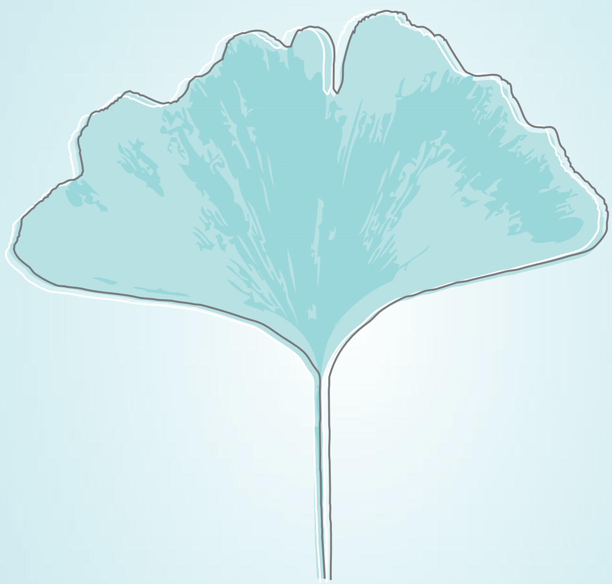
Annual Report 2007
Market in transition



celesio
the healthcare group

History

Founder	Franz Ludwig Gehe
Founded	1835 in Dresden (Germany)
Listed on the stock exchange	since 1903

Key financial figures 2007

Revenue	22,349.5 million euro
Revenue growth	3.6 per cent
EBITDA	842.5 million euro
EBITDA growth	4.8 per cent
Profit before tax	608.8 million euro
Growth in profit before tax	3.2 per cent
Net profit	435.4 million euro
Growth in net profit	2.3 per cent
Earnings per share	2.53 euro

Employees	37,516
Wholesale branches	123
Pharmacies	2,273

Title page:
The ginkgo is
symbolic for Celesio.
It symbolises
durability, health
and a long life.

Group structure

Celesio Group

Celesio Wholesale

Revenue: 17,730.4 million euro
Gross profit: 1,087.0 million euro
EBITDA: 431.5 million euro
Employees: 13,543
Branches: 123

Celesio Wholesale

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

* The subsidiaries in Croatia and Romania were deconsolidated in December 2007. The companies have been included at the year end in the key figures for Wholesale revenue, gross profit and EBITDA, but excluded in the number of employees and branches

Celesio Pharmacies

Revenue: 3,618.7 million euro
Gross profit: 1,275.2 million euro
EBITDA: 438.3 million euro
Employees: 22,153
Pharmacies: 2,273

Celesio Solutions

Gross profit: 161.5 million euro
EBITDA: 26.1 million euro
Employees: 1,569

Celesio Pharmacies

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

Movianto

Austria	Movianto Österreich
	SANOVA Pharma GesmbH, Vienna
Czech Republic	Movianto Česká republika, a.s., Brno
Denmark	Movianto Danmark
	K.V. Tjellesen A/S, Rødovre
France	Movianto France S.A.S., Gonesse Cedex
Germany	Movianto Deutschland GmbH, Kist
Ireland	Movianto Ireland
	CAHILL MAY ROBERTS GROUP LIMITED, Dublin
Norway	Movianto Norway
	Norsk Medisinaldepot AS, Oslo
Spain	Movianto España S.A., Getafe
United Kingdom	Movianto UK Limited, Bedford

pharmexx

Strategic alliance with a 30 per cent share in pharmexx GmbH, Hirschberg, Germany

Contents

Market in Transition: Same game with new rules and new players

Prof. J.-Matthias Graf von der Schulenburg
Leibniz University Hanover, Germany

Academic Guest Article

The pharmaceutical market has always been in a constant state of flux. However, it is also often affected by fundamental changes which lend the game of competition and market regulation new rules and new directions. As a result, there are not only new challenges, opportunities and risks for the manufacturers, wholesalers and pharmacies active in the marketplace. The game also takes on a different dynamic as old players reposition themselves, new ones enter the playing field and others (may be forced to) leave it. Politicians attempt to moderate this process, and in building on this, even try to reposition themselves. From an economic perspective, it is clear that the yardstick for an evaluation of changes is not the opinion of existing old players but quite simply the question as to whether the public, the consumer, the customer or the patient gains added value from it.

The game and its players

The economist expects each player to behave rationally, even when there is sometimes doubt relating to healthcare policy. Companies pursue their own interests in terms of profit, growth and market power. Politicians pursue the same interests in their actions with regard to their constituents. Consumers (in the healthcare system we call them insured persons or patients) maximise their benefits. The great achievement of Nobel Prize winners Kenneth Arrow and Gerard Debreu was to show that although everyone pursues their own self-interest, with the right market rules this can lead to an equilibrium of interests and therefore optimal social welfare. Nobel Prize winners Reinhard Selten and John Nash – who can forget the impressive film "A Beautiful Mind" – have also shown that this can apply to very complex "games", provided the rules of the game to be played are right. And what game could be more complicated than the largest sector of our national economy, the healthcare system. However, here the rules of the game are no longer appropriate, which is clear from the continual, vigorous and often vague discussion on reform. In the pharmaceutical market in particular the rules of the game are currently in flux.

So who are the relevant players in the markets supplying pharmaceutical products, the second most important area of the healthcare system in terms of revenue? They are primarily political decision-makers whose task it is to implement the will of the electorate. Then there are the health insurers, who should be committed to the interests of insurance holders, and the actors in self-governmental bodies and the large bureaucracies, who as a matter of fact should not be pursuing any self-interests. Futhermore, there are the pharmacies, whose interests are perceived as a whole as those of an independent pharmacist, and lastly the pharmaceutical manufacturers who have to try to survive in the marketplace with a specific product, innovation and pricing policy. All these players have differing interests which are legitimately justified from their own individual perspective.

The legal framework is the same for all participants. It regulates the supply chain and requires that the interests of the individual groups are subject to the demands defined by healthcare policy to form a high quality, economical and patient-orientated healthcare system. The term supply chain is chosen quite deliberately here. What is this all about? Pharmaceutical manufacturers operating mostly at an international level have to make their production, distribution and in particular their innovation decisions based on the information and market signals available to them. The products reach the patients and the bills reach the health insurance funds via a complex distribution system that uses sophisticated logistics. This chain is on the one hand a goods supply chain running counter to the flow of monetary funds and on the other hand an information chain through which signals are transmitted to the manufacturers and other participants. A chain is only as strong as its weakest link, as the saying goes, and this also applies here. The more the signals are alienated through regulation, the more the result deviates from the optimum, especially if this occurs over a long period. The pressure for change then increases more and more. We have been feeling this pressure for some time, in particular with the pharmacy as a link in the overall chain, as in Germany rigid legislation makes it difficult to adapt to new challenges.

Competition as a creative challenge

All participants are in intense competition. However, the degree and form of the intensity is different in the individual links of the chain. The innovation competition among manufacturers has gained momentum as margins for non-patented products have decreased. Competition is also fierce in logistic services, for competition is much more intense in a competitive oligopoly than in an atomistic polypolistic market (as Nobel Prize winner Joseph Stiglitz has shown). Health insurers have also experienced this in recent years. Now the pharmacy market has become caught up in it, regardless of whether the participants want this or not. Globalisation requires efficiency and this is best achieved through dynamic competition.

Celesio's answers
Strong brands and extensive services offering strengthen owner-managed pharmacies in a changing market. In addition to the traditional wholesaling services and the gesund leben [live healthily] cooperation, Celesio now also offers pharmacies in Germany the renowned DocMorris brand in the form of a brand partnership.

Three phenomena in particular will have an external impact on this section of the public health system and a crucial effect on future development:

– The pressure and drive for cost-effectiveness within the healthcare sector, together with its focus on the added value of alternative therapies and processes compared with conventional therapies, will lead to a change in conventional structures (value for money).
– The combination of political will and EU regulations to create a common market in the Community will remove any access restrictions and competition barriers, giving rise to a mixed system of market and managed competition.
– Establishing a patient-orientated quality assurance system which, alongside other players, places the patient right in the middle of decision-making processes will increase the pressure on the performance and service orientation of providers in the public health system.

The last point, including the patients in the supply chain (and not only as a patient but as a partner), is still greatly underestimated in current discussions. In other areas, questions in particular regarding market structure are decided predominantly by the consumers of goods or services. Why should this be any different in the public healthcare system? For quite a while the public healthcare system has also been moving away from a paternalistic system of providing services towards a more customer-orientated and partnership-based service system. If all the groups involved were asked what attributes should have top priority in pharmaceutical distribution, most likely terms such as speed, efficiency, safety, quality of service, flexibility and transparency would be ranked quite high in the results of that survey. To check which market models fit the preferences of the market participants best, using this value framework as a basis, different distribution models would be allowed to compete with one another. In the end there should not be one winning system but a mixed system which takes account of the public's heterogeneous preferences. It should therefore not be expected that the traditional owner-managed companies – as, for instance, the majority of pharmacies in Germany are – will disappear from the market, nor that multinational companies will gain the upper hand.

Overcome fear of the future

The greatest obstacle along this route is the existing and understandable risk aversion among many players, who confronted with open and innovative competition want to maintain the status quo. It has always been the case that, seen from the present, the past appears morally superior and technically inferior. People see the past as warm and cosy, as opposed to the present which seems cold and efficient. Extrapolating this, many expect the future to be even more efficient and as a result even colder. Hence, being in the mid of any change process many people brace themselves – and not just due to particular interests – against liberalisation. On the other hand it is a fact that economic and entrepreneurial freedom and the gains in efficiency resulting from those factors, form one of the roots of our welfare.

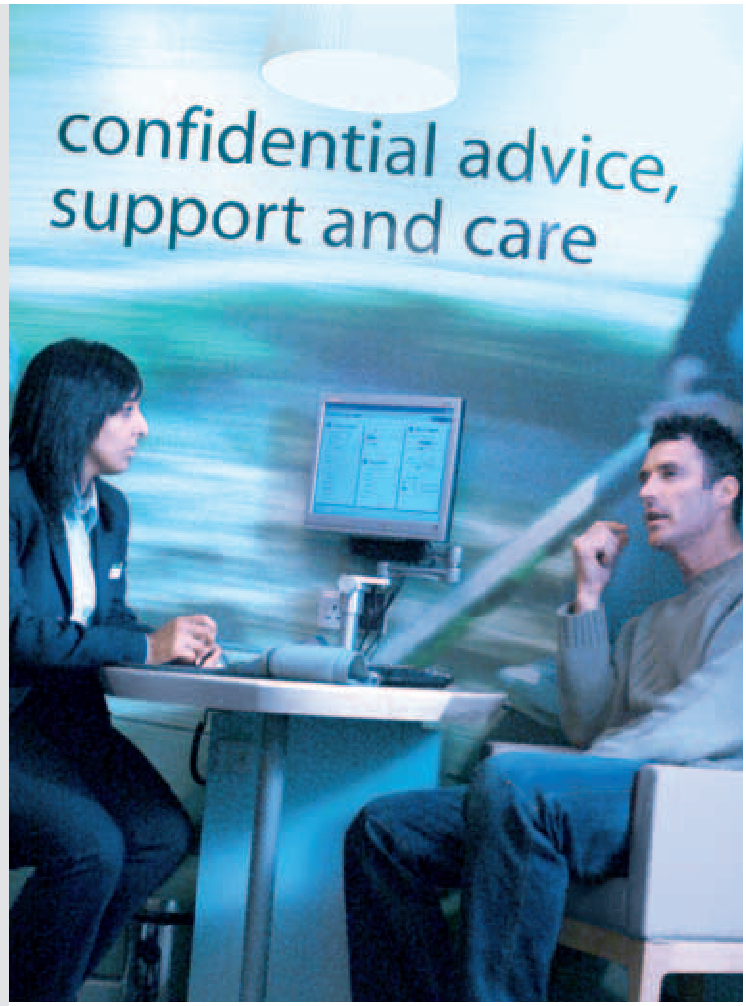
With that in mind, what response can and must be given to those who, from an understandable fear of the future, are afraid of the uncertainty associated with trying out new market conditions? Where there are extensive changes to submarkets, the question always arises from a theoretical perspective as to whether it is possible for individual market participants to actively helping to shape the change processes or whether the change processes are left to the dynamics of the market alone and thus, put simply, left to a creative chaos. Everyone confronted with this question will intuitively decide that early, active participation is always an advantage for a particular player in the respective market. All players should therefore set aside their passive scepticism and consider what active part they can play in shaping the future.

Thinking of this, let us take a closer look again at the three essential trends mentioned above.

The demand for 'value for money'

Healthcare provision is essentially financed by large groups of people bound by a sense of solidarity including funds coming from the statutory social insurance, private health insurers and tax revenue. It is therefore important to weigh expenditures in the light of the benefits we get. This does not only apply to specific healthcare products like drugs, but also to processes. This trend can be seen on an international level, and with the revision of § 35b SGB V [Social Security Code Book V], this understanding has now also reached the German pharmaceutical market. At this point in time, it remains to be seen how the benefits should be assessed and analysed, and what specific dimensions of benefit should be taken into consideration. Is greater comfort for the patient or greater compliance of more value? This is no question for the economist as the decision whether these issues pose an added value or not should be determined by the citizens of a country in terms of their preferences and not by the federal government. Cost containment policies and the political will to stabilise contribution rates of the individual insured person may seem plausible from a societal view, but are more or less just the expression of an uncertainty in policy how to respond to the question where there might be a threshold for spending and how to define the term 'value for money'.

