other changes	0.1	**0.0**
As of 31/12	**22.0**	**19.2**

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

	31/12/2011 € m	**31/12/2012 € m**
Receivables reported under other assets that are neither impaired nor past due	170.6	**190.4**
Receivables reported under other assets that are not impaired but are past due	42.7	**19.8**
Of which < 3 months	36.1	**15.4**
Of which 3 – 6 months	5.2	**3.2**
Of which 6 – 12 months	0.6	**0.9**
Of which > 12 months	0.8	**0.3**
Receivables reported under other assets	5.3	**2.2**
Impaired receivables reported under other assets	**218.6**	**212.4**

Impairments of € 1.5m were recorded in addition to the impairments recorded on trade receivables and the impairments recorded on trade receivables reported under other assets. The total amount of write-downs on trade receivables and receivables reported under other assets is therefore € 43.0m.

(18) Cash and cash equivalents

	31/12/2011 € m	**31/12/2012 € m**
Cash on hand	4.5	**6.7**
Cash at banks	443.8	**517.2**
Total	**448.3**	**523.9**

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

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

(19) Equity

The issued capital of Celesio AG is split into 170,100,000 no-par shares. Authorised capital of € 43.5m has been approved until 15 May 2017 (authorised capital 2012) and € 65.3m until 16 May 2016 (authorised capital 2011). In addition, the capital stock was contingently increased in 2009 and 2010 by up to € 21.8m, split into 17,010,000 no-par registered shares (contingent capital 2009 and contingent capital 2010).

In the reporting period, an ordinary dividend of € 0.25 per no-par share was paid for the previous year.

Convertible bond

In 2011 Celesio Finance B.V. issued a convertible bond with a nominal value of € 350.0m guaranteed by Celesio AG and a coupon of 2.5%. The bond falls due on 7 April 2018 unless it is repaid, converted or repurchased in the meantime. The conversion price stood at € 22.48, both on the date the bond was issued and as of the reporting date.

In 2009, Celesio Finance B.V. had already issued a convertible bond – based on the contingent capital 2009 – with a nominal value of € 350.0m and a coupon of 3.75%. The bond falls due on 29 October 2014 unless it is repaid, converted or repurchased in the meantime. The conversion price stood at € 22.49, both on the date the bond was issued and as of the reporting date.

Reserves

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

Other comprehensive income mainly comprises translation effects, the revaluation of defined benefit plans and the impact of marking to market financial instruments used for cash flow hedges. The reserve for cash flow hedges comes to € –16.4m (previous year € –20.8m). The revaluation of defined benefit pension plans amounts to € –151.6m as of 31 December 2012 and € –90.1m as of 31 December 2011. As of 1 January 2011 the revaluation resulted in a reduction of € –74.8m in other comprehensive income, which fell from € –167.4m to € –242.2m. In the fiscal year an amount of € 8.3m (previous year € 19.8m), after considering deferred taxes, was reclassified from the reserves and allocated to interest expense, the investment result, other operating result and the result from discontinued operations.

Capital management

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

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

	31/12/2011 € m	31/12/2012 € m
Equity	2,466.6	2,195.9
/ Total equity and liabilities	8,826.8	7,928.7
Equity ratio (%)	**27.9**	**27.7**
Net financial debt	1,618.7	1,559.0
/ Equity	2,466.6	2,195.9
Gearing	**0.66**	**0.71**
EBIT	308.0	370.1
/ Financial result	139.4	163.5
Interest coverage ratio	**2.2**	**2.3**

(20) Pension provisions

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

The obligations arising from the defined benefit schemes are covered by external pension funds and appropriate provisions and are determined using the actuarial projected unit credit method in accordance with IAS 19 (revised 2011). In order to avoid a concentration of risks, plan assets are invested in a range of different investment categories. The investment strategy also takes account of the age structure of the assets and harmonises this with the expected date on which pensions will be paid out.

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

The obligation in Norway is largely related to the state-regulated pension scheme which is managed by the Norwegian Public Service Pension Fund. According to the terms of the pension fund, the plan assets of state regulated plans in Norway must correspond very closely to the pension obligation calculated using the principles codified in Norwegian law. The shortfall may not exceed 1% of the obligation. If the shortfall exceeds this threshold, it must be remedied within two years.

In the UK there is a joint pension scheme in place for employees of Patient and Consumer Solutions and Pharmacy Solutions. This scheme is largely funded by

external pension funds. The Trustee Board decides on the minimum contribution to the plan in association with selected employees of the entity. A valuation is performed at regular intervals in order to determine the amount of the contribution and ensure that the minimum contribution is made.

In the previous year, the pension obligation in Germany was financed via provisions with the exception of the contractual trust arrangement entered into for some of the pension obligations for the Management Board.

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

	2011 %			**2012 %**		
	NOK	UK	Others	**NOK**	**UK**	**Others**
Interest rate	2.8	5.1	5.2	**3.8**	**4.3**	**3.7**
Future salary increases	3.0 – 3.3	3.8	0.0 – 3.25	**3.5**	**3.8**	**0.0 – 3.5**
Future pension increases	2.8	2.8	0.0 – 3.0	**2.5**	**2.8**	**0.0 – 2.0**

The mortality tables for the specific country are based on publicly available data.

Net benefit expense recognised in the income statement in the reporting period can be broken down as follows:

	2011 € m	**2012 € m**
Service cost	21.4	**23.0**
Past service cost	–6.3	**–18.4**
Net interest expense	11.5	**10.0**
Gain or loss from settlements and other plan amendments	0.0	**0.4**
Total	**26.6**	**15.0**

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

In the 2012 fiscal year one plan was settled in Norway, leading to an expense of € 0.4m. There were no settlements of defined benefit plans in the previous year. In 2012 the pension plan was amended in Norway to accommodate changes to the terms and conditions of early retirement. In the previous year there was a change to the wage and salary trend used to calculate the defined benefit plan extended to employees of the Irish wholesale operation.

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

	01/01/2011 € m	31/12/2011 € m	**31/12/2012 € m**
DBO, funded	566.1	598.3	**658.2**
Fair value of plan assets	–402.7	–436.4	**–466.4**
Funded status	**163.4**	**161.9**	**191.8**
DBO, unfunded	108.3	114.4	**153.3**
Net defined benefit liability	271.7	276.3	**345.1**

The debit balance arising from the measurement of pension obligations is reported under other non-current assets.

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

	2011 € m	**2012 € m**
Defined benefit obligation as of 01/01	**674.4**	**712.7**
Service cost	21.4	**23.0**
Interest expense	30.0	**28.3**
Contributions by plan participants	0.3	**0.3**
Benefits paid	–27.0	**–34.9**
Actuarial losses from changes in financial assumptions	12.3	**66.5**
Actuarial losses from changes in demographic assumptions	0.4	**20.5**
Experience-based adjustments	–1.8	**1.6**
Past service cost	–6.3	**–18.4**
Gains and losses from plan settlements	0.0	**0.0**
Currency changes	9.3	**24.2**
Changes in the consolidated group	0.0	**–12.3**
Other changes	–0.3	**/**
Defined benefit obligation as of 31/12	**712.7**	**811.5**

Of the defined benefit obligation, an amount of € 272.9m (previous year € 238.7m) relates to the UK and € 361.9m relates to Norway (previous year € 334.1m).

	2011 € m	2012 € m
Fair value of plan assets as of 01/01	**402.7**	**436.4**
Interest income from plan assets	18.5	**18.3**
Contributions by employer	37.1	**27.9**
Contributions by plan participants	0.3	**0.3**
Benefits paid from plan assets	–20.1	**–25.9**
Difference between interest income recognised through profit and loss and actual return on plan assets	–11.3	**9.9**
Currency changes	10.0	**16.1**
Changes in the consolidated group	/	**–16.2**
Payments on plan settlements	/	**–0.4**
Other changes	–0.8	**/**
Fair value of plan assets as of 31/12	**436.4**	**466.4**
of which based on an active market		
Cash and cash equivalents	/	**0.5**
Equity instruments	41.9	**39.3**
Debt instruments	144.7	**163.3**
Real estate	/	**10.9**
Mutual funds	2.2	**2.5**
Asset-backed securities	/	**/**
Insurance policies	/	**0.4**
Other	/	**34.2**
of which without an active market		
Cash and cash equivalents	11.6	**8.5**
Equity instruments	25.5	**25.4**
Debt instruments	104.8	**117.0**
Real estate	23.5	**15.0**
Derivatives	7.9	**6.7**
Asset-backed securities	3.2	**/**
Insurance policies	3.7	**3.2**
Other	67.4	**39.5**

Of the fair value of plan assets, € 250.0m (previous year € 214.5m) relates to the UK and € 206.7m to Norway (previous year € 195.3m).

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

Employer contributions to plan assets are expected to come to € 30.0m in the 2013 fiscal year.

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

	2012
0.5% increase	
Impact on defined benefit obligation	–91.1
0.5% decrease	
Impact on defined benefit obligation	98.0

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

	2012
0.5% increase	
Impact on defined benefit obligation	51.2
0.5% decrease	
Impact on defined benefit obligation	–47.9

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

	2012
0.5% increase	
Impact on defined benefit obligation	47.1
0.5% decrease	
Impact on defined benefit obligation	–44.2

The following table illustrates the impact of an isolated change of one year in the life expectancy of 10% of the beneficiaries:

	2012
10.0% increase	
Impact on defined benefit obligation	–22.0
10.0% decrease	
Impact on defined benefit obligation	27.9

The following table contains the pension payments made in the reporting period and pension payments expected in the coming reporting period:

	2013 € m	2014–2017 € m	2018–2022 € m
Expected payments	26.1	118.1	168.9

The average duration of defined benefit plans in the reporting year was 17 years.