A response to counter this uncertainty would be to foster more dynamic in the market by means of more entrepreneurial freedom to generate added value for patients and insured persons. A mixed system of larger and smaller units creates competition for the best solutions and more importantly greater efficiency. The citizen has a right to see these gains in efficiency implemented. This also applies to the pharmacy market. Standardised services and healthcare for patients by pharmacy companies in liberalised markets are an example of this.



Celesio's answers
An extensive range of healthcare-related services is a matter of course for Celesio. The company's 2,273 pharmacies in the United Kingdom, Norway, Italy, Ireland, the Netherlands, Belgium and the Czech Republic see themselves as local healthcare partners. Celesio's pharmacies offer blood pressure and diabetes tests, smoking cessation programmes and medicines use reviews. In the United Kingdom, for example, Lloydspharmacy has conducted over one million diabetes tests since 2003. The innovative services and awareness campaigns of Celesio's pharmacies have been recognised many times.

Market competition versus managed competition

Public healthcare systems use managed competition in addition to market competition. This is also increasingly the case in Germany: one example may be the trend towards a more integrated healthcare provision, co-payment insurance contracts and rebate negotiations with the pharmaceutical industry. Managed competition in a sense of competing contractual alternatives between certain players and not only a federally given statutory insurance scheme will only create more efficiency if this competition in its nature is symmetrical and not asymmetrical. Contracts are symmetrical if the contracting parties negotiate at the same level of power. This implies equal negotiating power and the option of saying "no" to the other party. In public healthcare systems, and in Germany in particular, this is often not the case:

– Contracts can be concluded for the account of third parties, for example rebates for pharmaceuticals as defined in § 130a Para. 8 SGB V.
– Pharmaceutical manufacturers have to conclude rebate contracts just to stay on the market. The Allgemeine Ortskrankenkassen [largest group of statutory health insurance funds] contracts confirmed this recently.
– At federal level, contractual agreements are made which are legally binding to players at the regional levels.
– Due to the atomisation of providers, at the moment the German pharmacist in particular is practically incapable of participating in managed competition. As a result it has become almost impossible to implement any advantages for the public healthcare system in this area.

In many cases functioning managed competition is impeded by rigid regulations. An example of this is that sickness funds have attained new market power as a result of reforms. As they are interested in holistic service concepts they will use managed competition in this sense. There is much evidence to support the claim that, for example, diabetes screening by a pharmacist is easier to organise than by local doctors. The health insurance funds need to find capable partners for this. The pharmacist would also be encumbered with monitoring and logistics in addition to buying all registered pharmaceuticals. Now such concepts are reaching their limits as individual pharmacies are less able to deliver the required service than large pharmacy chains.

Quality assurance to support an optimal provision of services to the patient

Quality assurance at all stages is the buzz word of the day, using the latest methods in quality control as well as quality assessment. Larger units are in a better position for this than smaller ones as they achieve economies of scale in data collection and analysis and are able to perform not only external but also internal benchmarking in terms of permanent quality improvement.

The following examples can be cited in the field of pharmaceuticals:

– Manufacturers are beginning to develop product-driven distribution channels. Some complex biotechnological products therefore require a special distribution chain (for example special cooling systems).
– Hence, the traditional wholesale model must also change and be replaced by distribution models which are reduced – possibly only in part – to logistics services.

The market will respond to future quality requirements at least in part with new processes. We can already see the first examples of this today: Outsourcing of non-core areas (such as logistics for manufacturers, integrated health provision management for health insurance funds, budget responsibility for healthcare providers), new forms of distribution (direct to consumer, special shipping, supply concepts involving pharmacists, the

'Pharmacy Benefit Management', the creation of "strong" market brands for pharmacies) as well as an increase in a systematic evaluation and benchmarking of products and processes.

Actively shaping the future!

We are only just beginning to see an increase in momentum for adaptation processes in the public healthcare system. We will also experience this in the field of pharmaceutical markets. Especially the change in rules for pharmaceutical distribution services is gaining considerable momentum. First of all there is a noticeable increase in savings efforts among national governments and health authorities. This trend slows down value growth in the pharmaceutical market. Pharmaceutical manufacturers seek new distribution channels for their innovative and high value products which must meet specific requirements. This gives rise to new challenges for pharmaceutical distribution and market participants must keep up with these developments. Ultimately the pharmacy markets face radical change. Following the anticipated and necessary liberalisation of the pharmacy markets we will see experiments with vertical and horizontal cooperations as well as integrations. It remains to be seen what forms of new market structures prove to be efficient or superior. Companies that are future-oriented will have to take an active part in these processes not only for commercial reasons but also in order to fulfil their corporate responsibility as companies that play an active part in the public healthcare system. Lastly, the various consumers on the different levels of the overall market will and should decide which business model they prefer over the others. The question of an intensified competition will be decided neither by pharmacists nor by wholesalers. The change in market competition will be the logical consequence of a change in social and economic reality and the resultant change in behaviour of the individual players, regardless if they are politicians, the manufacturers and, above all, the patients.

Celesio's answers
Movianto and the strategic 30-per cent stake in pharmexx make up the Celesio Solutions business division. It offers pharmaceutical manufacturers tailor-made marketing, sales and logistics services. The services range from highly qualified pharmaceutical sales representatives to sophisticated RFID-monitored cold chain logistics to invoice issuing. The prevalent multinational business models offer great growth potential for Celesio.

Summary of Company Development in 2007

- Celesio demonstrated growth for the 21st year in succession in 2007. Revenue showed 3.6 per cent improvement and EBITDA 4.8 per cent. Celesio increased its profitability yet again
- Acquisition of DocMorris, Germany's best-known pharmacy brand and Europe's largest mailorder pharmacy
- Celesio Wholesale restructured its branch network in France
- Acquisition of 149 pharmacies in the United Kingdom, Norway, Belgium, the Netherlands and Ireland
- The announcement of unexpectedly high price reductions in the United Kingdom as of 1 October 2007 made a correction of the medium-term profit forecast necessary
- Celesio held first cooperation talks in the Russian market

Chairman's Letter to Shareholders

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

Dear shareholders,

In 2007, Celesio increased its revenue and operating profit in core business for the 21st year in succession. Revenue rose by 3.6 per cent, the operating profit by 4.8 per cent. Yet again, we could improve our profitability. Celesio therefore reached its financial targets for the 2007 fiscal year, an achievement that we are particularly proud of given that the market environment grew increasingly difficult in the second half of 2007. I would like to express my sincere gratitude to our employees for these achievements. Their high level of commitment has made it possible for the Celesio Group to continue its growth course.

We would like to share this positive performance of 2007 with you, our shareholders. The supervisory board and management board are pleased to propose to the annual general meeting on 30 April 2008 a dividend of 0.77 euro per share. This represents an increase of 2.7 per cent compared to the previous year.

In the academic guest article in our 2007 annual report, Professor Graf von der Schulenburg describes the drastic changes currently taking place in the pharmaceutical market. Celesio experienced this partial reshaping of the market last year particularly in the United Kingdom, where the new distribution model of one manufacturer in particular caused unrest in the market. This manufacturer's pharmaceuticals can no longer be purchased via the pharmaceutical wholesalers, but only exclusively from one single logistics provider. This raised protests from wholesalers, pharmacists and doctors, so the British competition authority, the Office of Fair Trading (OFT) set up a study of the market which was published in December. The study came to the conclusion that the exclusive distribution of medicines can lead to higher costs and lower service quality levels. Other pharmaceutical manufacturers also changed their distribution, concentrating, however, on at least two distribution partners, Celesio Wholesale in the United Kingdom being one of them.

Chairman's Letter to Shareholders

Due to demographic changes and pharmaceutical innovations, the pharmaceutical market is and will remain an attractive growth market. At the same time, perhaps also for this very reason, it is a market where the state sets the basic framework. Celesio is experienced in dealing with such government measures. In September 2007, however, price cuts were announced in the United Kingdom, the extent of which was impossible for Celesio to predict. The UK government decided, with effect from 1 October 2007, to make savings of around 700 million euro per annum in the supply chain for medicines. We were forced to correct our medium-term profit forecast to 2010. After this unexpectedly drastic government intervention, Celesio is no longer expecting an average of double-digit growth for pre-tax profit for the time period 2006 – 2010. This was a first for Celesio – for the first time we had to revise our profit forecast. This proved that our shareholders can rely on Celesio to inform them quickly and comprehensively even in the event of bad news. They can also rest assured that we will compensate for government measures as far as possible without jeopardising Celesio's long-term growth in so doing. Despite the government cuts we shall strengthen our business in 2008 so as to benefit from the growing pharmaceutical market in subsequent years and to achieve once more higher profit growth rates.

2007 was a year of important decisions for the Celesio Group. Celesio took a big step in May 2007 with the acquisition of Europe's largest mailorder pharmacy and Germany's best-known pharmacy brand DocMorris. With this step, Celesio is also operating in the rapidly growing German mailorder business for medicines. With the acquisition of DocMorris, Celesio also secured the only nationally renowned pharmacy brand in Germany, expanding at the same time the offer to owner-managed pharmacies. Alongside the traditional wholesale partnership and the gesund leben cooperation, Celesio now also offers its German wholesale customers the strong DocMorris brand in the form of brand partnerships. At the end of 2007, already more than 100 owner-managed pharmacies had signed DocMorris brand partnerships. The revenue growth of the DocMorris pharmacies shows that customers accept the concept "good quality, good service and fair prices". With DocMorris, Celesio also has the right starting position in a changing German pharmacy market, which experts are expecting to be liberalised in 2008.

In our view, the pending liberalisation of the pharmacy market – and not only in Germany – should not be left to the courts, but must be decided politically. This includes ensuring high quality in the supply of medicines and strengthening the role of pharmacies as local healthcare partners.

The purchase of DocMorris led to a loss of customers for GEHE Pharma Handel, our German wholesale business. We expected this to a degree. But the development was intensified as the result of agitation by the pharmacist associations targeted at GEHE Pharma Handel. The Bundeskartellamt [Federal Cartel Office] is currently investigating whether the campaigns by the associations constitute calls for a boycott against GEHE. The last few months of the year, however, show that customers who reduced or transferred their business away from Celesio Wholesale in Germany are returning to GEHE. It is increasingly seen and appreciated that the acquisition of DocMorris also represents a step to strengthen the owner-managed pharmacy and hence our GEHE customers.

In 2007, Celesio started holding concrete talks with leading target companies in the Russian market. The Russian market is a large pharmaceutical market with strong growth already at a relatively high level. In the fourth quarter of 2007 Celesio held exclusive negotiations for the multi-level acquisition of a majority shareholding in the Russian Protek Group. As mutual exclusiveness ceased to exist at the beginning of 2008, we are now again holding talks with other potential Russian partners.

The development of our share price 2007 was subject to unusually strong fluctuations and movements. Following the notification of the acquisition of DocMorris at the annual general meeting, the price of the Celesio share rose to an all-time high of 55.02 euro. Reports regarding the generally difficult competitive situation in Germany, also a result of the DocMorris purchase, as well as the general uncertainty on the stock markets triggered by the crisis on the financial markets resulted in a fall in the share price. Following the correction of our medium-term forecast for the time period 2006 – 2010, the share price fell by about 20 per cent and had risen again to 42.50 euro at the end of the year 2007. This meant that at the end of 2007 Celesio had a higher market value than at the end of 2006.

Chairman's Letter to Shareholders

Ladies and gentlemen, Celesio is preparing itself for the future, even if this may affect current business temporarily. Celesio is strong enough to offset dents in one market and due to its – geographically diversified – presence in three sectors to grow profitably now and in future. This, as before, is our focus; revenue growth without proportionally stronger profit growth does not add value. In 2007, Celesio implemented extensive measures to further improve operational processes to reduce costs and thus increase efficiency. This will ensure lasting, continuous added value for the company.

2008 will be a really difficult business year. Government measures from the year under review will negatively affect revenue and profit throughout 2008. This is particularly true for our UK pharmacy business due to the unexpectedly severe price reductions. Today, however, we are already viewing 2009 with a good deal of optimism.

Despite the difficult conditions anticipated in 2008, Celesio will seize the opportunities of a dynamic, changing market. The pharmaceutical market will continue to grow, thanks to demographic changes and pharmaceutical innovations. According to experts, the European Commission intends to forge ahead with the liberalisation of pharmacy markets. Pharmaceutical manufacturers are expected to demand new and more complex solutions from their service partners. All this opens up great opportunities for innovative companies like Celesio.

We look to the future with optimism. Confidence plays a crucial role in this. Confidence in our own strengths goes without saying, but we do not take the confidence of shareholders, customers and business partners for granted. For this reason we are letting four of them say a few words in this annual report on pages 32, 96, 108 and 122. In this light we would like to thank you, our shareholders, for the confidence you place in us.

We shall continue the Celesio success story in the future and do our utmost to justify and honour your confidence in us.