For the defined contribution pension plan there were no further obligations for Celesio Group companies at the end of the reporting period other than the payment of the defined contribution to external funds. The expenses from ongoing contributions amounted to € 11.4m in the reporting period (previous year € 12.3m). In addition, employer contributions were made to state pension funds. The employer's direct contribution amounted to € 38.6m (previous year € 39.0m).

(21) Other provisions

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

	2011	
	Carrying amount as of 31/12	Of which due within 1 year
Provisions for obligations to personnel	89.0	53.9
Provisions for litigation and other legal risks	77.1	28.3
Provisions for restructuring measures	45.5	42.8
Other provisions	57.1	51.2
Total	**268.7**	**176.2**

Provisions with a term of more than twelve months are discounted. This involves applying risk-free interest rates ranging from 0.4% to 9.6% (previous year 1.4% to 10.8%) depending on the term and currency zone.

Provisions with an expected term to maturity of more than five years amount to € 15.4m (previous year € 22.7m).

Provisions for obligations to personnel relate primarily to short-term bonuses and severance payments as well as long-term claims arising from the German phased retirement scheme (Altersteilzeit) and long-service bonuses. Moreover, provisions include provisions for ongoing litigation and contingent liabilities for pending legal disputes regarding obligations to personnel.

Share-based compensation programmes account for € 2.0m (previous year € 0.4m) of the personnel obligations. These cash-settled share-based payment transactions comprise the performance cash schemes, the deferred share programme and the performance share plans of the Management Board, a phantom share plan for managers, and a share-based programme for employees. The average residual term of share-based payment programmes is 1.9 years (previous year 2.3 years).

The share-based components of the performance cash scheme and the portion of the Management Board bonus, and the bonuses for managers (deferred share programme), retained over a vesting period of approximately three years are classified as cash-settled share-based payment transactions as defined by IFRS 2.

2012							
Changes in currency and in the consolidated group € m	Additions € m	Utilisations € m	Reversals € m	Unwinding € m	Reclassifi-cations € m	Carrying amount as of 31/12 € m	Of which due within 1 year € m
–6.1	45.9	–47.6	–5.2	1.1	0.0	77.1	44.1
–9.7	7.7	–3.4	–20.6	0.0	0.0	51.1	17.8
–0.5	36.4	–38.2	–12.3	0.1	0.0	31.0	29.9
–3.0	35.7	–13.2	–8.4	0.0	0.0	68.2	64.6
–19.3	125.7	–102.4	–46.5	1.2	0.0	227.4	156.4

The same applies to the new performance share plan granted on 1 January 2012 within the framework of the changes to long-term compensation. The share-based components of these plans are measured using binominal option pricing models. The main inputs in the calculation relate to the expected goal attainment on the basis of average earning per share over the next three years, the risk-free interest rate and the expected volatility on the basis of past values.

The expenses for the benefits received or the liability to settle these benefits are recognised over the vesting period. The portion of the Management Board bonus and the bonuses for managers retained over a vesting period of approximately three years was measured at fair value as of 31 December 2012. The liability is remeasured at each reporting date and on the settlement date. Changes in fair value are recognised in the income statement.

The change in obligations to personnel from share-based payment programmes is as follows:

	2011 € m	**2012** **€ m**
As of 01/01	**0.7**	**0.4**
Additions due to changes in the consolidated group	0.0	**0.0**
Granted	0.5	**1.6**
Exercised	–0.6	**0.0**
Forfeited/released	–0.2	**0.0**
Expired	0.0	**0.0**
As of 31/12	**0.4**	**2.0**
Exercisable	0.0	**0.0**

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

Restructuring provisions mainly relate to claims in connection with termination agreements offered to employees as well as obligations from the premature termination of contractual arrangements, for example rental and lease agreements. The expenses were incurred as a result of measures taken under the Operational Excellence Program.

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

In addition, contingent liabilities for legal and tax risks were recognised primarily in the course of the business combination with Panpharma. These are presented under provisions for obligations to personnel and provisions for litigation and other legal risks in accordance with the underlying issues. During the reporting period, these recognised contingent liabilities were reduced by € 1.9m with regard to provisions for obligations to personnel and € 25.0m with regard to provisions for litigation, mainly because the associated legal and tax risks are now statute-barred. Due to the fact that the recognised contingent liabilities originating from the acquisition of Panpharma are offset by rights of reimbursement against the sellers, the reversal of contingent liabilities automatically reduces the rights of reimbursement and therefore has no impact on profit or loss.

Due to the uncertainty about the expected outflow of cash, the risk was recognised at the amount expected to be incurred.

(22) Liabilities

	31/12/2011			
	Due in			Carrying amount € m
	< 1 year € m	1 – 5 years € m	> 5 year € m	
Financial liabilities				
Liabilities to banks	95.2	135.6	24.1	**254.9**
Promissory notes and bonds	183.7	801.4	794.3	**1,779.4**
Lease liabilities	6.1	11.0	3.0	**20.1**
Other financial liabilities	6.5	4.9	1.2	**12.6**
	291.5	**952.9**	**822.6**	**2,067.0**
Trade payables and other liabilities				
Trade payables	2,799.4	0.0	0.0	**2,799.4**
Income tax liabilities	54.7	0.0	0.0	**54.7**
Liabilities to affiliates	0.1	0.0	0.0	**0.1**
Liabilities to associates and other investments	4.1	0.0	0.0	**4.1**
Other liabilities	658.4	120.9	0.0	**779.3**
	3,516.7	**120.9**	**0.0**	**3,637.6**
Liabilities	**3,808.2**	**1,073.8**	**822.6**	**5,704.6**

(23) Financial liabilities

a) Liabilities to banks

Liabilities to banks consist primarily of long-term bilateral credit lines. In addition, special purpose lease entities have arranged fixed-interest loans of € 51.9m to finance real estate (previous year € 58.0m). The market value of these fixed interest loans is € 60.7m (previous year € 68.1m). Liabilities to banks are broken down by the term of the financing.

31/12/2012			
Due in			Carrying amount € m
< 1 year € m	1 – 5 years € m	> 5 year € m	
52.9	72.0	20.6	**145.5**
103.5	1,503.8	305.1	**1,912.4**
5.0	8.3	1.5	**14.8**
5.5	3.6	1.1	**10.2**
166.9	**1,587.7**	**328.3**	**2,082.9**
2,325.0	0.0	0.0	**2,325.0**
55.7	0.0	0.0	**55.7**
1.0	0.0	0.0	**1.0**
2.1	0.0	0.0	**2.1**
570.0	8.2	0.0	**578.2**
2,953.8	**8.2**	**0.0**	**2,962.0**
3,120.7	**1,595.9**	**328.3**	**5,044.9**

b) Promissory notes and bonds

In the course of diversifying and optimising its financing structure, Celesio placed promissory notes in previous years, a convertible bond in 2009 and 2011 and a corporate bond for the first time in 2010. A second corporate bond was placed on 10 October 2012. Explanatory notes on the convertible bonds are presented in note (19).

As of 31 December 2012 the promissory note and bonds displayed the following features:

	Promissory notes		Convertible bonds		Corporate bonds	
	31/12/2011 € m	**31/12/2012 € m**	31/12/2011 € m	**31/12/2012 € m**	31/12/2011 € m	**31/12/2012 € m**
Nominal values	666.9	**434.0**	700.0	**700.0**	500.0	**850.0**
Of which at fixed interest	133.8	**50.0**	700.0	**700.0**	500.0	**850.0**
Of which at floating rates	533.1	**384.0**	0.0	**0.0**	0.0	**0.0**
Market values	686.7	**446.0**	625.9	**713.0**	479.0	**899.2**
Of which at fixed interest	143.0	**54.9**	625.9	**713.0**	479.0	**899.2**
Of which at floating rates	543.7	**391.1**	0.0	**0.0**	0.0	**0.0**
Carrying amounts	666.5	**433.9**	618.5	**635.5**	494.4	**843.0**
Currencies	€, £	**€, £**	€	**€**	€	**€**
Original maturities	4 – 7 years	**4 – 7 years**	5 – 7 Jahre	**5 – 7 years**	7 years	**4 – 7 years**
Effective interest rates	1.72 – 5.42 %	**1.35 – 5.36 %**	5.38 – 7.10 %	**5.38 – 7.10 %**	4.74 %	**4.19 – 4.74 %**

c) Lease liabilities

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

	31/12/2011 € m	**31/12/2012 € m**
Minimum lease payments	23.0	**17.3**
Due within 1 year	7.0	**5.9**
Due within 2 to 5 years	13.0	**9.8**
Due in more than 5 years	3.0	**1.6**
Interest portion	–2.9	**–2.5**
Net present value	**20.1**	**14.8**

(24) Trade payables and other liabilities

Trade payables contain payments on account of orders of € 87.7m (previous year € 78.3m).

Other liabilities comprise:

	31/12/2011 € m	**31/12/2012 € m**
Personnel liabilities	138.4	**111.1**
Other tax liabilities	86.6	**109.6**
Outstanding invoices	164.3	**176.1**
Derivative financial instruments	57.6	**47.8**
Interest liabilities	29.4	**32.2**
Other liabilities	303.0	**101.4**
Total	**779.3**	**578.2**

Other liabilities in the previous year mainly comprised purchase price liabilities in connection with Panpharma and other business combinations.

Derivative financial instruments are used to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in more detail in note (25).

(25) Financial risk management and derivative financial instruments

a) Principles of risk management

As regards assets, liabilities and forecast 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 set by the Management Board, compliance of which is monitored constantly. These include the functional segregation of trading, handling and posting and the authorisation of just a few qualified employees to enter into derivative financial instruments. We only enter into derivatives for hedging purposes and then only with banks with immaculate credit ratings.