Stuttgart, February 2008

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

Management Board

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

Committed to health

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

Wolfgang Mähr
Celesio Wholesale
Movianto

Dr Felix A. Zimmermann
Chief Financial Officer

Supervisory Board

Members

Dr Eckhard Cordes
Chairman

Ihno Goldenstein
Deputy Chairman

Klaus Borowicz

Prof. med. Julius Michael Curtius

Dr Hubertus Erlen

Dirk-Uwe Kerrmann

Jörg Lauenroth-Mago

Ulrich Neumeister

Hans-Martin Poschmann

Dr Ihno Schneevoigt

Dr Klaus Trützschler

Prof. Erich Zahn

Committees

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

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

Nominations committee
Dr Eckhard Cordes (Chairman)
Dr Hubertus Erlen

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

Report from the Supervisory Board

Dr Eckhard Cordes
Chairman of the Supervisory Board

Dear shareholders,

During the year under review, the supervisory board advised and monitored the management board on a continual basis in the management of the company. It was involved in all the important decisions and was kept informed of current developments at all times by the management board. The supervisory board fulfilled its duties to the full extent and made all necessary decisions in the 2007 fiscal year.

Cooperation with the management board

The supervisory board continued to work openly and faithfully with the management board this past fiscal year. The management board reported to the supervisory board regularly, promptly and comprehensively on the development of the three business divisions, the business situation, corporate strategy and the risk situation. The supervisory board members received reports from the management board in good time to prepare for the four ordinary meetings and held detailed consultations on the basis of this reporting. Furthermore, after thorough examination of the proposals for decision and consultation with the management board, the supervisory board gave its approval for all relevant projects.

The chairman of the management board informed the chairman of the supervisory board immediately of any important events which were of significance for assessing the situation and development as well as the management of the company. The chairman of the supervisory board informed the other supervisory board members in detail of such events at the latest at the following meeting.

Focal points of the work of the supervisory board

The focal points of the monitoring and consultation activities undertaken by the supervisory board in 2007 were operational business, including developments in the most important European healthcare markets, and acquisition projects.

The supervisory board had four regular meetings in the year under review.

At the meeting on 14 March 2007, the financial statements for Celesio AG and consolidated financial statements were resolved and the agenda was set for the annual general meeting on 26 April 2007.

Report from the Supervisory Board

On 26 April 2007, the supervisory board approved the DocMorris acquisition and passed a resolution as to the audit mandate for the 2007 Celesio AG financial statements and consolidated financial statements, and the 2007 first-half year report. The main focus of the meeting on 12 September was the adaptation of the management board's rules of procedure. Furthermore, the implementation of the amended German Corporate Governance Code, the associated adaptation of the supervisory board's rules of procedure and the setting up of a nominations committee were resolved. The supervisory board was also brought up to date on the status of integration of DocMorris and measures introduced by Celesio to guard against white-collar crime.

The last supervisory board meeting in 2007 took place on 13 December. At this meeting the supervisory board discussed, amongst other things, the consequences of government measures particularly in the United Kingdom and the status of the acquisition negotiations with the Russian Protek Group with the management board. It also approved the continued expansion of the pharmacy business in Europe and dealt with the remuneration system for the management board. The efficiency audit which was carried out identified no significant need for changes in the work of the supervisory board.

In their meetings, the supervisory board members also dealt with subjects such as liberalisation trends in important European pharmacy markets, the effects on Celesio Wholesale of new distribution models implemented by pharmaceutical manufacturers in the United Kingdom and growth opportunities for Celesio Solutions given the increasing outsourcing trend in the pharmaceutical industry.

Each member of the supervisory board attended at least half the meetings.

The work of the committees

The supervisory board has established four committees: the audit committee, personnel committee, arbitration committee and nominations committee. To the extent that these bodies met in 2007, their chairmen informed the supervisory board regularly in detail on the activity of the committees.

The audit committee carries out inter alia an ex ante audit of the financial statements for Celesio AG and consolidated financial statements, the management report and the proposed appropriation of profit. The audit committee is chaired by Dr Klaus Trützschler and met four times during this past fiscal year. On 13 March the committee examined the financial statements for Celesio AG and consolidated financial statements for the 2006 fiscal year as well as the management report and proposal for appropriation of profit for that year. The committee also analysed the current situation regarding accounting and risk management and dealt with essential topics relating to the consolidated financial statements. An additional item on the agenda was the establishing of auditor independence. On 25 April the audit committee adopted the recommendations for main audit areas for the 2007 fiscal year and for the mandate of the auditor. The meeting on 6 August primarily dealt with the first-half year report and the review by the auditor. Topics at the meeting on 7 November included the interim report for the 1st to 3rd quarters as well as compliance with internal regulations to prevent white-collar crime at Celesio.

The personnel committee chaired by Dr Eckhard Cordes supports the supervisory board in decisions relating to personnel. It is empowered to take decisions, in place of the supervisory board, in particular as regards the employment contracts of members of the management board and any associated topics. The committee met three times during the year under review. The meetings on 14 March, 25 April and 13 December involved in particular decisions regarding management board remuneration.

In accordance with § 27 Para. 3 Mitbestimmungsgesetz [Co-determination Act] Celesio has an arbitration committee. It makes a proposal for the appointment of a management board member in the event that the supervisory board has not reached a two-thirds majority for a candidate in the first ballot. The arbitration committee is headed by Dr Eckhard Cordes. As in previous years, the arbitration committee had no occasion to meet in 2007.

Report from the Supervisory Board

In line with the recommendations of the German Corporate Governance Code of 14 June 2007, Celesio formed a nominations committee on 12 September. This committee is responsible for nominating suitable shareholder representatives for the supervisory board, which the existing supervisory board then proposes to the annual general meeting. The committee, which is chaired by Dr Eckhard Cordes, met on 13 December in preparation for the supervisory board election scheduled to take place at the 2008 annual general meeting.

Corporate governance

On 13 December 2007, the supervisory board approved the declaration of compliance with the German Corporate Governance Code and carried out the regular efficiency audit. Information on this is provided in the joint management board and supervisory board corporate governance report on pages 22 to 29 of the annual report.

Financial statements for Celesio AG and consolidated financial statements

The Celesio AG financial statements and consolidated financial statements as at 31 December 2007 and the joint management report for Celesio AG and the group were examined by the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, and awarded an unqualified auditor's report.

These documents together with the auditor's reports were issued to all the members of the supervisory board and discussed in detail at the balance sheet meeting of the supervisory board on 10 March 2008 held following the auditor's report. The supervisory board raised no objections to the concluding result of the audit. In line with the recommendation of the audit committee it approved the results of the audit as well as the financial statements for Celesio AG and consolidated financial statements as produced by the management board. The financial statements have therefore been approved. The supervisory board examined the management board's proposal for the appropriation of profits and agreed to its adoption.

With regard to the majority shareholding of Franz Haniel & Cie. GmbH, Duisburg, Germany, in 2007, the management board submitted to the supervisory board the report concerning the relationship with affiliated companies for the 2007 fiscal year pursuant to § 312 Aktiengesetz [German Stock Corporation Act] together with the auditor's report pertaining to this point as produced by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, in their role as auditors pursuant to § 313 Aktiengesetz. Based on the audit, which was concluded without objections, the auditors awarded the following audit certificate:

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

1. the factual information given in this report is correct,
2. with regard to the legal transactions detailed in the report, the payment by the company was not unduly high."

The supervisory board examined and approved the report on relations with affiliated companies as well as the audit report pertaining to it. The supervisory board raises no objections to the final declaration made by the management board contained in this document.

There were no conflicts of interests of members of the supervisory board or management board in 2007.

The term of office of the current supervisory board ends with the conclusion of the annual general meeting on 30 April 2008.

The supervisory board thanks the management board and all employees for their commitment, achievements and loyalty this past fiscal year.

Stuttgart, March 2008
On behalf of the supervisory board

Dr Eckhard Cordes
Chairman of the Supervisory Board

Corporate Governance

The German Corporate Governance Code lays down substantial requirements for the responsible and transparent management and monitoring of German companies quoted on the stock exchange. Celesio already fulfilled the majority of these requirements before they were introduced by the code.

German Corporate Governance Code

Celesio admits to responsible corporate management geared towards a sustained increase in the value of the company. The management board and supervisory board are committed to the German Corporate Governance Code, which aims to strengthen the confidence that investors, customers, employees and the public have in the management of the company.

Corporate governance at Celesio

At Celesio, good corporate governance is not just limited to the management board and supervisory board. In order to ensure a high standard throughout the group, Celesio involves all of its employees by means of a code of conduct. This lays down requirements for the conduct of employees, based on the fundamental values of abiding by the law, honesty and fairness. The code of conduct is published on the Internet at www.celesio.com, in the Shares/Corporate governance section.

Celesio's auditors are also committed to the principles of good corporate management, and one of their many duties is to inform the supervisory board of any findings and events pertaining to the audit which might affect the work of the board. They also report to the supervisory board immediately if they identify any errors in Celesio's declaration of compliance with the code or any concerns regarding their own impartiality.

Declaration of compliance

Celesio AG complies with the German Corporate Governance Code in the version dated 14 June 2007. It fulfils the code in all areas with two exceptions:

- The remuneration of members of the management board is not disclosed for each individual member. The annual general meeting of Celesio AG on 27 April 2006 decided that management board members are exempt from declaring their individual remuneration (opt-out rule). Celesio will, however, continue to declare total remuneration.
- The remuneration of members of the supervisory board is not shown for each individual member. In terms of their amount and the stipulations contained in the articles of association, individual figures offer investors no additional benefit. Celesio will, however, continue to declare total remuneration.

The management board and supervisory board issued the following declaration of compliance as of 13 December 2007:

Celesio AG complies with the recommendations of the government commission German Corporate Governance Code in the version dated 14 June 2007 with the following exceptions:

- The remuneration of members of the management board is shown in the notes to the consolidated financial statements and in the remuneration report contained within the corporate governance report and is divided into fixed, performance-related and long-term incentive components. The annual general meeting of Celesio AG on 27 April 2006 decided that the remuneration of management board members is not to be disclosed individually for five years. (Code sections 4.2.4, 4.2.5)
- The remuneration of members of the supervisory board is not shown for individual members but as total remuneration in the notes to the consolidated financial statements and in the remuneration report contained within the corporate governance report. (Code section 5.4.7 Para. 3)

Corporate Governance

Since issuing the declaration last year pursuant to § 161 Aktiengesetz [German Stock Corporation Act], Celesio AG has also complied with the recommendations of the government commission German Corporate Governance Code in the current version applicable since 14 June 2007 with the following exceptions:

– The remuneration of members of the management board was shown in the notes to the consolidated financial statements and in the remuneration report contained within the corporate governance report and was divided into fixed, performance-related and long-term incentive components. The details were not shown for each individual. (Code sections 4.2.4, 4.2.5)
– The remuneration of members of the supervisory board was not shown for each individual in the notes to the consolidated financial statements and in the remuneration report contained within the corporate governance report, but as total remuneration. (Code section 5.4.7 Para. 3)

Shareholders

As an alternative to attending the annual general meeting in person, shareholders may exercise their voting right using the Internet or authorise Celesio proxies who are bound by instruction or a third party. Each individual Celesio AG share is entitled to one vote.

2007 annual general meeting

More than 800 shareholders attended the annual general meeting on 26 April in Stuttgart, representing more than 79 per cent of the share capital. Attendance was some 6 per cent higher than the previous year. Celesio offered an annual general meeting online service for the first time for the 2007 annual general meeting. Shareholders can use this service to register for the annual general meeting and order entrance tickets as well as issuing proxies and instructions. Some 13 per cent of a total of about 25,000 shareholders have registered for this service. Anyone not able to attend the annual general meeting in person had the opportunity to follow the speech by the Chairman of the Management Board and Chief Executive Officer live on the Internet at www.celesio.com. From 16 March 2007, some six weeks before the annual general meeting, Internet users were able to obtain information on the business performance for 2006.

During the annual general meeting, the shareholders voted – in addition to the agenda items required by law – on the authorisation for the acquisition and appropriation of own shares as defined in § 71 Para. 1 No. 8 Aktiengesetz [German Stock Corporation Act]. The shareholders also decided to abolish the existing authorised capital, to create new authorised capital totalling 43,545,600 euro and to authorise the company to pass information to shareholders via remote data transfer.

Communication with shareholders

The prompt communication of comprehensive and transparent information to shareholders forms an integral part of good corporate management. In addition to the annual general meeting and the annual report, quarterly reports provide detailed information on developments and events at Celesio during that period. The company also provides up-to-the-minute information at www.celesio.com, where Celesio publishes ad-hoc announcements, background reports and events and publication dates. Staff from the Investor Relations department are at hand to deal with shareholders' queries personally by telephone, e-mail and at information events.

Duties of the Celesio management board

The Celesio AG management board consists of four members, details of whom are given on pages 14 and 15. The board is independently responsible for the management of the company and is committed to increasing the value of the company on a long-term basis. The management board represents the company, develops the corporate strategy and ensures efficient risk management. The management board agrees important events and developments with the supervisory board. Details of the important events that occurred in 2007 can be found in the Chairman's Letter to Shareholders on pages 9 to 13.

Duties of the Celesio supervisory board

The duty of the supervisory board is to regularly advise and monitor the management board in the management of the company. It is involved in fundamental decisions. The personnel, audit, arbitration and nominations committees assist the twelve members of the supervisory board in fulfilling their duties promptly and comprehensively. Details of the activity of the supervisory board and its committees can be found on pages 17 to 20 of this annual report. The list of members of the supervisory board and the committees is displayed on page 16.

Corporate Governance

Supervisory board efficiency audit

The Celesio AG supervisory board regularly carries out an efficiency audit in accordance with the requirements of the German Corporate Governance Code (section 5.6). This is performed by the board itself. According to the audit, the work of the supervisory board is of a high standard and there is no significant need for improvement.

Cooperation between the management board and supervisory board

Trusting and close cooperation between the management board and supervisory board is a prerequisite for successful corporate management. Details of this can be found on page 17.

Remuneration report*

It is the duty of the management board to substantially increase the value of the company. The remuneration of the management board is therefore also based on the company's performance. By resolution of the annual general meeting of 27 April 2006, the management board is exempt from declaring the individual remuneration of its members. Celesio therefore shows the management board's remuneration as a total amount, but divided into the individual remuneration components.

The structure of the remuneration system for the management board is reviewed regularly by the supervisory board at the instigation of the personnel committee.

The total remuneration paid to the members of the management board is made up of a fixed monthly income and a variable, performance-related portion. Celesio pays the members of the management board the fixed basic remuneration and payments as an advance on the performance-related remuneration as a monthly salary. The use of a company car is the only form of benefit in kind which the management board receives and pays tax on. The variable portion of the salary is made up of:

Profit bonus
The assessment criterion for the profit bonus is based on the cash flow of the Celesio Group and is derived from a percentage of it.

* Part of the management report

Strategy bonus
The measurement base used for this bonus is the performance indicator EVA (Economic Value Added*). The strategy bonus is therefore dependent on the development of any value added to the company in excess of the total cost of capital.

The total remuneration of the management board in 2007 was 7,201,000 euro (2006: 8,221,000 euro). Of this total, 1,567,000 euro (2006: 1,513,000 euro) was attributable to fixed remuneration, 4,633,000 euro (2006: 5,278,000 euro) to performance-related remuneration (profit bonus) and 1,001,000 euro (2006: 1,430,000 euro) to long-term incentive remuneration (strategy bonus). An amount of 104,000 euro was paid as an advance on the performance-related remuneration. In addition to these short-term benefits, 300,000 euro (2006: 246,000 euro) was added to the pension provisions. There is no share-based remuneration scheme for the management board of Celesio AG.

There are also direct pension commitments for members of the management board. The amount is based on the fixed salary and the possible period of service. They are therefore not tied to variable remuneration components. There are no commitments to members of the management board for payments in the event of termination of service.

Former management board members and their surviving dependents received remuneration totalling 280,000 euro (2006: 269,000 euro) in the year under review. Celesio AG recognised pension provisions of 3,740,000 euro (2006: 3,743,000 euro) for this group of people.

The total remuneration of the supervisory board in 2007 was 1,259,000 euro (2006: 1,172,000 euro). Of this total, 68,000 euro (2006: 68,000 euro) was fixed remuneration for the membership of the supervisory board. The variable, dividend-dependent remuneration for the membership of the supervisory board amounted to 1,177,000 euro (2006: 1,090,000 euro). The remuneration for committee activities amounted to 14,000 euro (2006: 14,000 euro). The remuneration structure of the supervisory board is explained on page 194.

Celesio AG neither granted credit to members of the management board or supervisory board in the past fiscal year, nor entered into any contingent liabilities in favour of these persons.

* Registered trademark of Stern Stewart & Co.

Corporate Governance

Share ownership and transactions subject to mandatory disclosure

The accumulated shareholding of the management board and supervisory board members in the 2007 fiscal year remained considerably below 1 per cent of the shares issued by the company.

Anyone having managerial tenure with a German listed company, as well as any persons or legal entity closely associated with the same, must, pursuant to § 15a Wertpapierhandelsgesetz [Securities Trading Act], inform the company and the Bundesanstalt für Finanzdienstleistungsaufsicht [Federal Financial Supervisory Authority] if during any calendar year they acquire or dispose of shares or related financial instruments of the company in excess of 5,000 euro. Celesio AG did not receive reports of any such transactions during the past fiscal year.

Risk management

Dealing with risks is part of Celesio's day-to-day business and is an integral part of good corporate governance. Details of Celesio's risk management are provided on pages 78 to 83.

Corporate compliance

The observance of all legal and contractual obligations is of top priority for Celesio as part of good corporate management. Great attention is also paid to observing the company's internal guidelines. The management board ensures the progressive development and institutionalisation of compliance management and is pushing ahead with the introduction of efficient analytical and testing mechanisms.

Financial reporting and audit

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) of the International Accounting Standard Board (IASB), London, approved on 31 December 2007 for use in the European Community, with the addition of the German commercial regulations to be applied pursuant to § 315a Para. 1 HGB [German Commercial Code].

The auditors carried out the audit of the consolidated financial statements pursuant to § 317 HGB [German Commercial Code] in accordance with the generally accepted auditing principles laid down by the Institut für Wirtschaftsprüfer [German Institute of Certified Public Accountants].

Further information

Further information on the subject of corporate governance at Celesio can be found at www.celesio.com, under the heading Shares/Corporate governance, where the declaration of compliance is also published.

The management board The supervisory board

Celesio AG’s market value stands at 7 billion euro

Growth market healthcare

"I have been a Celesio shareholder for many years. With the continuous upward trend of the company and share price, the investment has really paid off. The company's performance shows that Celesio is well positioned and has solid foundations. My family and I want the same for our foal born in March, so we named him Celesio. He shows great potential. He has already won several prizes at foal shows. We have great expectations for the company Celesio and our foal."

Roswitha Paulisch, Celesio shareholder from Zahna, Germany




Key financial figures*		2003	2004	2005	2006	**2007**
Earnings per share	€	1.55	1.97	** 2.24	2.49	**2.53**
Dividend per share	€	0.45	0.60	*** 0.70	0.75	**0.77**
EBITDA per share	€	3.41	4.02	4.38	4.72	**4.95**
EBIT per share	€	2.86	3.47	3.81	4.03	**4.28**
Cash flow per share	€	2.16	2.55	** 2.89	3.47	**2.94**
Shareholders' equity per share	€	9.97	11.48	13.43	15.45	**16.58**
Share price (last trading day)	€	19.23	29.92	36.33	40.64	**42.50**
Number of shares outstanding (last trading day)	m	170.1	170.1	170.1	170.1	**170.1**
Market capitalisation (last trading day)	€ m	3,270.2	5,089.4	6,179.7	6,912.9	**7,229.3**

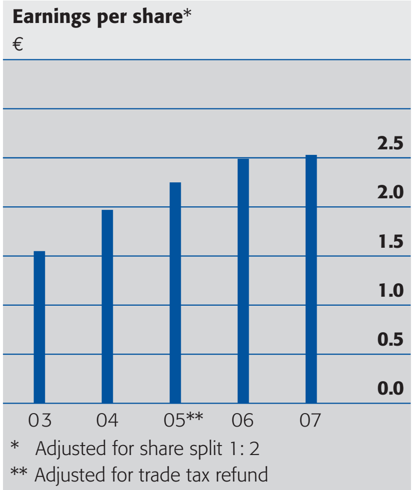
* All figures are adjusted to take account of the share split 1:2 carried out on 24 July 2006
** Adjusted to take account of a trade tax refund of 38.9 million euro net (52.9 million euro gross)
*** Included is a special dividend of 0.03 euro

Celesio Shares

The performance of the Celesio share generates value for long-term oriented investors. Furthermore, the company's success is shared with the shareholders thanks to a reliable dividend policy. For this reason the management board and supervisory board are proposing a dividend of 0.77 euro per share at the annual general meeting.

Stock market indices

The DAX closed the stock market year, which was dominated by the US mortgage crisis, at 8,067 points. With growth over the year of 22.3 per cent, the DAX outperformed all the major stock indices in Europe last year. Admittedly this excellent performance was solely due to the first half of the year, as in the second half – judging by the closing price – there was only a slight change. The MDAX, the index for medium-sized companies, also showed increases, but with a rise of "only" 4.9 per cent, was unable to compete with the very good development of the DAX.



In addition to the MDAX, Celesio is also listed on the internationally renowned Morgan Stanley Capital International Germany Index (MSCI Germany Index) and the sustainability index FTSE4Good Europe. The MDAX weighting at the end of the year was 3.6 per cent. According to the market capitalisation of the free float, Celesio was therefore the eighth largest value in this index. In the MSCI Germany Index Celesio was weighted at 0.4 per cent. The fact that the group is listed in the internationally renowned sustainability index FTSE4Good Europe underlines the recognition of Celesio's social responsibility.

Share performance

The Celesio share followed the positive stock market trend in the first months of 2007. Following the DocMorris takeover, the share price reached a new all-time high of 55.02 euro at the end of April, stabilising at 50 euro over the following weeks. Speculation as to intensified competition in the German market led to a weakening in the share price, however. In addition, the stock markets came under pressure in the summer of 2007 and the Celesio share fell in line with the market to a level of 43 euro. By the end of September, however, the share was able to recover, reaching a share price of just under 50 euro.

Celesio Shares

On 28 September, however, the share price fell by 8.4 per cent to 44.26 euro. On this date Celesio corrected its medium-term profit forecast for the period from 2006 to 2010. The management board is no longer expecting an average of double-digit growth for pre-tax profit for this time period. The reason for the adjustment to the medium-term forecast was the announcement by the Department of Health for England of unexpectedly severe cuts in reimbursement prices and pharmacies' fees from 1 October 2007. The following day of trading saw the share price fall a further 12.9 per cent, closing at 38.56 euro. Until the end of the year the price of the Celesio share moved in line with the DAX and MDAX. During the last few weeks of the year the share even outperformed the MDAX.

Performance of Celesio shares
€

* Index-linked to Celesio shares

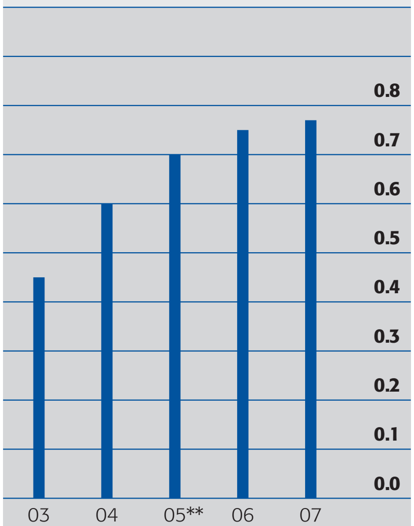
The end-of-year price of the Celesio share on 28 December 2007 stood at 42.50 euro, equivalent to an increase of 4.6 per cent over the 2006 closing price. The Celesio share was therefore able to match the positive development of the MDAX despite the strong fluctuations in the share price in the course of the year. The market capitalisation of Celesio at the end of the year was 7,229.3 million euro (2006: 6,912.9 million euro). Therefore, based on the market capitalisation of the free float, Celesio was ranked 40 in the DAX list. Taking dividends into account, the increase in value of the Celesio share in the period 2000 to 2007 was 164 per cent.

During the 2007 fiscal year, on average 485,665 shares at an average value of 22 million euro were traded every day of trading. During the previous year the average daily turnover was 310,360 shares with an average value of 12 million euro. The number of Celesio shares traded in 2007 therefore showed a 54.6 per cent increase over the previous year to reach a total of 122 million shares. The increased trading volume shows that the Celesio share has become more attractive to investors since the share split in July 2006.

Dividend

The management board und supervisory board are to propose at the annual general meeting on 30 April 2008 a dividend of 0.77 euro for the 2007 fiscal year. This means that Celesio will be paying out 2.7 per cent more than in the previous year. With this dividend payment, Celesio will continue to pay out around 30 per cent of the ordinary net profit to its shareholders. At the same time, Celesio is still in a position to invest in the business divisions, finance acquisitions and enter into new markets.

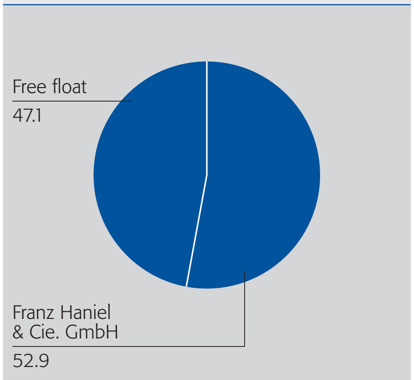
Dividend per share*
€



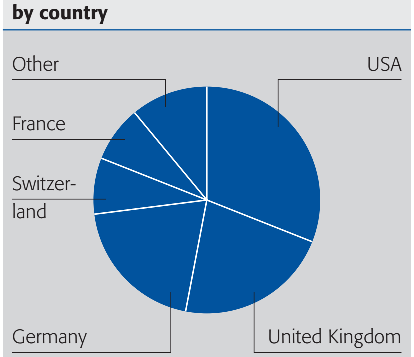
* Adjusted for share split 1 : 2
** Including special dividend due to trade tax refund

Celesio Shares

Shareholder structure
%



Distribution of the free float by country



Source: Thomson Onebanker
and Deutsche Bank, as at December 2007

Shareholder structure

With a 52.9 per cent share, Franz Haniel & Cie. GmbH remained the majority shareholder in 2007. The free float at the end of 2007 totalled 47.1 per cent and was characterised by a marked regional diversification. The majority of the capital was held by investors from North America and the United Kingdom.