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

b) Interest rate risks

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

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

Interest swaps were used in the past fiscal year to hedge interest risks. An interest swap involves swapping the fixed or floating interest rate in the underlying transaction for a floating or fixed interest rate respectively for the entire term of the underlying instrument. The decision on whether to use derivative financial instruments is based on the projected interest rate risk and debt. The interest hedging strategy is reviewed at monthly intervals and new targets are defined. This involves securing interest rates for at least 50% of the projected debt level.

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

- A hypothetical increase of one percentage point in the €-market interest rate as of 31 December 2012 would have resulted in a pre-tax profit that was € 1.5m lower (previous year € 1.3m). A hypothetical decrease of one percentage point in the €-market interest rate would have resulted in a pre-tax profit that was € 0.4m higher (previous year € 1.3m). An increase of one percentage point in the €-market interest rate as of 31 December 2012 would have led to a rise in equity of € 2.0m (previous year € 3.5m). A decrease of one percentage point in the €-market interest rate would have led to a decrease in equity of € 1.0m (previous year € 3.6m).
- A hypothetical increase of one percentage point in the GBP-market interest rate as of 31 December 2012 would have resulted in a pre-tax profit that was € 1.2m higher (previous year € 0.1m lower). A hypothetical decrease of one percentage point in the GBP-market interest rate would have led to a fall of € 0.8m in the pre-tax profit (previous year no impact on the pre-tax profit). An increase of one percentage point in the GBP-market interest rate as of 31 December 2012 would have led to a rise in equity of € 6.4m (previous year € 8.4m). A decrease of one percentage point in the GBP-market interest rate would have led to a decrease in equity of € 6.9m (previous year € 8.9m).

The convertible bonds issued in 2009 and 2011 and the corporate bond issued in 2010 already led to a reduction of the group's floating-rate debt in previous accounting periods. This risk was reduced further in the reporting period by issuing another corporate bond.

Due to the low interest rate in the reporting period, market values have developed asymmetrically. This is due to the fact that all relevant interest rate curves could hypothetically rise by one percentage point but a hypothetical reduction of one percentage point is not always possible. Where a hypothetical reduction of one percentage point would have led to a negative interest rate, a hypothetical rate of zero percent was used in the calculation.

c) Currency risks

Currency risks refer to the possible write-down of items in the statement of financial position and any forward transactions due to fluctuations in exchange rates. The majority of the foreign exchange risks are a result of the development of the euro against pound sterling. The currency risks at Celesio pertain, 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 foreign exchange exposure on transaction costs can be classified as low.

Forward exchange contracts, currency swaps and non-deliverable forwards and options were used in the 2012 fiscal year to hedge against foreign exchange exposures. As of the reporting date there were only forward exchange contracts and currency swaps. No physical settlement takes place in the exchange currencies on the maturity date of a non-deliverable derivative. Rather, one party makes a net payment on the basis of how the exchange rate has developed. The Celesio Group uses these derivatives to hedge against the currency risk in countries with foreign exchange controls (Brazil). Foreign exchange exposures are mainly secured by micro-hedges. This involves a direct hedge of the underlying transaction by means of a foreign exchange derivative. In addition, currency derivatives are used to hedge forecast transactions in foreign currency. This involves selecting the currency derivative (or a combination of several derivatives) which best reflects the likelihood of occurrence and timing of the forecast transaction. Celesio eliminates the economic currency risk associated with intercompany loans denominated in a different currency by means of currency swaps.

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

The Celesio Group has concentrated its mid-term and long-term borrowings at Celesio Finance B.V. based in the Netherlands. This entity takes out loans in currencies other than euro and extends them to other entities in the group in accordance with their financing requirements. As they are not denominated in the functional currency of the group, these loans must be included in the assessment of the currency risk in accordance with IFRS 7.40.

Without adjusting for loans denominated in currencies other than the functional currency, a 10% appreciation or depreciation of pound sterling against the euro would have increased or decreased pre-tax profit by € 74.9m (previous year increased or decreased by € 64.8m).

Adjusted for these loans, a 10% depreciation or appreciation of pound sterling against the euro would have increased or decreased the pre-tax profit by € 55.1m (previous year increased or decreased by € 30.7m).

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

A 10% appreciation or depreciation of the pound sterling against the euro as of 31 December 2012 would have increased or decreased the translation reserves recognised in other comprehensive income by € 0.1m (previous year € 0.4m).

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

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

d) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Due to its current customer structure, the bad debt risk in the Celesio Group can be classified as relatively low as the largest customers are the state-run healthcare systems and therefore enjoyed a very high credit standing in the past. Due to the large number of business relationships there is no significant concentration of risk either. The theoretical maximum credit risk basically corresponds to the carrying amounts of the receivables and financial assets presented in note (17) and in the table allocating the assets to the IAS 39 categories starting on → page 300. In addition, individual significant receivables are secured if needed by using certified land charges or similar instruments. In 2012 the balance of individual receivables secured in this way came to € 9.4m. The Celesio Group's maximum credit risk is limited to the nominal amounts possible from financial guarantees as well as the fair values of financial assets – including derivative financial instruments with a positive fair value – disclosed in the statement of financial position. At the end of the reporting period the group had issued guarantees with a total nominal amount of € 139.6m (previous year € 242.7m). Celesio mitigates the counterparty risk of cash and cash equivalents held at banks selecting banks with a defined minimum rating. Celesio mitigates the credit risk from financial instruments by only entering into such contracts with selected partners. The maximum theoretical risk of default on current derivative financial instruments equals the positive fair values of the instruments. At the end of the reporting period these came to € 5.2m (previous year € 4.5m).

e) Liquidity risk

Liquidity risk is understood as the risk of the Celesio Group not being in the position to meet its ongoing payment obligations at any time. The liquidity risk is managed by means of centralised financial planning which provides the required finance for operations and capital expenditures. Liquidity management takes the form of rolling liquidity planning taking existing lines of credit into account. The Celesio Group has a significant number of unused long-term confirmed lines of credit and bank guarantees and can make use of these at any time. In addition, on the reporting date, the group was able to draw on a syndicated credit line of € 600m. This line of credit, which expired on 11 February 2013, had not been drawn on at the end of the reporting period. The Celesio Group maintains a suitable level of free credit lines in reserve in connection with the group's indebtedness.

The table presented on → page 296 ff presents the contractually agreed undiscounted debt service payments due on the financial liabilities and derivative financial assets and liabilities over time, and therefore their impact on the liquidity of the group.

f) Other price risks

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

g) Hedges

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

Cash flow hedges

The Celesio Group obtains its finance primarily from long-term bilateral lines of credit, promissory notes, two convertible bonds and two corporate bonds. The bilateral lines of credit are generally drawn on a revolving basis with the interest rate fixed for the short term. Celesio uses cash flow hedges as part of the measures to secure the associated interest risk.

The table below shows the periods – broken down by currency – in which the cash flows associated with cash flow hedges that were in place as of 31 December 2012 are expected (interest payments).

	Cash flows 2013 million	Cash flows 2014 million	Cash flows 2015 – 2017 million	Cash flows 2018 – 2022 million	Cash flows 2023 onwards million	**Total cash flows million**
€	–0.3	–0.2	0.0	0.0	0.0	**–0.5**
£	–0.9	–0.7	–2.0	–0.2	0.0	**–3.8**
DKK	–0.1	0.0	0.0	0.0	0.0	**–0.1**

The hedged interest payments result from liabilities subject to floating-interest rates with a nominal value of € 160.0m, £ 140.0m, and DKK 120.0m.

The table below shows the periods – broken down by currency – in which the cash flows associated with cash flow hedges that were in place as of 31 December 2011 were expected (interest payments).

	Cash flows 2013 million	Cash flows 2014 million	Cash flows 2015 – 2017 million	Cash flows 2018 – 2022 million	Cash flows 2023 onwards million	**Total cash flows million**
€	–2.3	–2.0	–1.4	0.0	0.0	**–5.7**
£	–2.5	–1.7	–4.1	–1.7	0.0	**–10.0**
DKK	–1.3	–0.3	0.0	0.0	0.0	**–1.6**

The hedged interest payments in the previous year resulted from liabilities subject to floating-interest rates with a nominal value of € 180.0m, £ 210.0m, and DKK 120.0m.

Losses of € 7.4m including deferred taxes were made in the reporting period in connection with cash flow hedges (previous year € 24.2m) which have been recorded under other comprehensive income. During the fiscal year losses of € 11.8m (previous year € 18.3m) from previous years were transferred from equity to interest expenses and deferred taxes. In the previous year, an amount of € 5.9m was recorded in interest expenses due to the dedesignation of hedge instruments and the sale of hedging instruments after the underlying was extinguished.

Fair value hedges

No fair value hedges were used in the 2012 fiscal year.