The number of private shareholders at the end of the year was about 24,000, equivalent to 9.2 per cent of the free float.

Investor relations

In the year under review, Celesio was showcased at roadshows and conferences in Europe and North America as well as at the annual Celesio Analysts' and Investors' Conference in Dresden. Amongst the topics dealt with were business development, corporate strategy, future perspectives and long-term opportunities resulting from the anticipated liberalisation of European pharmacy markets. Other central themes included the strategically significant acquisition of DocMorris and the regional expansion of Celesio into new growth markets. The management board and the investor relations department also provided information on the changing demands of manufacturers for the distribution of their products as well as the introduction of new distribution systems and the consequences for the traditional wholesale business.

As an MDAX heavyweight, the Celesio share is attracting the attention of many analysts. In the 2007 fiscal year, 28 analysts published case studies on Celesio. This represents considerably more analysts than usual for MDAX values – a clear indication of Celesio's important position in the capital market. An overview of the analysts who regularly observe and evaluate the Celesio share is published on the Internet at www.celesio.com, in the Shares/Celesio analysts section.

Dialogue with private investors was further intensified in 2007, with the aim of informing this important group of investors about Celesio and attracting them to invest in the company. Thanks to the conversion to registered shares in 2006, communication with shareholders is even more focussed and direct. Together with local banks and associations for the protection of small shareholders, Celesio hosted seven information events, all of which received a positive response.

Direct address and up-to-the-minute information is becoming increasingly important, which is why Celesio offers its investors the opportunity to use a high-speed and environmentally friendly method of notification. Interim reports and other company publications – in particular the annual general meeting documents – are available electronically. In 2007, Celesio was the first MDAX company to offer its shareholders the facility to register online for the annual general meeting. Some 13 per cent of shareholders made use of this online facility.

Furthermore, on its website www.celesio.com, Celesio offers comprehensive information for shareholders and other interested parties, such as live recordings of teleconferences, company presentations and speeches by the management board. Following its makeover in the summer of 2007, the Celesio website is even more user-friendly. This is also reflected in the marked increase in user numbers.

Celesio Group

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

2007 Management Report Celesio Group and Celesio AG

2007 Management Report, Celesio Group and Celesio AG

Market Environment and Market Development

The pharmaceutical market is an attractive growth market that is largely unaffected by economic factors. The demographic trend and continued increase in the demand for an ever-improving healthcare provision guarantee that the market will continue to enjoy sustained growth in the future. At the same time, perhaps also for that very reason, the pharmaceutical market is subject to intense regulation. This leads on the one hand to regular government intervention to cut costs in the public health system. On the other hand, European institutions are driving the liberalisation of the pharmacy markets and the harmonisation of national pharmaceutical markets. As an innovative, internationally oriented company, Celesio will benefit from this trend. Additional opportunities arise from the changing distribution requirements on the part of manufacturers.

Demographic development as a growth driver

The pharmaceutical market is an attractive growth market. Demographic development is a major reason for this, driven by people in western industrial nations becoming ever older and leading to the proportion of older people in the total population increasing. The elderly have a greater need for medicines than younger people. Studies show that those aged over sixty spend more than three times as much per year on medicines than people under sixty. Furthermore, demand for better healthcare provision is increasing in virtually every country. Experts therefore see the pharmaceutical market as a sustainable long-term growth market which is largely independent of economic trends. For the period 2008 to 2011, IMS Health expects market growth in Europe of just over 5 per cent per year on average (without taking into account possible government measures to control healthcare expenditure). The Eastern European pharmaceutical markets will grow ahead of those in Western Europe in the near future. In Eastern Europe, life expectancy, per capita consumption of medicines and also the average cost per medicinal product in general still lie considerably below the level of Western Europe. Experts expect these levels to approximate the Western European level within the next few years.

Product-driven changes in the pharmaceutical market

In addition to the demographic-related increase in demand for pharmaceuticals, innovations also offer growth potential for Celesio. When developing new innovations, many pharmaceutical manufacturers concentrate on niches and areas of expertise for which they can develop particularly high-quality pharmaceuticals. More and more illnesses which up until now required inpatient medical treatment can today be treated with medicines. These highly innovative medicines often make special demands on distribution. They frequently require refrigerated storage and transport and must be able to be tracked and traced at all times. Sometimes direct delivery and administration of medicines is necessary.

Another trend in the pharmaceutical market is the increasing importance of generic medicines. These are imitations of medicines whose patent has expired. In recent years many medicines have lost their patent protection including some very high-volume medicines known as blockbusters. When these patents expire, generic drug companies crowd the market with considerably cheaper imitations. As the result of government pressure for greater economy, the ratio of generic medicines to total medicines prescribed is rapidly increasing across Europe. In some countries doctors only have to prescribe the active ingredients and no longer the products from individual manufacturers. The decision-making power then passes in many cases from the doctor to the pharmacist who decides which generic product from which manufacturer to dispense. IMS Health expects that by the year 2012, 85 per cent of medicines prescribed by general practitioners in Europe will not be patent-protected. Thanks to the size and strong positioning in the pharmacy market, Celesio is an important partner for manufacturers of generic medicines.

Changing distribution requirements of pharmaceutical manufacturers

Many pharmaceutical manufacturers are responding to the changes in the pharmaceutical market by reducing staff, concentrating on core competencies and attempting to gain more control and transparency as regards the distribution of their medicines. This was in evidence in 2007 in the United Kingdom where some large manufacturers switched the distribution of their medicines, thereby considerably reducing the number of logistics partners and wholesalers involved. This is likely to affect Celesio in a number of ways:

– Nationwide companies will profit from the new distribution models more than regional ones who are unable to offer manufacturers nationwide distribution. This will lead to increased consolidation in the distribution of pharmaceuticals in favour of nationwide companies. Apart from Italy, where Celesio Wholesale only operates at a regional level, Celesio has a leading position nationwide in all its wholesale markets and is therefore optimally placed to deal with these developments.

Market Environment and Market Development

- The income structure is changing. Some of the new distribution models envisage that pharmaceuticals will no longer be bought and sold by wholesalers, but be supplied by companies like Celesio on a fee-for-services basis on behalf and for the account of the manufacturer. This leads to a change in the key financial figures. With such remuneration models increasing, Celesio's revenue will decline but not necessarily its absolute gross profit. This is because for these type of models, the performance-related fees generally correspond to the gross profit. Furthermore, trade receivables and inventories will also be reduced as will trade payables. This causes a reduction in total assets.

- Highly innovative medicines often place high demands on distribution. The distribution of these medicines will require new business models, which offer new growth opportunities for Celesio.

Liberalisation of further pharmacy markets expected

Changes are also in evidence in the European pharmacy market. The pharmacy market has been in flux since the judgement by the European Court of Justice (ECJ) on the ban on third-party ownership of opticians' shops in Greece in 2005. In its judgement, the ECJ ruled that having a qualified optician present in every optician's shop was sufficient to safeguard public health. This would be less of a restriction on the freedom of establishment than the ban on third-party ownership and thus was deemed adequate to safeguard public health. According to experts, this judgement by the ECJ could also be applied to the pharmacy market. Against this background, liberalisation trends intensified in many European pharmacy markets during 2007. The ban on third-party ownership, which exists in many Western European countries, is the central focus of this. It prohibits, amongst others, corporate enterprises from owning pharmacies. Bans such as this, albeit with different features, exist in Germany, France, Italy, Spain and Austria amongst others. In the view of the European Commission, national bans on third-party ownership are contradictory to European Community law, specifically the freedom of establishment and free movement of capital for European companies. The EU Commission has already initiated infringement proceedings against Austria, Spain and France. Two cases are also pending decision before the European Court of Justice concerning the compatibility of the ban on third-party ownerships with European Community law. Italy was brought before the ECJ by the European Commission on account of restrictions on the participation in and opening of public pharmacies. The second case concerns a decision by the Saarland Ministry for Justice, Health and Social Affairs. In June 2006, the latter had granted the Dutch company DocMorris licence to operate a branch pharmacy in Saarbrücken. After the Saarbrücken regional court ruled in expedited proceedings in August 2006 that the pharmacy may remain open, the Saarbrücken administrative court ordered the closure of the DocMorris branch. In January 2007, the Saarland higher administrative court overturned the decision by the Saarbrücken administrative court and upheld the operating licence for the DocMorris branch. In its statement of reasons, it followed the argumentation of the ECJ opticians ruling. In March 2007 the case was put before the ECJ. Experts are anticipating a judgement in 2008.

Abolishing the ban on third-party ownership on the grounds of European law inevitably also means abolishing the ban on multiple ownership of pharmacies that exists in many countries. Celesio Pharmacies will make full use of the opportunities that result from the liberalisation trends if the legal, political and economic environment in the relevant countries is attractive. Since the acquisition of DocMorris, Celesio has been well prepared for a liberalisation of the pharmacy market in Germany. Due to operating 163 municipal pharmacies in Italy, Celesio is today very familiar with the Italian market. Celesio is also closely monitoring the development in France, Austria, Sweden and Spain, and is preparing for the expected liberalisation in these countries.

Regulatory Environment

The pharmaceutical market is subject to government regulation in a number of ways. A reasonable degree of change to government remuneration systems is regularly taken into account in planning and forecasting. In 2007, however, Celesio faced a particular challenge in the shape of unexpectedly severe government intervention, which will continue to affect the financial figures throughout 2008.

The European pharmaceutical market is a growth market thanks to its demographic trends. The market is subject to many different kinds of government regulation from one country to the next. For example, reimbursement prices for prescription medicines, essential components of the remuneration of pharmacies and wholesalers or the eligibility for reimbursement of medicines per se are determined officially. These parameters are changed regularly and adapted to the relative budgetary position. This slows down market growth and with it the growth of market participants, yet at the same time also opens up opportunities.

Wholesalers and pharmacy operators receive different remuneration, in accordance with legal provisions, for their trade with pharmaceuticals. The service of wholesalers in selling medicines to pharmacies is mostly remunerated in the form of a surcharge on the manufacturer's selling price. For the dispensing of medicines to patients, pharmacies receive a markup on the pharmacy purchase price or wholesale price (referred to as the pharmacy markup). Another form of pharmacy remuneration is a service charge which pharmacies receive for instance for each pack dispensed (referred to as the pharmacy dispensing fee). If manufacturers or government offices reduce the price of medicines or authorities reduce surcharges, pharmacy mark ups or dispensing fees, wholesalers and pharmacies will suffer a drop in earnings.

Legislative measures have already set the scene for Celesio's market environment in the past. Celesio has always been proactive in its response to such challenges, for example by optimising operating processes, reducing costs, improving purchasing conditions and its product range, and by expanding its service portfolio. A reasonable degree of change to government remuneration systems is regularly taken into account when planning and forecasting. Compensating for government measures through entrepreneurial actions requires a certain amount of lead time. In 2007 Celesio faced a particular challenge; having to cope with unexpectedly severe government intervention.

Following are the details of the most important changes in legal regulations for Celesio.

United Kingdom

As of 1 July 2007, the British National Health Service reduced reimbursement prices for generic medicines and part of the pharmacy dispensing fee. Both measures are to cut costs in the public health system.

On 1 October of the year under review, additional measures unexpectedly severe in extent came into force in the United Kingdom. With these the UK government intends to make additional annual savings in the public health system of around 700 million euro. Firstly, it further reduced generic drug reimbursement prices with the objective of saving 560 million euro per year. Secondly, a further reduction in the pharmacy dispensing fee is to reduce costs by some 140 million euro. But, at the same time, the reimbursement for qualified consultations by pharmacists with patients about their medication, known as medicines use reviews (MUR), was increased. This underlines the increasing importance of services provided in pharmacies.

Regulatory Environment

France

The French government is encouraging the prescribing of cheaper generic medicines by various measures so as to keep expenditure on medicines under control. Furthermore, the "white list" of pharmaceuticals eligible for reimbursement is regularly adapted. This reference pricing model was extended in April 2007 with new generic product groups included and prices for selected generic medicines reduced. Some of the more expensive medicines are no longer being reimbursed.

Germany

On 1 April 2007, the law to strengthen competition in statutory health insurance [GKV-WSG: Gesetz zur Stärkung des Wettbewerbs in der gesetzlichen Krankenversicherung] came into force in Germany. According to the new regulations, statutory health insurance funds are able to conclude discount contracts with manufacturers of generic medicines in order to reduce the costs of pharmaceuticals. The result is that insured persons obtain products from manufacturers with whom their health insurance fund has negotiated contracts. The GKV-WSG therefore means a considerable increase in expenditure for pharmacists and wholesalers in Germany. When the doctor prescribes an active ingredient, it now depends on the patient's insurer as to which preparation from which manufacturer the pharmacist dispenses. Pharmaceutical wholesalers therefore have to handle a range that is constantly changing in terms of product mix depth. This results not only in increased operating expenses but also storage and sell-off risk. At the same time, German pharmacists are trying to compensate for the pressure on results caused by the absence of purchase conditions from manufacturers of generic medicines via additional demands for discounts from the wholesalers.