Summary of derivative financial instruments

Derivative financial instruments break down as follows:

	31/12/2011			31/12/2012		
	Nominal value € m	Market value		Nominal value € m	Market value € m	Of which cash flow hedges € m
		Total € m	Of which cash flow hedges € m			
Interest instruments	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
Currency instruments	318.2	4.5	0.0	**715.3**	**5.2**	**0.0**
Derivative financial assets	**318.2**	**4.5**	**0.0**	**715.3**	**5.2**	**0.0**
Interest instruments	458.3	52.4	51.8	**352.1**	**46.1**	**46.1**
Currency instruments	449.9	5.2	0.0	**230.8**	**1.7**	**0.0**
Derivative financial liabilities	**908.2**	**57.6**	**51.8**	**582.9**	**47.8**	**46.1**

The tables below present the contractually agreed undiscounted debt service payments due on the non-derivative financial liabilities and derivative financial assets and liabilities over time. As of 31 December 2012 the values were as follows:

Non-derivative financial liabilities and financial guarantees
Liabilities to banks
Promissory notes and bonds
Trade payables (excluding payments received on account of orders)
Liabilities to affiliates
Liabilities to associates and other investments
Lease liabilities
Other financial liabilities
Liabilities from business combinations
Financial guarantees

Derivative financial assets
Derivatives not designated for hedge accounting

Derivative financial liabilities
Derivatives designated for hedge accounting
Derivatives not designated for hedge accounting

	Cash flows 2013 € m	Cash flows 2014 € m	Cash flows 2015 – 2017 € m	Cash flows 2018 – 2022 € m	Cash flows 2023 onwards € m	**Total cash flows € m**	**Total carrying amounts € m**
	–56.2	–26.8	–52.2	–18.3	–5.6	**–159.1**	**145.5**
	–169.4	–691.3	–1,026.2	–358.8	0.0	**–2,245.7**	**1,912.4**
	–2,237.3	0.0	0.0	0.0	0.0	**–2,237.3**	**2,237.3**
	–1.0	0.0	0.0	0.0	0.0	**–1.0**	**1.0**
	–2.1	0.0	0.0	0.0	0.0	**–2.1**	**2.1**
	–5.9	–3.9	–5.9	–1.6	0.0	**–17.3**	**14.8**
	–5.6	–3.0	–0.9	–0.3	–1.1	**–10.9**	**10.2**
	–0.6	0.0	0.0	0.0	0.0	**–0.6**	**0.6**
	–81.6	–13.8	–24.2	–14.1	–5.9	**–139.6**	**2.4**
	–2,559.7	**–738.8**	**–1,109.4**	**–393.1**	**–12.6**	**–4,813.6**	**4,326.3**
	4.9	0.0	0.0	0.0	0.0	**4.9**	**5.2**
	4.9	**0.0**	**0.0**	**0.0**	**0.0**	**4.9**	**5.2**
	–13.8	–10.6	–23.2	–1.9	0.0	**–49.5**	**46.1**
	–1.9	0.0	0.0	0.0	0.0	**–1.9**	**1.7**
	–15.7	**–10.6**	**–23.2**	**–1.9**	**0.0**	**–51.4**	**47.8**

As of 31 December 2011 the values were as follows:

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

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

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

	Cash flows 2012 € m	Cash flows 2013 € m	Cash flows 2014 – 2016 € m	Cash flows 2017 – 2021 € m	Cash flows 2022 ff. € m	**Total cash flows € m**	**Total carrying amounts € m**
	–100.0	–13.9	–161.8	–18.9	–10.6	**–305.2**	**254.9**
	–246.7	–238.9	–764.1	–890.0	0.0	**–2,139.7**	**1,779.4**
	–2,721.1	0.0	0.0	0.0	0.0	**–2,721.1**	**2,721.1**
	–0.1	0.0	0.0	0.0	0.0	**–0.1**	**0.1**
	–4.1	0.0	0.0	0.0	0.0	**–4.1**	**4.1**
	–7.0	–4.6	–8.4	–3.0	0.0	**–23.0**	**20.1**
	–6.6	–3.6	–1.8	–0.4	–1.4	**–13.8**	**12.6**
	–70.2	–77.5	–97.8	–1.7	0.0	**–247.2**	**179.4**
	–148.7	–25.6	–37.7	–21.9	–8.8	**–242.7**	**3.3**
	–3,304.5	**–364.1**	**–1,071.6**	**–935.9**	**–20.8**	**–5,696.9**	**4,975.0**
	0.9	0.0	0.0	0.0	0.0	**0.9**	**4.5**
	0.9	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**4.5**
	–14.3	–10.9	–21.9	–8.4	0.0	**–55.5**	**51.8**
	–5.6	–0.2	0.0	0.0	0.0	**–5.8**	**5.8**
	–19.9	**–11.1**	**–21.9**	**–8.4**	**0.0**	**–61.3**	**57.6**

Reconciliation of financial instruments to IAS 39 categories as of 31 December 2012

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

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

The development of impairments on loans and receivables is presented in note (17). Impairment losses of € 0.2m (previous year € 0.9m) were incurred on available-for-sale financial assets.

	2012							
	Financial assets measured at fair value through profit or loss € m	Financial assets held for trading € m	Loans and receivables € m	Available-for-sale financial assets € m	No IAS 39 category € m	Outside the scope of IFRS 7 € m	**Carrying amount € m**	**Fair value € m**
	0.0	0.0	0.0	57.5	0.0	0.0	**57.5**	**57.5**
	0.0	0.0	0.0	3.7	0.0	0.0	**3.7**	**3.7**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
	0.0	0.0	14.1	0.0	0.0	0.0	**14.1**	**14.1**
	0.0	0.0	20.9	0.0	1.8	0.0	**22.7**	**22.7**
	0.0	**0.0**	**35.0**	**61.2**	**1.8**	**0.0**	**98.0**	**98.0**
	0.0	**0.0**	**0.0**	**0.0**	**53.7**	**16.2**	**69.9**	**69.9**
	0.0	**0.0**	**2,096.1**	**0.0**	**0.0**	**0.0**	**2,096.1**	**2,096.1**
	0.0	0.0	0.1	0.0	0.0	0.0	**0.1**	**0.1**
	0.0	0.0	4.4	0.0	0.0	0.0	**4.4**	**4.4**
	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
	0.0	5.2	0.0	0.0	0.0	0.0	**5.2**	**5.2**
	0.0	0.0	230.0	0.0	4.7	163.3	**398.0**	**398.0**
	0.0	**5.2**	**234.5**	**0.0**	**4.7**	**163.3**	**407.7**	**407.7**
	0.0	**0.0**	**523.9**	**0.0**	**0.0**	**0.0**	**523.9**	**523.9**

Reconciliation of financial instruments to IAS 39 categories as of 31 December 2011

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

2011							
Financial assets measured at fair value through profit or loss € m	Financial assets held for trading € m	Loans and receivables € m	Available-for-sale financial assets € m	No IAS 39 category € m	Outside the scope of IFRS 7 € m	**Carrying amount € m**	**Fair value € m**
0.0	0.0	0.0	54.6	0.0	0.0	**54.6**	**54.6**
0.0	0.0	0.0	4.1	0.0	0.0	**4.1**	**4.1**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
0.0	0.0	14.4	0.0	0.0	0.0	**14.4**	**14.4**
0.0	0.0	41.6	0.0	1.9	0.0	**43.5**	**43.5**
0.0	**0.0**	**56.0**	**58.7**	**1.9**	**0.0**	**116.6**	**116.6**
0.0	**0.0**	**2,529.4**	**0.0**	**0.0**	**0.0**	**2,529.4**	**2,529.4**
0.0	0.0	0.4	0.0	0.0	0.0	**0.4**	**0.4**
0.0	0.0	3.3	0.0	0.0	0.0	**3.3**	**3.3**
0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
0.0	4.5	0.0	0.0	0.0	0.0	**4.5**	**4.5**
0.0	0.0	234.5	0.0	0.7	149.3	**384.5**	**384.5**
0.0	**4.5**	**238.2**	**0.0**	**0.7**	**149.3**	**392.7**	**392.7**
0.0	**0.0**	**448.3**	**0.0**	**0.0**	**0.0**	**448.3**	**448.3**

Reconciliation of financial instruments to IAS 39 categories as of 31 December 2012

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

2012					
Financial liabilities held for trading € m	Other financial liabilities € m	No IAS 39 category € m	Outside the scope of IFRS 7 € m	**Carrying amount € m**	**Fair value € m**
0.0	92.6	0.0	0.0	**92.6**	**101.4**
0.0	1,808.9	0.0	0.0	**1,808.9**	**1,953.6**
0.0	0.0	9.8	0.0	**9.8**	**9.8**
0.0	4.7	0.0	0.0	**4.7**	**4.7**
0.0	**1,906.2**	**9.8**	**0.0**	**1,916.0**	**2,069.5**
0.0	**8.2**	**0.0**	**0.0**	**8.2**	**8.2**
0.0	52.9	0.0	0.0	**52.9**	**52.9**
0.0	103.5	0.0	0.0	**103.5**	**104.6**
0.0	0.0	5.0	0.0	**5.0**	**5.0**
0.0	5.5	0.0	0.0	**5.5**	**5.5**
0.0	**161.9**	**5.0**	**0.0**	**166.9**	**168.0**
0.0	**2,237.3**	**0.0**	**87.7**	**2,325.0**	**2,325.0**
0.0	1.0	0.0	0.0	**1.0**	**1.0**
0.0	2.1	0.0	0.0	**2.1**	**2.1**
0.0	0.0	0.0	111.1	**111.1**	**111.1**
0.0	0.0	0.0	109.6	**109.6**	**109.6**
0.0	176.1	0.0	0.0	**176.1**	**176.1**
0.0	0.0	46.1	0.0	**46.1**	**46.1**
1.7	0.0	0.0	0.0	**1.7**	**1.7**
0.0	32.2	0.0	0.0	**32.2**	**32.2**
0.0	21.0	0.6	71.6	**93.2**	**93.2**
1.7	**232.4**	**46.7**	**292.3**	**573.1**	**573.1**

Reconciliation of financial instruments to IAS 39 categories as of 31 December 2011

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

Financial liabilities held for trading € m	Other financial liabilities € m	No IAS 39 category € m	Outside the scope of IFRS 7 € m	**Carrying amount € m**	**Fair value € m**
2011					
0.0	159.7	0.0	0.0	**159.7**	**169.9**
0.0	1,595.7	0.0	0.0	**1,595.7**	**1,604.5**
0.0	0.0	14.0	0.0	**14.0**	**14.0**
0.0	6.1	0.0	0.0	**6.1**	**6.1**
0.0	**1,761.5**	**14.0**	**0.0**	**1,775.5**	**1,794.5**
0.0	**9.1**	**5.0**	**106.8**	**120.9**	**120.9**
0.0	95.2	0.0	0.0	**95.2**	**95.2**
0.0	183.7	0.0	0.0	**183.7**	**187.1**
0.0	0.0	6.1	0.0	**6.1**	**6.1**
0.0	6.5	0.0	0.0	**6.5**	**6.5**
0.0	**285.4**	**6.1**	**0.0**	**291.5**	**294.9**
0.0	**2,721.1**	**0.0**	**78.3**	**2,799.4**	**2,799.4**
0.0	0.1	0.0	0.0	**0.1**	**0.1**
0.0	4.1	0.0	0.0	**4.1**	**4.1**
0.0	0.0	0.0	138.4	**138.4**	**138.4**
0.0	0.0	0.0	86.6	**86.6**	**86.6**
0.0	164.3	0.0	0.0	**164.3**	**164.3**
0.0	0.0	51.8	0.0	**51.8**	**51.8**
5.8	0.0	0.0	0.0	**5.8**	**5.8**
0.0	29.4	0.0	0.0	**29.4**	**29.4**
0.0	26.6	0.4	155.1	**182.1**	**182.1**
5.8	**224.5**	**52.2**	**380.1**	**662.6**	**662.6**

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

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

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

	2011 € m	**2012** **€ m**
Financial assets measured at fair value through profit or loss	0.0	**0.0**
Financial assets held for trading	–8.7	**2.3**
Available-for-sale financial assets	8.1	**5.3**
Loans and receivables	–14.2	**–14.7**
Other financial liabilities	–99.0	**–114.4**
Financial liabilities held for trading	0.0	**0.0**
Total	**–113.8**	**–121.5**

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

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

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

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

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

Measurement losses of € 0.2m (previous year € 0.9m) were recorded in other comprehensive income upon the sale of available-for-sale financial assets in the reporting period. Losses of € 0.2m (previous year € 1.5m) were reclassified from other comprehensive income and expensed under the other investment result.

Fair value hierarchy of financial instruments

Celesio applies the following fair value hierarchy to define and present its financial instruments measured at fair value:

Level 1: Quoted prices in active markets for identical financial instruments

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

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

As of 31 December 2012 the following financial instruments were carried at fair value:

Assets measured at fair value

Available-for-sale financial assets
Financial assets measured at fair value through profit or loss
Derivative financial instruments – designated as hedging instruments
Derivative financial instruments – not designated as hedging instruments

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

Liabilities measured at fair value

Other non-current liabilities
Derivative financial instruments – designated as hedging instruments
Derivative financial instruments – not designated as hedging instruments
Other liabilities

There were no reclassifications between level 1 and level 2 in the reporting period and no reclassifications to or from level 3.

Level 3 financial instruments relate to liabilities from business combinations made after 1 January 2010 that were measured on the basis of earnings indicators as well as the assumptions and estimates of management.

	31/12/2011				31/12/2012			
	Level 1 € m	Level 2 € m	Level 3 € m	**Total € m**	Level 1 € m	Level 2 € m	Level 3 € m	**Total € m**
	5.1	0.0	0.0	**5.1**	4.6	0.0	0.0	**4.6**
	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**
	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**
	0.0	4.5	0.0	**4.5**	0.0	5.2	0.0	**5.2**

	31/12/2011				31/12/2012			
	Level 1 € m	Level 2 € m	Level 3 € m	**Total € m**	Level 1 € m	Level 2 € m	Level 3 € m	**Total € m**
	0.0	0.0	5.0	**5.0**	0.0	0.0	0.0	**0.0**
	0.0	51.8	0.0	**51.8**	0.0	46.1	0.0	**46.1**
	0.0	5.8	0.0	**5.8**	0.0	1.7	0.0	**1.7**
	0.0	0.0	0.5	**0.5**	0.0	0.0	0.6	**0.6**

Measurement of Level 3 financial instruments held as of 31 December 2012 at fair value gave rise to the following total gains and losses.

	2011 Level 3 € m	**2012** **Level 3** **€ m**
Recognised through profit or loss		
Other non-current liabilities	0.2	**0.0**

Income and expenses from other non-current liabilities measured at fair value and posted through profit or loss are reported under the financial result or other income. Please refer to → page 236 for a presentation of changes in financial instruments classified as level 3.

(26) Contingent liabilities and other financial obligations

At the end of the reporting period the group had issued guarantees and warranties of € 139.6m (previous year € 242.7m). The decrease of € 103.1m is mainly due to the expiry of a guarantee in the UK wholesale operation.

The guarantees and warranties were mainly issued in the Celesio Wholesale business area, particularly in the UK where they amount to € 92.7m (previous year € 203.5m) and Austria where they amount to € 30.4m (previous year € 32.8m).

Provisions of € 2.4m (previous year € 3.3m) have been recognised for some of the warranties and guarantees at Celesio Wholesale. These have been included under other provisions.

As of 31 December 2011 Celesio AG issued the following guarantees for the benefit of certain Irish subsidiaries (Wholesale and Pharmacies): "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." In the opinion of the Management Board of Celesio AG it is unlikely that a substantial risk will result from this guarantee. Consequently, these subsidiaries were exempted from certain disclosure requirements.

As of 31 December 2012 Celesio AG issued the following guarantees for the benefit of certain of its Irish subsidiaries (Pharmacies): "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 company,

Unicare Pharmacy Ltd. (including its subsidiaries) originating in the fiscal year." In the opinion of the Management Board of Celesio AG it is unlikely that a substantial risk will result from this guarantee. Consequently, these subsidiaries were exempted from certain disclosure requirements.

	31/12/2011 € m	**31/12/2012 € m**
Rental agreements and operating leases	**1,043.5**	**903.4**
Due within 1 year	130.4	**110.9**
Due within 2 to 5 years	360.0	**324.0**
Due in more than 5 years	553.1	**468.5**
Purchase commitments for capital expenditures	**25.2**	**14.3**
Property, plant and equipment	2.3	**0.8**
Intangible assets	16.8	**2.9**
Other assets	6.1	**10.6**
Total	**1,068.7**	**917.7**

Of the total obligations from rental agreements and leases, an amount of € 511.1m relates to the Wholesale and the Pharmacies business areas in the UK (previous year € 600.7m), an amount of € 193.6m to the Wholesale and Pharmacies business areas in Norway (previous year € 115.4m), and an amount of € 103.0m to retail pharmacies in Ireland (previous year € 108.7m). As of the reporting date, the future minimum lease payments expected from uncancellable operating leases come to € 29.7m (previous year € 37.6m). Of this amount € 7.0m (previous year € 7.4m) is due within one year. Another € 17.5m (previous year € 21.3m) is due in between one and five years and € 5.2m (previous year € 8.9m) is due in more than five years. In addition, future rental income from sub-leases of property is expected to amount to € 43.2m (previous year € 22.6m). An amount of € 2.6m (previous year € 2.2m) was received as income from contingent rent payments in the 2012 fiscal year.

Due to the outsourcing of all the group's IT infrastructure by virtue of an agreement concluded in February 2009 and effective 1 April 2009, the group has a financial obligation to pay service fees and future lease instalments expected to amount to € 172.8m (previous year € 198.4m) over a period ending 31 March 2016. The amount of the obligation can change depending on the services availed of under the agreement. In addition, there are other financial obligations of € 31.9m

(previous year € 39.8m) from data and voice communication service agreements. They have a remaining term of four years.

Contingent liabilities recognised for legal and tax risks in connection with the business combination with Panpharma in 2009 amounted to € 46.2m as of 31 December 2012 (€ 73.1m as of 31 December 2011). The reduction is primarily attributable to legal and tax risks becoming statute barred and arrangements reached with the tax authorities. To cover these legal and tax risks, an agreement was entered into with the former owners limiting reimbursement claims to a maximum amount. Until now, these reimbursements were offset against the purchase price for the remaining shares when the options were exercised. Following the acquisition of the outstanding shares in Panpharma in the second quarter of 2012, these claims were presented under current and non-current assets respectively as a receivable from the former owners. To secure these claims, Celesio has access to assets of the former owners held in trust and other possibilities to offset the claims as well as the collateral granted. These contingent liabilities have been divided into current and non-current provisions based on their maturity. The contingent liabilities include income tax liabilities of € 3.9m (€ 4.4m as of 31 December 2011).

Notes to the group statement of cash flows

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

The presentation of cash flows from operating activities was changed effective 1 January 2012. Since this date, the change cash and cash equivalents is based on profit after tax from continuing operations. This change in disclosure reflects the new structure of internal reporting and the management system and is in line with the general practice of our peers. The change in deferred taxes and current taxes comes to € 105.1m (previous year € 100.2m). The previous year's figures were restated to allow comparison.