Norway

In early 2007, the Norwegian health authority expanded the so-called step price model. This regulation has been in place since January 2005 and involves price cuts at regular intervals for certain generic active ingredients.

Ireland

In March 2007, the Irish government reduced reimbursement prices for unpatented medicines by 20 per cent.

Netherlands

On 1 December 2007, the so-called clawbacks were increased until the middle of 2008. The clawbacks are flat-rate recovery of discounts received by pharmacies from which health insurance funds benefit.

Portugal

On 1 February 2007, the Portuguese government reduced the prices for prescription medicines.

Slovenia

In April 2007 a regressive margin system was introduced for the remuneration of wholesale services. In addition to this, reimbursement prices both for patented medicines and for medicines without patent protection and generic medicines were reduced.

Government measures affect the short-term profitability of companies in the market. They force market participants to improve efficiency. In this way they also contribute to the consolidation of the markets. Celesio will profit from this as the leading company in pharmaceutical distribution with a Europe-wide presence.

Corporate Strategy

Sustained success is only possible with a clear, convincing corporate strategy. Celesio will continue to concentrate on the pharmaceutical market in the future. The three divisions Wholesale, Pharmacies and Solutions have clear strategies for the optimum utilisation of the opportunities that emerge in a changing market. Cross-divisional projects ensure that group-wide synergy potentials are exploited.

Celesio Group positioning

Celesio is Europe's leading trading and services company for pharmaceuticals with the largest pharmaceutical wholesaler, the largest community pharmacy chain and the constantly growing pharmaceutical services business. With all its services, Celesio concentrates on pharmaceuticals and is thus an important link between the pharmaceutical manufacturer and the patient. Celesio guarantees that people enjoy a speedy, safe and efficient supply of medicines through various distribution channels and with a wide range of services.

The changes outlined in the chapter on market environment and market development open up growth opportunities for the existing Celesio divisions. By combining the skills of the three divisions, new business models can be developed to offer, for example, solutions for the changing and in many cases increasing requirements of manufacturers. More solutions are being developed also for other customer groups such as hospitals.

As in the past, Celesio will continue to concentrate all three divisions on the pharmaceutical market in the future. Thanks to its pan-European presence in 14 countries, the dependence on individual markets is reduced and the risk of national government cost-cutting measures diversified. On the basis of Celesio's strong position in Western Europe, its geographical presence is to be further extended. Large markets with strong growth in Europe are of particular interest here. Despite concentrating mainly on Europe, Celesio is also carefully monitoring the development of non-European pharmaceutical markets.

Celesio's goal is sustained profitable growth. This is achieved through organic growth, geographical expansion within the scope of the existing divisions as well as by entering new, attractive business segments. Customer or cost synergies with existing Celesio activities are important criteria for expanding into new business segments. For acquisitions or the establishment of new businesses, the extent to which they strengthen our existing business is likewise important.

Celesio Wholesale strategy

Celesio Wholesale operates as European market leader in 12 countries. 123 branches supply about 35,000 pharmacies every day. The aim is to further develop the business geographically, in other words enter new markets if they offer attractive opportunities for acquisitions. This strategy led to talks with target companies in the Russian market. Other large countries in Western and Eastern Europe also represent interesting markets for Celesio Wholesale, if a strong market position is achievable there. In particular due to their size and growth dynamics, non-European markets are also increasingly attracting the attention of Celesio Wholesale.

The European wholesale market is in transition. Nevertheless, a full-line wholesaling will remain the most customer-friendly and efficient form of distribution for the majority of pharmaceutical manufacturers. The role of the wholesaler as a full-line supplier of pharmaceuticals not tied to a particular manufacturer continues to be an irreplaceable element in the pharmaceutical supply chain. The stable cash flows from this division is and will remain of crucial importance for the financing of Celesio’s future growth.

Celesio Pharmacies strategy

Celesio Pharmacies sees itself as a local healthcare specialist. As a partner of health insurance funds and public health systems, Celesio Pharmacies is a pioneer throughout Europe in the development of innovative health-related services for patients in pharmacies. Celesio Pharmacies differentiates itself from the competition across Europe thanks to the wide range of services they offer. At the same time, in many countries providing consultation and other services is considered an integral part of the role of a pharmacy in public healthcare. The role of the pharmacist as a professional, efficient and easily accessible partner for patients will gain in importance in healthcare systems in the future. Celesio Pharmacies has recognised this trend at an early stage and will continue to develop innovative services to relieve doctors, hospitals and health insurance funds.

Corporate Strategy

Celesio Pharmacies operates more than 2,200 pharmacies in 7 European countries. The aim is to increase the presence in existing markets and to enter new markets were possible. In particular the liberalisation trends in hitherto regulated Western European markets offer excellent growth potential for Celesio Pharmacies. Experts are expecting the European Court of Justice to declare the German ban on third-party ownership as contrary to European law in the course of the year 2008. Celesio is very well prepared for this, especially after the acquisition of DocMorris, Germany's best-known pharmacy brand.

At the European level, infringement proceedings were initiated against France, Spain and Austria because of the regulation of their pharmacy markets. Similar infringement proceedings against Italy are already pending at the European Court of Justice. Experts are anticipating that these cases will also result in a judicially decreed liberalisation of the relevant national pharmacy market. Celesio Pharmacies will seize the opportunities that emerge from liberalisation trends if the legal, political and economic environment is attractive.

Celesio Solutions strategy

Celesio Solutions offers pharmaceutical manufacturers a wide range of logistics, marketing and sales services. This market, largely unregulated by government, offers substantial medium and long-term growth potential, especially due to the changed requirement profile for the distribution of pharmaceuticals described on pages 100 to 101.

While the business models of Celesio Wholesale and Celesio Pharmacies are largely national, the activities of Celesio Solutions are predominantly based on multinational business models. In its business models, Celesio Solutions reflects the structure and international character of its customers.

In 2007, Celesio Solutions consisted of Movianto and the strategic 30-per cent holding in pharmexx. Movianto provides its individual manufacturer specific logistics and distribution services in nine countries throughout Europe under the umbrella brand name Movianto. pharmexx operates as a marketing and sales specialist for pharmaceutical manufacturers with its own contract sales force in 26 countries. Movianto and pharmexx consider themselves as partners to industry and therefore represent Celesio's response to the increasing focus of research-based pharmaceutical manufacturers on their core competences – the development of innovative medicines. Many manufacturers outsource, totally or in part, logistics, sales and marketing as they are often not considered core competences.

With Movianto and pharmexx, Celesio Solutions is able to profit from this. Celesio Solutions will continue to expand in the next years both in geographical terms and in terms of its range of services. Any business model that requires the core competences of Celesio and can be linked value addingly with existing competences is therefore of interest.

Group-wide utilisation of synergies

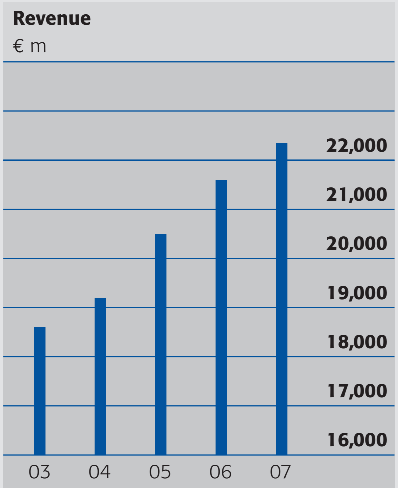
While exploiting synergies and knowledge sharing within the divisions are part of everyday business, last year cross-divisional projects were set up to identify and exploit synergies throughout the group. This is necessary, as the divisional organisation of the group into the three divisions Wholesale, Pharmacies and Solutions focuses on the coordination and optimisation within the divisions. A cross-divisional cooperation project evaluates Celesio's own-brand portfolio. In this way attractive own-brand products are made accessible to all the pharmacy and wholesale companies in the group. The medical electric diagnostic devices sold with such success by Lloydspharmacy in the United Kingdom are an example for this. The products can then be marketed under the respective national brand name. A database makes the range of available own-brand products transparent.

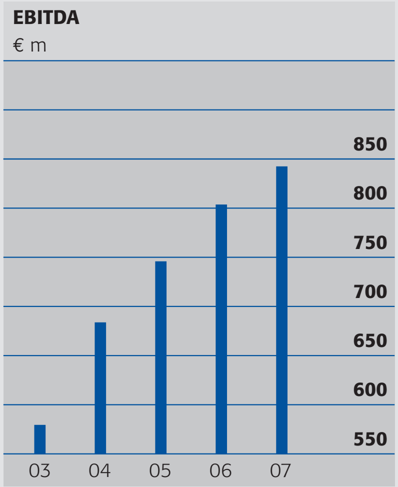
Another cross-divisional project combines the services of the group into tailor-made offers to pharmaceutical manufacturers. Specialists from all three Celesio divisions prepare service offerings which are tailor-made to suit the individual needs of the manufacturers.

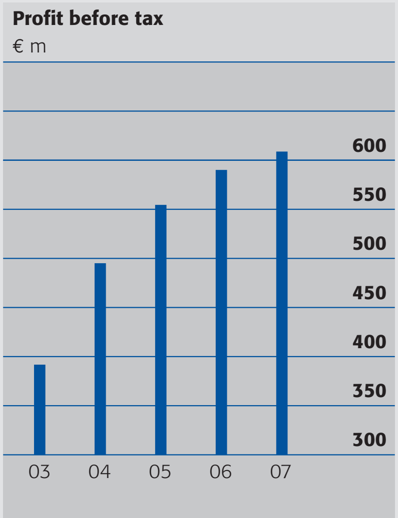
Customer orientation of the organisational structure

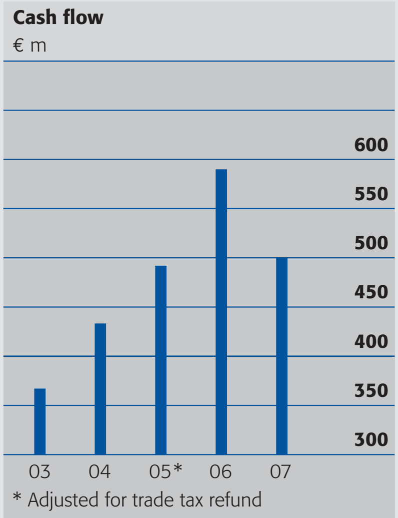
The changes in pharmaceutical markets make it necessary for Celesio to constantly challenge its own organisational structure. A flexible and customer-orientated organisational structure is essential in order to achieve the group's strategic goals. The group structure with the three divisions Celesio Wholesale, Celesio Pharmacies and Celesio Solutions has proven itself in the past and is also good to achieve the strategic goals of the group. However, a changing environment means it is necessary to make structural adjustments from time to time in order to attain corporate goals in the best organised way.

Key Figures for the Celesio Group: 5-Year Overview









Earnings, Financial and Assets Position

		2003	2004	2005	2006	**2007**
Earnings position						
Revenue	€ m	18,558.5	19,152.6	20,491.1	21,569.1	**22,349.5**
Change	%	*1.0	3.2	7.0	5.3	**3.6**
EBITDA	€ m	579.5	683.8	745.9	803.7	**842.5**
in relation to revenue	%	3.12	3.57	3.64	3.73	**3.77**
EBIT	€ m	486.9	590.3	648.2	685.8	**727.7**
in relation to revenue	%	2.62	3.08	3.16	3.18	**3.26**
Profit before tax	€ m	391.8	495.1	554.5	590.1	**608.8**
in relation to revenue	%	2.11	2.59	2.71	2.74	**2.72**
Net profit	€ m	266.7	339.2	**386.0	425.6	**435.4**
Earnings per share	€	1.55	1.97	**2.24	2.49	**2.53**
Financial position						
Cash flow	€ m	367.1	433.3	**491.9	590.0	**500.2**
Free cash flow	€ m	– 54.3	189.9	– 142.1	287.5	**– 485.9**
Capital expenditure	€ m	282.4	178.4	579.5	357.1	**692.3**
of which investments in operating business	€ m	111.2	93.1	117.7	151.0	**143.4**
of which acquisitions and new openings	€ m	171.2	85.3	461.8	206.1	**548.9**
Assets position						
Non-current assets	€ m	2,656.5	2,713.1	3,225.1	3,446.8	**3,866.9**
Shareholders' equity	€ m	1,695.0	1,951.9	2,284.2	2,628.1	**2,819.6**
Long-term capital	€ m	2,436.7	2,990.4	4,359.7	4,535.2	**5,059.4**
Total assets	€ m	6,398.0	6,531.1	7,511.7	7,926.5	**8,343.2**
Share of total assets						
Non-current assets	%	41.5	41.5	42.9	43.5	**46.3**
Shareholders' equity	%	26.5	29.9	30.4	33.2	**33.8**
Long-term capital	%	38.1	45.9	58.0	57.2	**60.6**

* Only HGB [German Commercial Code] figures are available for 2002
** Adjusted to take account of trade tax refund totalling 38.9 million euro net (52.9 million euro gross)

Business Review

Celesio, Europe's leading trading company and service provider for pharmaceuticals, continued to grow in the 2007 fiscal year in a changing market. As forecast, Celesio improved revenue and profit in its core operational business for the 21st time in succession despite a difficult environment.

Continuing success in a changing market environment

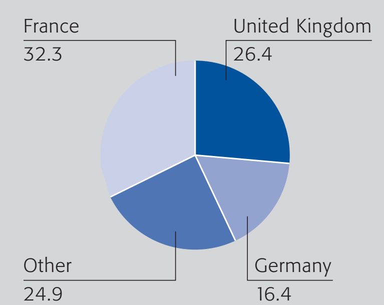
Growth in the European pharmaceutical markets continued in the 2007 fiscal year – despite some in part unexpectedly severe government measures to cut costs. Growth is driven, above all, by demographic development. People are getting older all the time and older people need more medicines than younger ones. Also medical and pharmacological innovations and increasing health awareness are driving growth of the pharmaceutical markets. All three Celesio divisions benefit from this trend.

The rising proportion of generic medicines on the market as a whole has a dampening effect on market growth. Generic medicines are cheaper than original preparations and are therefore high in demand from cost bearers who promote their use. Celesio profits from the fact that in many markets pharmacists are increasingly able to substitute prescribed medicines with generics, a trend which gives pharmacies greater importance. This development brings advantages for both Celesio Pharmacies and Celesio Wholesale. Celesio Solutions was able to profit from this trend by way of a new contract with one of the world's largest manufacturers of generic medicines, for whom Movianto in France will be taking on the storage and distribution of their entire product range as of spring 2008.

Earnings position

In its forecast for 2007 Celesio had predicted an increase in revenue over the previous year for the 21st time in succession. This was achieved. **Revenue** increased by 3.6 per cent (3.7 per cent in local currency) to 22,349.5 million euro. Good organic growth in many countries together with the acquisition of 149 pharmacies and DocMorris as well as the Danish companies taken over in mid-2006 contributed to revenue growth. Adjusted to take account of these acquisitions and exchange rate effects, revenue increased by 0.6 per cent.

Revenue distribution by country
Celesio Group
%



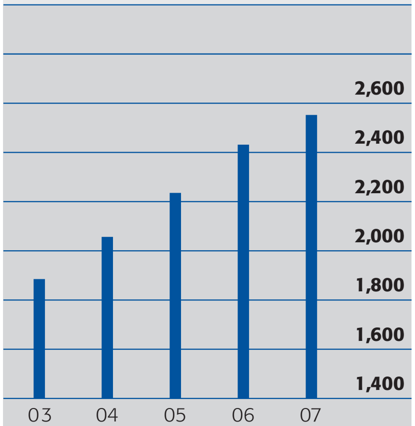
Celesio Wholesale demonstrated good growth in 2007, although it was marked above all by extraordinary items in two markets. Firstly, the discount competition amongst wholesalers in Germany, already intense at the start of the year, worsened when the law to strengthen competition in statutory health insurance [GKV-WSG: Gesetz zur Stärkung des Wettbewerbs in der gesetzlichen Krankenversicherung] came into force on 1 April 2007. Furthermore, the reaction of some German pharmacists to the acquisition of DocMorris, fuelled by pharmacists' associations, was to transfer their business to other wholesalers. Secondly, at the beginning of March 2007, a large pharmaceutical manufacturer switched over the supply of its product range to exclusive direct distribution in the United Kingdom. All of this manufacturer's products will therefore no longer be supplied by Celesio's British wholesale company AAH.

As a group operating at an international level, Celesio generated 83.6 per cent of its revenue outside Germany in the year under review. Celesio achieved 32.3 per cent of total revenue in France, and the Celesio companies in the United Kingdom contributed 26.4 per cent of total revenue.

Celesio Group	2006		**2007**		Change in euro	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	21,569.1	100.00	**22,349.5**	**100.00**	3.6	3.7
Gross profit	2,431.6	11.27	**2,523.7**	**11.29**	3.8	3.9
EBITDA	803.7	3.73	**842.5**	**3.77**	4.8	5.0
EBIT	685.8	3.18	**727.7**	**3.26**	6.1	6.3
Profit before tax	590.1	2.74	**608.8**	**2.72**	3.2	3.3
Net profit	425.6	1.97	**435.4**	**1.95**	2.3	2.5

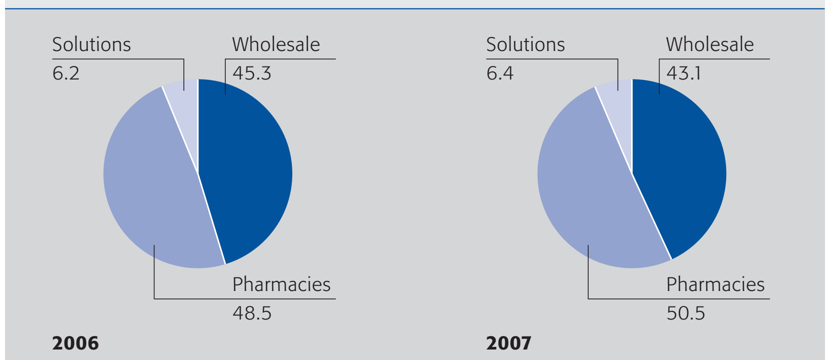
Business Review

Gross profit
Celesio Group
€ m



Gross profit improved ahead of revenue by 3.8 per cent (3.9 per cent in local currency) to 2,523.7 million euro, despite government measures to cut costs in public healthcare. Celesio Pharmacies considerably increased its proportion of the gross profit of the group from 48.5 per cent to 50.5 per cent as a result of the acquisitions. The Solutions division also increased its contribution to 6.4 per cent in 2007. This is attributed to the inclusion of the logistics branch of the Danish company K.V. Tjellesen and new customer contracts in various markets. Wholesale's contribution to gross profit for the group decreased from 45.3 per cent to 43.1 per cent.

Proportion of group gross profit by division
%



As forecast for the 2007 fiscal year, the gross profit margin showed a rise over the previous year, increasing by 2 basis points to 11.29 per cent.

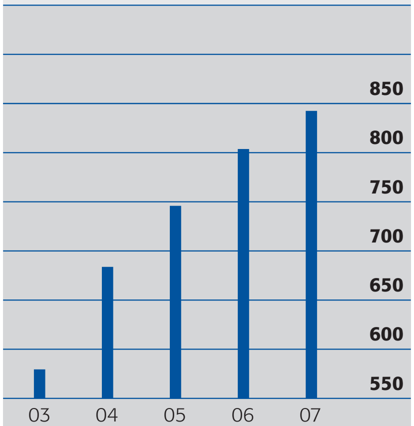
Net expenses from **other expenses and income** decreased compared with the prior year by 2.2 per cent. **Other expenses** increased in absolute terms. This is attributed in particular to the marked increase in the number of pharmacies, the acquisition of DocMorris and the fact that the Danish companies K.V. Tjellesen and Max Jenne were consolidated for the first time for an entire fiscal year. Furthermore, higher rents in the Pharmacies division caused a rise in building expenses and thereby also other expenses. Strict cost control and first positive results from the restructuring of the branch network and operational processes in the French wholesale business curbed costs. Costs were also significantly reduced in Belgium and France as a result of improved route planning. At the same time there was an increase in **other income** due to higher advertising subsidies in the pharmaceutical industry as well as the sale of pharmacies in the United Kingdom as part of an ongoing streamlining process of the portfolio. In addition, in the fourth quarter of 2007, Kemofarmacija, Celesio's wholesaler in Slovenia, disposed of both Unipharm in Croatia and their shares in PharmaFarm in Romania. This disinvestment was due to the desired position of market leader not being attainable in either market.

Personnel expenses for 2007 stood at 1,219.3 million euro, 5.3 per cent up on the previous year. The increase is attributed to the first full-year consolidation of the Danish companies, the opening of the German branch in Günzburg, the acquisition of DocMorris and the pharmacies acquired in 2006 and 2007. Due to the strong growth of the personnel-intensive pharmacy business, personnel expenses rose disproportionately. Restructuring the branch network and operational processes, particularly in the French wholesale business, facilitated a reduction in personnel expenses. Pension costs including interest expense constituted 2.3 per cent of personnel expenses.

Income from investments, at 17.0 million euro, showed a 14.9-per cent reduction from 2006. This item essentially includes the dividend income from the holding in Andreae-Noris Zahn AG and the pro rata profit from pharmexx GmbH. A significant cause of this fall in income was an extraordinary item in the previous year when the seller was granted a purchase option for the holding in Andreae-Noris Zahn AG. As this expired at the end of last year, the corresponding liability with a fair value of 11.3 million euro was charged to income in 2006. In the year under review, the profit contribution from pharmexx developed well. Income from investments also includes a non-recurring gain in the sale of the 12-per cent minority holding in the Croatian pharmaceutical wholesaler Medika and other financial assets not essential to operations.

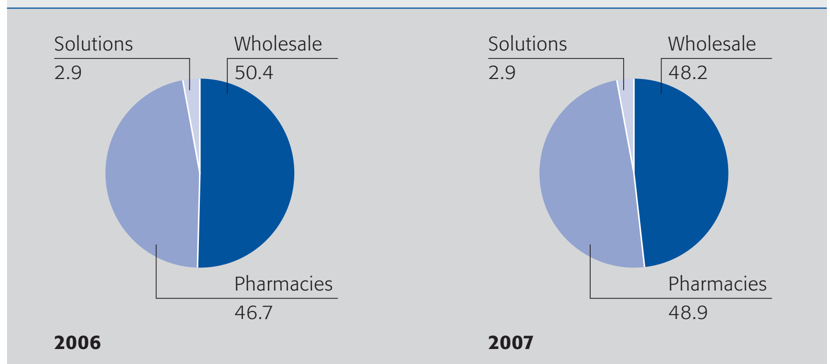
Business Review

EBITDA
Celesio Group
€ m



EBITDA, which expresses Earnings Before Interest, Taxes, Depreciation and Amortisation, rose in the 2007 fiscal year by 4.8 per cent (5.0 per cent in local currency) to 842.5 million euro. As forecast, EBITDA grew more strongly than revenue. This was in particular due to the good development of Celesio Pharmacies. Return on sales (EBITDA in relation to revenue) therefore increased by 4 basis points to 3.77 per cent.

Proportion of group EBITDA by division*
%



* Without others segment

Depreciation and amortisation, at 114.8 million euro, was slightly below the previous year's level of 117.9 million euro. The higher depreciation and amortisation in the 2006 fiscal year was attributed to an unforeseen write-off of 16.2 million euro in Wholesale for a discontinued software development project. Excluding this unforeseen write-off, depreciation and amortisation increased by 13.1 million euro. The increase is mainly due to higher levels of investment in the refitting of newly acquired and existing pharmacies.

EBIT (Earnings Before Interest and Taxes) increased from 685.8 million euro to 727.7 million euro, an improvement on the previous year of 6.1 per cent (6.3 per cent in local currency).

The **financial result** (balance of the items interest expense, interest income and other financial result) deteriorated as compared with the same period last year by 23.3 per cent to 118.9 million euro. This was principally due to the debt levels, which were higher on average. This is attributed to the acquisition of 149 pharmacies and the takeover of DocMorris. For the portion of financial liabilities that was not hedged against interest changes, interest expense rose due to the higher market interest rates. Celesio largely hedged the interest risk by using derivative financial instruments and maturity-matching refinancing in accordance with group rules.

Other financial result fell by 0.8 million euro to 6.6 million euro as the result of timing differences in currency and interest derivatives. The expiry of a cash flow hedge had a positive effect on this item, as in the prior year. Associated with this is the writing-off of the relevant portions of other comprehensive income.

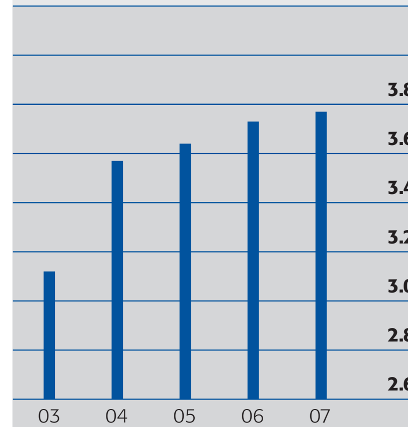
Interest coverage ratio (financial result in relation to EBIT) indicates how often interest can be paid mathematically with earnings before interest and taxes. The key figure showed a reduction from 7.2 to 6.1.

Profit before tax rose by 3.2 per cent (3.3 per cent in local currency) to 608.8 million euro.

Tax expense rose in comparison with 2006 by 5.4 per cent to 173.4 million euro. The tax ratio of 28.5 per cent was 60 basis points up on the prior year's figure. This contained higher tax revenue not relating to the period under review than the figure for 2007. This effect was only partially offset by the positive effects of a reduction in the rate of tax on deferred taxes.