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

Cash flows from investing activities comprise receipts from the sale of non-current assets, payments for capital expenditures, and the cash effects of acquiring and disposing of companies. Proceeds from the sale of subsidiaries – continuing operations – of € 64.4m (previous year € 3.1m) correspond to the net proceeds less the cash and cash equivalents transferred of € 0.4m (previous year € 0.1m). The cash outflow from disposals of subsidiaries originates from the sale of the Czech operations and the sale of 36 retail pharmacies in the UK. Cash paid for business combinations – continuing operations – corresponds to the purchase prices paid of € 258.9m (previous year € 58.3m) less the cash and cash equivalents acquired of € 0.7m (previous year € 25.5m). This includes payments to settle contingent purchase obligations for business combinations made in previous years totalling € 256.1m (previous year € 4.6m). The corresponding disclosures are contained in the notes on business combinations. Non-cash investments of € 1.4m were made in non-current assets in the reporting period (previous year € 7.1m) by means of finance leases. The cash inflow of € 131.0m from investing activities – discontinued operations – recorded in the reporting period is primarily due to the sale of Movianto (exclucing the logistics and marketing activities in Austria), Pharmexx and the DocMorris mail-order pharmacy.

Cash outflows from financing activities of continuing operations contain dividends paid to the shareholders of Celesio AG and the non-controlling interests in subsidiaries, plus receipts from new loans taken out and repayments of existing loans, as well as equity contributions from the shareholders, if any and interest paid and received. The line item “Payments made in connection with the change in ownership interests in subsidiaries that do not result in a loss of control” reflects cash paid to increase the ownership interest or cash received as a result of reducing the ownership interest of subsidiaries that do not result in a loss of control. The cash receipts from borrowing correspond to the proceeds from the placement of a new corporate bond with a volume of € 350m less the transaction costs of € 2.4m.

Notes to the group segment reporting

Segmentation mirrors the internal reporting structure of Celesio and has changed in comparison to the previous year as a result of the strategic realignment, which led to the sale of the Manufacturer Solutions division. The internal reporting structure is now divided into two divisions, Patient and Consumer Solutions and Pharmacy Solutions. These divisions form the basis for internal controlling by the Management Board and thus correspond to the reportable segments. Starting from the first quarter of 2012, the Manufacturer Solutions division is reported under discontinued operations; as a result, it is no longer carried as a reportable segment. Discontinued operations also include the activities of the DocMorris mail-order pharmacy, including the DocMorris brand.

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

- The Patient and Consumer Solutions division is aimed at patients and consumers. This covers the entire logistics chain, from purchasing merchandise through to selling to end consumers. The division mainly encompasses the retail pharmacies, mail-order pharmacies and brand partnerships. In Patient and Consumer Solutions a distinction was still made in the fiscal year 2012 between the operating segments, International Retail and Lloydspharmacy, which are combined for segment reporting. At the end of 2012, the International Retail operating segment was split up on account of a reorganisation of its organisational and reporting structure and defined by country, similar to the Wholesale unit. These are also combined for the purposes of segment reporting.
- Effective this fiscal year, the division also includes the activities of Evolution Homecare, our specialty pharmacy business in the UK, which were previously reported under "Efficient Care Pharma" in the discontinued division Manufacturer Solutions. Furthermore, the division contains our investment in Brocacef Holding N.V. in the Netherlands, which is recognised as an associate; the corresponding investment result is no longer included in the division's EBIT from 2012 onwards.
- The Pharmacy Solutions division focuses on the wholesale business with external customers. The operating segments in this division have been combined at country level. Starting in this fiscal year, logistics and marketing solutions activities in Austria are reported in this segment. In the previous year, they had been disclosed under Logistics Solutions within the Manufacturer Solutions division, which has now been discontinued. The Pharmacy Solutions division also includes Rudolf Spiegel Versand for pharmacy and laboratory equipment and Inten, the property developer for pharmacies.

The Others segment is primarily used to report the activities of the group's parent, Celesio AG, and other companies not directly attributable to operating activities. Celesio AG holds investments in the major operating national companies and national holdings. In addition, the operating entities of the Celesio Group are primarily financed via Celesio AG and Celesio Finance B.V., Netherlands. Moreover, Celesio AG bundles essential group functions, primarily in the fields of accounting, controlling, treasury and IT. In the comparative period, the joint venture Medco Celesio, which was reported under Manufacturer Solutions and was discontinued as of 30 September 2011, was reported in the Others segment. Consolidation of intra-group activities is shown separately.

The Management Board takes EBIT (earnings before interest and taxes) under IFRSs as a measure of the success of the segments. EBIT stands for earnings before interest and taxes.

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

The same accounting standards as for the Celesio Group have been used in segment reporting. Intercompany transactions are measured at market prices. There are no customers individually accounting for more than 10% of revenue.

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

Information
Celesio AG
2012

Related party transactions

Related parties as defined by IAS 24 (Related Party Disclosures) are legal entities and natural persons who can exercise significant influence or control over Celesio AG and its subsidiaries or, alternatively, are subject to the control or significant influence of Celesio AG or its subsidiaries. In particular, related parties include the majority shareholder, Franz Haniel & Cie. GmbH, Duisburg, and its subsidiaries, joint ventures and associates. In addition, related parties include the joint ventures, associates and members of the boards of Celesio AG. All transactions with related parties are conducted at arm's length.

There are contracts for management and other services in place with Franz Haniel & Cie. GmbH and its subsidiaries, joint ventures and associates.

There are ongoing business relationships with joint ventures and associates that includes but are not limited to supplies of merchandise.

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

	Franz Haniel & Cie. GmbH, Duisburg	
	2011 € m	**2012 € m**
Loans and receivables	0.0	**0.0**
Liabilities	0.0	**0.9**
Income	0.2	**0.1**
Expenses	0.4	**0.5**

	Subsidiaries of Franz Haniel & Cie. GmbH		Joint ventures and associates of Franz Haniel & Cie. GmbH		Joint ventures and associates of Celesio AG	
	2011 € m	**2012 € m**	2011 € m	**2012 € m**	2011 € m	**2012 € m**
	0.5	**0.1**	0.0	**0.0**	1.0	**2.1**
	0.1	**0.0**	0.2	**0.2**	1.7	**0.0**
	0.0	**0.0**	0.0	**0.0**	23.5	**18.9**
	0.3	**0.4**	1.5	**1.6**	0.0	**0.0**

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

The compensation structure for members of the Management Board of Celesio AG was refined and modified in the reporting period in light of changes in the economic and strategic environment and in line with endeavours to standardise the system with the support of an external consultant. The total amount of possible remuneration remains essentially unchanged.

The bonus consists solely of a direct percentage of earnings (defined uniformly as EBIT) in a given fiscal year, although a bonus will still be defined in euro as guidance for each member of the Management Board. The total amount payable is capped at twice the bonus defined as guidance in each case. The payment is settled by a cash component of 70% and phantom shares (with a three-year vesting period) of 30%.

The long-term component takes the form of a performance share plan with a term to maturity of three years. The phantom shares are allocated annually based on the guidance amounts defined individually and the average share price upon granting. The final payout is determined at the end of the term depending on the number of phantom shares allocated, the average earnings per share (EPS) over the term and the average share price upon maturity. The payment due can potentially fall to zero. The payout is settled in cash and is capped at three times the amount predefined as guidance. The performance share plan is measured in accordance with IFRS 2.

The Supervisory Board approved the refined compensation structure and implemented the changes in the contracts with Management Board members. As a result, remuneration in the 2012 fiscal year is uniformly based on the new system.

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

	2011 € k	2012 € k
Short-term benefits	4,974	5,448
Service cost	1,047	1,101
Termination benefits	16,867	3,979
Long-term benefits	–248	/
Share-based payment	–37	1,720
Total	**22,603**	**12,248**

The total remuneration of the members of the Management Board in terms of Sec. 314 (1) No. 6 a) Sentence 1 to 4 HGB came to € 7,578k in the 2012 fiscal year (previous year € 4,968k). This breaks down into € 2,643k for the basic component including additional benefits (previous year € 2,756k), € 2,292k for the portion of bonuses payable immediately (single year variable component; previous year € 1,727k) and € 2,643k for the value of the 2012 tranche of the performance cash

scheme and the value of retained bonuses on the date of issue (multiple-year variable component; previous year € 485k).

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

Former members of the Management Board and their surviving dependents received remuneration of € 4,308k in the reporting period (previous year € 17,245k). Celesio AG has set up pension provisions of € 15,249k (previous year € 12,898k) for this group of persons. These figures include the benefits paid to terminate the service agreement with Mr Mähr and, in the previous year, Dr Oesterle, Dr Holzherr and Dr Lonsert.

Remuneration for serving on Celesio AG's Supervisory Board came to € 513k in the past fiscal year (previous year € 491k) including attendance fees. The entire amount comprised short-term benefits. In addition, the employee representatives sitting on the Supervisory Board and employed within the group received the customary market salaries for their services.

No remuneration was paid to members of the Supervisory Board for services rendered individually. Otherwise, no transactions requiring disclosure were conducted with members of the Supervisory Board or Management Board as persons in key positions or any other entities in whose management or supervisory board any such persons are represented. This also applies to close family members of these persons.

The main features of the compensation structure of the Management Board and the remuneration paid to members of the Management Board and the Supervisory Board in the fiscal year are described in the remuneration report, which is a component of the management report.

Audit fees

The annual financial statements of Celesio AG, the German subsidiaries and the consolidated financial statements were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Ernst & Young Germany), Stuttgart. In the fiscal year, expenses for services rendered by Ernst & Young Germany totalled € 2.0m (previous year € 1.4m). Of this amount, € 0.5m (previous year € 0.8m) is for the audit of the financial statements, € 0.4m for other attest services (previous year € 0.2m), € 0.2m for tax advisory services (previous year € 0.2m) and € 0.9m (previous year € 0.2m) for other services.

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

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

- ABG Apotheken-Beratungsgesellschaft mbH, Stuttgart
- Admenta Deutschland GmbH, Stuttgart
- DocMorris International Retail GmbH, Stuttgart
- DocMorris Kooperationen GmbH, Stuttgart
- GEHE Pharma Handel GmbH, Stuttgart
- CEGE Beteiligungsgesellschaft mbH, Stuttgart
- Gesellschaft für Versorgungskonzepte in der Wundbehandlung GmbH, Stuttgart
- Inten GmbH, Stuttgart
- Rudolf Spiegel GmbH, Grafschaft-Gelsdorf

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

Notices from shareholders

Franz Haniel & Cie. GmbH prepares consolidated financial statements containing Celesio AG and its subsidiaries. These consolidated financial statements are published in the electronic version of the German Federal Gazette. To the knowledge of Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 50.01% (previous year 54.6%) at the end of the reporting period.

According to a notice dated 8 March 2012, the investment company Templeton Investment Counsel, LLC, Wilmington, USA, reduced its Celesio shareholding on 7 March 2012 to below 3% of the shares outstanding. On 4 May 2012 and 3 May 2012 BlackRock, Inc., New York, USA, notified the company that it had increased its shareholding temporarily above 3% on 23 April 2012 only to reduce it back to below 3% of the shares outstanding on 27 April 2012. Likewise, BlackRock Financial Management, Inc., New York, USA, and BlackRock Holdco 2, Inc., Wilmington, USA, notified the company on 26 October 2012 that they had increased their respective shareholdings above the 3% threshold on 9 February 2011 only to reduce them to below 3% of the shares outstanding on 11 August 2011.

Corporate Governance

The Management Board and Supervisory Board last issued a declaration of compliance with the recommendations of the German Corporate Governance Codex pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporation Act) in December 2012 and published this permanently on their website at www.celesio.com.

Proposal of the Management Board for the appropriation of profits

The profit available for distribution of Celesio AG amounts to € 53,523,005 (previous year € 85,952,000). The Management Board proposes distributing € 51,030,000 (previous year € 42,525,000) of the profit available for distribution as a dividend for the 2012 fiscal year and carrying forward € 2,493,005 (previous year € 43,427,000) to new account. On the basis of this proposal for the appropriation of profits, the dividend for a no-par share will be € 0.30 (previous year an ordinary dividend of € 0.25).

Subsequent events

On 12 February 2013, Celesio entered into a new syndicated loan agreement for € 500.0m. This syndicated loan agreement matures on 12 February 2018 and replaces the syndicated loan for € 600.0m that was previously in place.

As in the past, Celesio will service the new syndicated loan from the approved liquidity reserves.

STUTTGART, 20 FEBRUARY 2013

THE MANAGEMENT BOARD

Company boards

Members of the Management Board

Name	Membership in other Supervisory Boards and comparable bodies	Celesio shares
Markus Pinger Chairman of the Management Board/CEO	• GEHE Pharma Handel GmbH, Chairman of the Supervisory Board (since 1 July 2012)	none
Stephan Borchert	• Brocacef Holding N.V., Member of the Supervisory Board (until 17 July 2012) • MCM Medicines Holding S.A., Chairman of the Supervisory Board (since 1 September 2012) • Norsk Medisinaldepot AS, Member of the Supervisory Board (since 14 November 2012)	2,000
Dr Marion Helmes	• Brocacef Holding N.V., Member of the Supervisory Board (since 17 July 2012) • FUGRO N.V., Member of the Supervisory Board	none
Wolfgang Mähr (until 30 June 2012)	• GEHE Pharma Handel GmbH, Chairman of the Supervisory Board (until 30 June 2012) • Herba Chemosan Apotheker-AG, Deputy Chairman of the Supervisory Board (until 30 June 2012) • MCM Medicines Holding S.A., Member of the Supervisory Board (until 1 September 2012) • OCP S.A., Chairman of the Supervisory Board (until 30 June 2012)	93

Members of the Supervisory Board

Name	Occupation	Membership in other Supervisory Boards and comparable bodies	Celesio shares
Stephan Gemkow (Chairman and Member since 19 December 2012)	Chairman of the Management Board of Franz Haniel & Cie. GmbH	• Amadeus IT Group S.A., Madrid, Member of the Board of Directors • Amadeus IT Holding S.A., Madrid, Member of the Board of Directors • Evonik Industries AG, Member of the Supervisory Board • JetBlue Airways Corp., New York, Member of the Board of Directors	none
Prof Dr Jürgen Kluge (Chairman and Member since 18 December 2012)	Business consultant Kluge & Partner, Düsseldorf Senior Advisor Bank of America Merrill Lynch	• TAKKT AG, Deputy Chairman of the Supervisory Board (until 7 September 2012) • SMS GmbH, Member of the Supervisory Board	none
Ihno Goldenstein (Deputy Chairman)	Employee, goods-in department, GEHE Pharma Handel GmbH, Delmenhorst branch, Chairman of the European Works Council of Celesio AG, Chairman of the General Works Council, GEHE Pharma Handel GmbH	none	800
Klaus Borowicz	Head of the Hamburg branch of GEHE Pharma Handel GmbH, Head of Region Nord, GEHE Pharma Handel GmbH	none	77

Name	Occupation	Membership in other Supervisory Boards and comparable bodies	Celesio shares
Prof Dr med. Julius Michael Curtius	Cardiologist in private practice	none	none
Dr Hubertus Erlen	Member of supervisory and advisory boards	• Schaeffler GmbH, Member of the Supervisory Board	3,000
Dr Florian Funck (since 16 May 2012)	Member of the Management Board of Franz Haniel & Cie. GmbH	• Metro AG, Chairman of the Supervisory Board (since 23 May 2012) • SmartLoyalty AG, Member of the Supervisory Board (until 27 December 2012) • TAKKT AG, Member of the Supervisory Board	none
Dirk-Uwe Kerrmann	Commercial employee of GEHE Pharma Handel GmbH Head of inventory, Welterstadt branch of GEHE Pharma Handel GmbH, Chairman of the Works Council of GEHE Pharma Handel GmbH	none	2,008
Jörg Lauenroth-Mago	Trade Union Secretary responsible for the trade division in Saxony, Saxony-Anhalt and Thuringia, ver.di – Vereinte Dienstleistungs-gewerkschaft	• GEHE Pharma Handel GmbH, Member of the Supervisory Board	1,000
Susan Naumann	Trade Union Secretary responsible for the legal and accounting division in Hamburg, ver.di – Vereinte Dienstleistungsgewerkschaft	• GEHE Pharma Handel GmbH, Member of the Supervisory Board	none

Name	Occupation	Membership in other Supervisory Boards and comparable bodies	Celesio shares
Ulrich Neumeister	Logistics employee of GEHE Pharma Handel GmbH Stuttgart branch	none	197
W.M. Henning Rehder	Chairman of the Advisory Board of Karl Kühne AG	none	none
Hanspeter Spek	Member of the Management Board of Sanofi SA, Paris	• Hoechst GmbH, Chairman of the Supervisory Board • Sanofi-Aventis Deutschland GmbH, Chairman of the Supervisory Board • Sanofi-Aventis SpA, Italy, Member of the Board of Directors • Sanofi-Aventis Nichi-Iko K.K., Japan, Chairman & Director • Sanofi-aventis K.K., Japan, Director • Sanofi SA (Sanofi AG), Switzerland, Member of the Board of Directors • Sanofi-Aventis (Suisse) SA, Switzerland, Member of the Board of Directors • sanofi-aventis Pharma Beijing co. Ltd., China, Chairman & Director • sanofi (Hangzhou) Pharmaceuticals Co. Ltd., China, Chairman & Director • Hangzhou Sanofi Minsheng Consumer Health Care Co. Ltd., China, Vice Chairman & Director	none

Name	Occupation	Membership in other Supervisory Boards and comparable bodies	Celesio shares
Prof Dr Klaus Trützschler (Member until 16 May 2012)	Pensioner	• Bilfinger Berger AG, Member of the Supervisory Board • Deutsche Bank AG, Member of the Supervisory Board (since 31 May 2012) • Sartorius AG, Member of the Supervisory Board • TAKKT AG, Chairman of the Supervisory Board • Wilh. Werhahn KG, Member of the Administrative Board • Wuppermann AG, Chairman of the Supervisory Board • Zwiesel Kristallglas AG, Chairman of the Supervisory Board	none

Responsibility statement

To the best of our knowledge and in accordance with the applicable principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

STUTTGART, 20 FEBRUARY 2013

MARKUS PINGER
CHAIRMAN OF THE
MANAGEMENT BOARD

DR MARION HELMES
CHIEF FINANCIAL OFFICER,
MEMBER OF THE MANAGEMENT BOARD

STEPHAN BORCHERT
MEMBER OF THE MANAGEMENT BOARD

Audit opinion

We have audited the consolidated financial statements, comprising the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of cash flows, the group statement of changes in equity as well as the notes to the financial statements – as well as the combined group management report and the management report of the company prepared by Celesio AG, Stuttgart, for the fiscal year from 1 January to 31 December 2012. The preparation of the consolidated financial statements in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB (Handelsgesetzbuch, German Commercial Code) is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany). 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 group 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 group 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

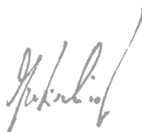
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the European Union, the additional requirements of German commercial law pursuant to Sec. 315a (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 requirements. The group 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 relating to future development.

STUTTGART, 22 FEBRUARY 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

PROF DR PFITZER
GERMAN PUBLIC AUDITOR



MATISCHIOK
GERMAN PUBLIC AUDITOR

Cash pooling

Financial management tool to balance intercompany liquidity. Surplus liquidity is invested internally and liquidity requirements are met by loans within the group.

Derivative financial instruments/derivatives

Certificates or contracts that are not assets in their own right but relate to another – generally tradable – asset. These financial instruments are also generally themselves tradable. Examples are interest swaps, forward exchange contracts or currency options.

DTP

Direct to pharmacy. This refers to the direct delivery of pharmaceuticals to pharmacies via some wholesalers or providers of logistics services.

Earnings per share

Pursuant to IAS 33, earnings per share are calculated by dividing the net profit attributable to the shareholders of Celesio AG by the weighted average number of shares outstanding during the fiscal year. The diluted earnings per share are calculated by adjusting the earnings allocable to the shareholders of the parent company and the weighted average number of shares outstanding for any dilution effects of potential shares.

Equity method

A method of accounting for associates and joint ventures in the consolidated financial statements. The investment in the associate or joint venture is initially measured at cost and this carrying amount is adjusted subsequently to reflect any developments in the equity of the entity.

Fair value

When items in the statement of financial position are measured at the amount that could be realised on the market, e.g. a stock exchange, as of the end of the reporting period.

Financial statements

These are prepared by the management board of a stock corporation and then audited by a German Public Auditor to verify compliance before being reviewed and approved by the supervisory board. The financial statements comprise the statement of financial position, the income statement, the statement of cash flows, the statement of comprehensive income, the statement of changes in equity, the notes to the financial statements and the management report of a company.

Generics

Imitations of original pharmaceuticals that have lost their patent protection.

Gross profit

Difference between revenue and cost of goods sold.

Hedging

Hedging interest, currency and exchange rate risks by using, for example, derivative financial instruments which limit the risk of the underlying transaction.

IFRS

International Financial Reporting Standards. 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 floating interest rates can be swapped with fixed interest rates.

Market capitalisation

Reflects the current market value of a company. It is calculated by multiplying the share price by the number of shares. The trading volume and market liquidity of a share frequently rise when market capitalisation is high and particularly when the free float is high.

MDAX

The mid-cap index, in which Celesio AG is listed, issued by the Frankfurt Stock Exchange. The index comprises the 50 most important shares on the market after the 30 DAX shares.

Net financial debt

Difference between non-current and current financial liabilities and cash and cash equivalents.

Net working capital

Financial indicator to measure the capital employed and the liquidity 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).

OTC
Over the counter. A term used for non-prescription products in the healthcare sector.

Reduced wholesale model
Manufacturers supply to a limited number of wholesalers. Generally used for the distribution of certain products or product categories.

Transaction risk
Exchange rate risk associated with the exchange of currency, existing for items of the statement of financial position in foreign currencies from creation until payment due to uncertainty regarding the future exchange rate development.

Translation risk
Exchange rate risk associated with the valuation of items of the statement of financial position, resulting from the valuation and accounting principles applied to the translation of items stated in foreign currencies.

WACC
Weighted Average Cost of Capital, consisting of costs of both equity and debt capital.

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This annual report was published on 26 March 2013. It is available in German and English and can be downloaded from the investor relations section of celesio.com. Alternatively, a printed version can be ordered from the website.
The German version of the annual report is legally binding.

Design and layout: Strichpunkt GmbH, Stuttgart / Berlin / www.strichpunkt-design.de
Photography: Celesio / Joris Haas, Stuttgart / Jochen Manz Fotografie, Cologne / Andy Ridder, Stuttgart / Matthias Ziegler, Munich
Print: Eberl Print GmbH, Immenstadt / www.eberl.de

Financial calendar 2013

Interim report, 1st quarter of 2013
14 May 2013

Annual general meeting 2013
16 May 2013

Interim report, 1st half year of 2013
14 August 2013

Interim report, 1st to 3rd quarter of 2013
14 November 2013

(Excerpt)

Subject to amendment. Other dates and updates can be found
at celesio.com under Investor Relations/Financial calendar.

7-year summary of the Celesio Group

Earnings development	
Revenue	€ M
Gross profit	€ M
adjusted	€ M
EBITDA	€ M
adjusted	€ M
EBIT	€ M
adjusted	€ M
Profit before tax	€ M
adjusted	€ M
Net profit/loss of continuing operations	€ M
adjusted	€ M
Net profit/loss of discontinued operations	€ M
Net profit/loss	€ M
adjusted	€ M
Earnings per share of continuing operations (basic)	€
adjusted	€
Earnings per share of discontinued operations (basic)	€
Earnings per share (basic)	€
adjusted	€
Financial position	
Net cash flow from operating activities [5]	€ M
Net cash flow from investing activities	€ M
Assets position [6]	
Total assets	€ M
Equity	€ M
Equity ratio	%
Gearing	
Net financial debt	€ M
Non-current assets	€ M
Current assets	€ M
Non-current liabilities	€ M
Current liabilities	€ M
Capital expenditure and investments [7]	€ M
The share	
Closing share price (Xetra) [8]	€
Dividend per share [8]	€
Dividend yield [9]	%
Full-time equivalents [6]	
Employees [6]	
Retail pharmacies [6]	
Wholesale branches [6]	

1) Adjusted for non-recurring expenses and income from the Operational Excellence Program (including tax effect).
2) Adjusted for special effects from revaluations pursuant to IFRS 5 as well as deconsolidation effects (including tax effect).
3) Adjusted for impairment losses recognised on non-current assets (including tax effect).
4) Adjusted for special effects in the financial result (including tax effect).
5) Since 2008, interest paid and received is allocated to cash flow from financing activities.
6) Closing figures as of 31 December.
7) Since the 2010 fiscal year, investments and capital expenditures do not include additions to non-current financial assets or loans.
8) Adjusted for the 1:2 share split carried out on 24 July 2006.
9) Related to the closing share price (Xetra).
10) Restated due to changes in accounting policies in the Movianto business area.
11) Restated due to the completion of purchase price allocation for the Panpharma acquisition.
12) Proposed by the Management Board and Supervisory Board to the 2013 annual general meeting.
13) The figures presented for the reporting periods 2006 to 2010 reflect the values reported in the respective financial statements.
14) We also operated one retail pharmacy in the Netherlands until November 2012 in connection with the DocMorris mail-order pharmacy.

[13] 2006	[13] 2007	[13] 2008	[13] 2009	[13] 2010	2011	**2012**
21,569.1	22,349.5	[10] 21,166.6	21,497.2	23,277.6	22,152.9	**22,270.8**
2,431.6	2,523.7	2,410.5	2,507.2	2,838.1	2,335.0	**2,425.1**
2,431.6	2,523.7	2,410.5	2,507.2	2,838.1	[1] 2,339.0	**[1] 2,423.4**
803.7	842.5	657.3	627.6	699.2	495.4	**542.5**
803.7	842.5	657.3	627.6	699.2	[1] 554.9	**[1] [2] 579.6**
685.8	727.7	256.2	237.6	565.6	308.0	**370.1**
685.8	727.7	[3] 543.2	[3] 511.9	565.6	[1] [3] 429.8	**[1] [2] [3] 444.8**
590.1	608.8	125.2	[11] 119.5	409.3	176.9	**214.7**
590.1	608.8	[3] 412.2	[3] [4] 403.6	[4] 454.0	[1] [3] [4] 319.9	**[1] [2] [3] [4] 333.1**
/	/	/	/	/	76.7	**109.6**
/	/	/	/	/	[1] [3] [4] 200.6	**[1] [2] [3] [4] 214.2**
/	/	/	/	/	–70.9	**–258.6**
425.6	435.4	–18.5	[11] 6.5	265.0	5.8	**–149.0**
425.6	435.4	[3] 268.5	[3] [4] 282.4	[4] 309.1	/	**/**
/	/	/	/	/	0.43	**0.60**
/	/	/	/	/	[1] [3] [4] 1.16	**[1] [2] [3] [4] 1.22**
/	/	/	/	/	–0.42	**–1.52**
2.49	2.53	–0.12	[11] 0.02	1.52	0.01	**–0.92**
2.49	2.53	[3] 1.56	[3] [4] 1.64	[4] 1.78	/	**/**
733.1	170.7	536.4	578.2	652.3	559.3	**422.1**
–325.2	–528.0	–265.2	–203.1	–124.0	–200.4	**–161.9**
7,926.5	8,343.2	7,523.3	[11] 8,075.6	8,402.7	8,826.8	**7,928.7**
2,628.1	2,819.6	2,269.6	[11] 2,352.1	2,601.1	2,466.6	**2,195.9**
33.2	33.8	30.2	29.1	31.0	27.9	**27.7**
0.72	0.84	0.97	0.87	0.66	0.66	**0.71**
1,886.3	2,345.7	2,205.2	2,040.4	1,722.5	1,618.7	**1,559.0**
3,446.8	3,867.0	3,287.1	[11] 3,443.1	3,450.8	3,633.8	**3,179.9**
4,479.7	4,476.2	4,236.2	4,632.5	4,951.9	5,193.0	**4,748.8**
1,962.8	2,325.0	2,257.5	[11] 2,432.9	2,292.6	2,375.8	**2,379.1**
3,335.6	3,198.6	2,996.2	[11] 3,290.6	3,509.0	3,984.4	**3,353.7**
350.9	679.7	265.1	381.5	198.8	272.7	**143.2**
40.64	42.50	19.40	17.70	18.60	12.24	**13.05**
0.75	0.77	0.48	0.50	0.50	0.25	**[12] 0.30**
1.8	1.8	2.5	2.8	2.7	2.0	**2.3**
26,832	**27,748**	**28,354**	**35,408**	**36,441**	**36,670**	**28,877**
36,442	**37,516**	**37,746**	**46,095**	**46,826**	**46,977**	**38,940**
2,100	**2,273**	**2,337**	**2,296**	**2,277**	**[14] 2,280**	**2,177**
135	**123**	**120**	**137**	**133**	**141**	**136**