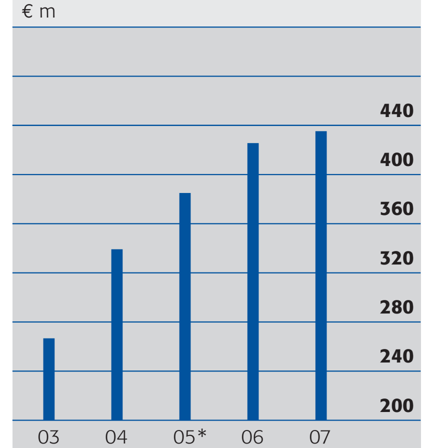
Net profit rose to 435.4 million euro, an increase of 2.3 per cent (2.5 per cent in local currency). **Earnings per share** improved by 1.6 per cent, rising from 2.49 euro to 2.53 euro.

Return on sales*
Celesio Group
%



* In relation to EBITDA

Net profit
Celesio Group
€ m



* Adjusted for trade tax refund

Business Review

Financial position

The main sources of **liquidity** in the period under review were net cash flow from operating activities and short and long-term borrowings – due to the acquisition of 149 pharmacies and the DocMorris Group. Maturity-matching refinancing was regarded when taking on borrowings. As part of its risk management, Celesio developed measures to minimise liquidity risks. More information is provided in the chapter on risk management on page 83.

The following overview shows the derivation of cash flow from net profit and shows the cash flow appropriation through to free cash flow.

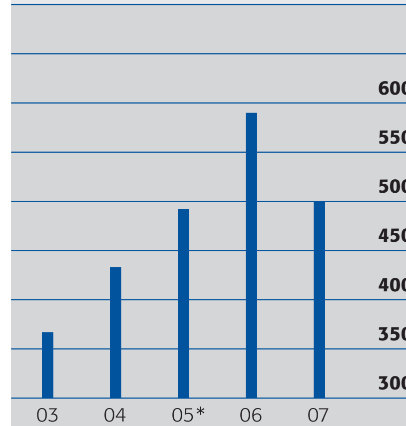
Cash flow development	2006 € m	**2007** **€ m**
Net profit	425.6	**435.4**
Depreciation and amortisation/write-up of property, plant and equipment, and intangible assets	117.9	**109.7**
Net result from disposal of non-current assets	– 7.7	**– 65.5**
Non-cash changes in net working capital	72.3	**49.8**
Other non-cash income and expenses	– 18.1	**– 29.2**
Cash flow	**590.0**	**500.2**
Dividend payments*	– 120.3	**– 128.7**
Cash flow after dividend payments	**469.7**	**371.5**
Proceeds from the disposal of non-current assets	21.7	**46.9**
Investment in the operating business	– 151.0	**– 143.4**
Free cash flow before acquisitions and change in net working capital	**340.4**	**275.0**
Change in net working capital	143.1	**– 329.4**
Acquisitions and new openings	– 206.1	**– 548.9**
Proceeds from disposal of subsidiaries	7.4	**34.8**
Other**	2.7	**82.6**
Free cash flow	**287.5**	**– 485.9**

* The dividend payments contain payments to minority shareholders of 1.1 million euro (2006: 1.2 million euro)

** Mainly concerns the portion of acquisitions not yet cash-effective on the balance sheet date

Despite the increase in net profit, **cash flow** declined in the year under review. This is due to the higher share of non-cash elements in the net profit for 2007 compared with the previous year. Furthermore, there was an increase in the cash-effective items which are not included in the cash flow. This essentially involves proceeds from the sale of the holding in the pharmaceutical wholesaler Medika in Croatia, other financial assets not essential to operations, and income from deconsolidation. In the fourth quarter of 2007, Kemofarmacija, Celesio's Slovenian wholesaler, disposed of both Unipharm in Croatia and its holding in PharmaFarm in Romania. As part of the portfolio adjustment, Celesio Pharmacies also sold pharmacies in the United Kingdom in 2007.

Cash flow
Celesio Group
€ m



* Adjusted for trade tax refund

The item **change in net working capital** led to a net cash flow of 329.4 million euro. The increase is mainly due to the decreased trade payables as a result of an earlier payment date, particularly in France and the United Kingdom, compared with the prior year.

Net working capital	31/12/2006 € m	**31/12/2007 € m**	**Change € m**
Inventories	1,645.9	1,640.8	– 5.1
Trade receivables	2,503.3	2,503.9	0.6
Trade payables	2,447.4	2,124.9	– 322.5
	1,701.8	**2,019.8**	**318.0**
Other operating assets	374.5	362.8	– 11.7
Other operating liabilities	914.3	1,004.2	89.9
Net working capital	**1,162.0**	**1,378.4**	**216.4**
Adjustment for non-cash items			
Exchange rate effects			30.4
Change in scope of consolidation			43.9
Other non-cash items			38.7
Net cash flow from change in net working capital			**– 329.4**

Business Review

Investments and acquisitions

Celesio's investments strengthen its competitive position and geographical presence. In the 2007 fiscal year the group invested a total of 692.3 million euro, which represented an increase of 335.2 million euro on the amount invested in 2006. 627.9 million euro (2006: 203.0 million euro) was invested in the Celesio Pharmacies division, 44.8 million euro (2006: 98.2 million euro) in the Celesio Wholesale division and 5.1 million euro (2006: 54.1 million euro) in the Celesio Solutions division.

Approximately 20.7 per cent of total investments, i.e. 143.4 million euro (2006: 151.0 million euro) was invested in the operating business. Like in the past this was in the range of 20 and 30 per cent of the cash flow. Celesio spent approximately 60.0 million euro of this sum on refitting pharmacies or relocating them to more attractive locations. Approximately 11.6 million euro was employed to improve the wholesale branch network in particular in France and the United Kingdom. A further focus was on the modernisation of IT in all divisions. Celesio Pharmacies also invested in health centres in the United Kingdom, Norway and the Netherlands.

Investments in acquisitions and new openings during the 2007 fiscal year totalled 548.9 million euro (2006: 206.1 million euro). This pertained in particular to the Pharmacies division. The number of pharmacies acquired increased in comparison to the previous year from 63 to 149. At the same time 41 pharmacies were opened. In addition to this, in May 2007 Celesio acquired DocMorris, Germany's best-known pharmacy brand and Europe's largest mailorder pharmacy.

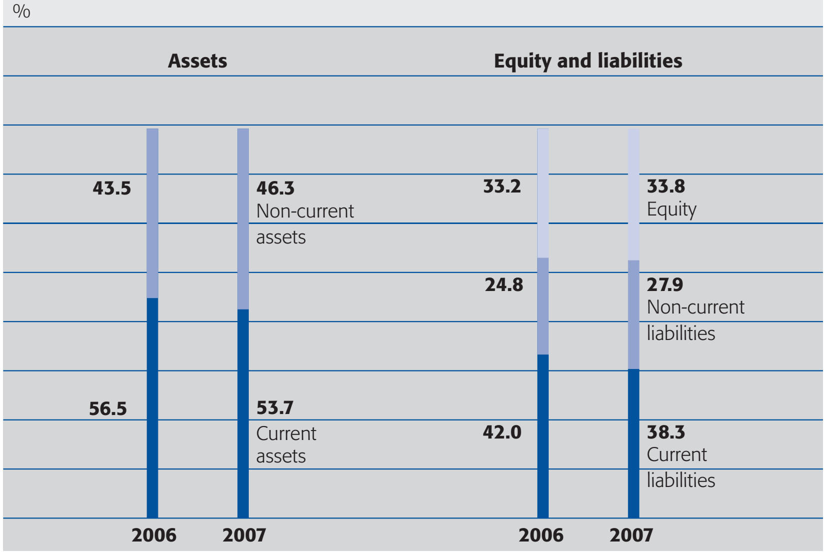
Investments	2006 € m	**2007** **€ m**
Celesio Wholesale	98.2	**44.8**
Celesio Pharmacies	203.0	**627.9**
Celesio Solutions	54.1	**5.1**
Other	1.8	**14.5**
Total	**357.1**	**692.3**

Assets position

Celesio again strengthened its balance sheet as at 31 December 2007. The shareholders' equity ratio increased from 33.2 per cent at the end of the previous year, to 33.8 per cent. The good equity position, coupled with the financial latitude that was created, ensure that Celesio is able to finance further growth. The gearing, however, rose from 0.73 to 0.83 as a result of the acquisitions.

At the end of 2007, total assets stood at 8,343.2 million euro, 5.3 per cent up on the previous year. The acquisitions undertaken in the past fiscal year in particular contributed to this increase. With regard to the first-time consolidation of the companies acquired, total assets increased by 642.3 million euro. In contrast, the deconsolidation of the wholesalers PharmaFarm in Romania and Unipharm in Croatia was less significant. The change in exchange rates, in particular pound sterling to euro, had the effect of reducing total assets by 284.9 million euro.

Structure of balance sheet
Celesio Group
%



Business Review

Non-current assets increased by 420.1 million euro, an increase of 12.2 per cent on the figure for the previous year. The acquisition of 149 pharmacies, predominantly in the United Kingdom, and the purchase of DocMorris contributed to this increase in particular.

These acquisitions coupled with investments in the operating business led to an increase in property, plant and equipment. Investments exceeded depreciation and disposals.

Once again, the annual impairment test demonstrated that goodwill from Celesio acquisitions is recoverable.

Current assets at 4,476.2 million euro are in line with the previous year's level with little change in inventories and trade receivables compared with 31 December 2006. Income tax receivables fell by 10.2 million euro. This was, however, counteracted by an increase in other assets. This reflects above all the positive market development for derivative financial instruments which Celesio uses exclusively for hedging interest and currency risks.

Shareholders' equity rose by 7.3 per cent to 2,819.6 million euro as at 31 December 2007. Net profit of 435.4 million euro, less the dividends and payments to minority shareholders for the 2006 fiscal year which totalled 128.7 million euro, contributed to this increase. Exchange rate differences without effect on income, particularly as a result of the exchange rate development of the pound sterling, reduced shareholders' equity by 109.4 million euro. The increase in other comprehensive income is largely due to the positive trend in market value of cash flow hedges. As a cash flow hedge expired, Celesio undertook a corresponding derecognition of reserves. There was a decline in minority interests – minority shareholders of companies not wholly owned by Celesio. This was essentially due to the purchase of further shares in the Danish company K.V. Tjellesen.

Non-current financial liabilities at 31 December 2007 were 322.0 million euro higher than at the end of the previous year as the result of acquisitions undertaken in the 2007 fiscal year. As part of further diversification and optimisation of the financial structure, Celesio placed promissory notes equivalent to approximately 370 million euro in the second quarter. This measure involving loan capital is used for general corporate financing. In addition, Celesio repaid a promissory note of 188 million euro prematurely.

Provisions for pensions and **other non-current provisions** only showed a slight change. Provisions for pensions represents 1.6 per cent of total assets.

The increase in **other non-current liabilities and deferred tax liabilities** is predominantly due to acquisitions.

Current liabilities are 137.1 million euro or 4.1 per cent below the figure for the previous year. As the result of reclassifying originally long-term promissory notes to current liabilities and also the use of overdraft facilities, current financial liabilities increased by 143.9 million euro. In France and the United Kingdom in particular, an earlier payment date than the previous year together with exchange rate effects brought about a reduction in trade payables of 322.5 million euro. At the same time, on the balance sheet date a higher amount had to be accrued for outstanding invoices. This is shown under other current liabilities.

As a result of the effects described above, there was an increase in **net current assets**, defined as current assets less liabilities excluding financial liabilities, from 1,312.6 million euro to 1,590.1 million euro.

Net current assets	2006 € m	**2007** **€ m**
Current assets	4,479.7	**4,476.2**
Trade payables	2,447.5	**2,124.9**
Other current provisions	146.1	**128.5**
Income tax liabilities	130.3	**145.4**
Other liabilities	443.2	**487.3**
Net current assets	**1,312.6**	**1,590.1**

Business Review

Financing strategy

Celesio's financing strategy is based on consistent financial management which pursues three goals:
– Securing long-term liquidity
– Ensuring commercial flexibility
– Optimising financing costs

In order to achieve these goals, Celesio places great emphasis on a balanced diversification of financial instruments, a broad base of investors and banks, and maturity-matching refinancing of funding requirements.

Long-term liquidity is assured through bilateral long-term credit lines with maturity of up to five years and promissory notes with maturity of up to seven years. The credit lines are annually revolving, multi-currency loan commitments. Furthermore, Celesio regularly issues promissory notes as part of private placings. Having its own finance company ensures that the long-term financing requirements of the individual group companies are covered.

Financial flexibility is essential if a company wants to be able to exploit growth opportunities at any time. To this end, Celesio has a substantial amount of unused credit lines. Furthermore, Celesio currently has an additional financing scope of 600 million euro available due to an unused syndicated credit.

Particularly helpful in its efforts to ensure financial flexibility are the binding standards developed by Celesio for dealing with lenders which guarantee transparency and equal treatment for financial backers. This forms the basis for long-term cooperation and corresponding trust necessary for this. Reliability and sustainability with regard to financing are of paramount importance.

Financing costs can be optimised with strict financial management. Celesio has established internal rules for this, aimed at, amongst other things, reducing costs by means of active control of liquid assets in currency pools and limiting market price risks by using derivative financial instruments. It is of great importance to Celesio to be seen as a company with impeccable creditworthiness, even without external rating. In this way fixed, long-term, competitive conditions can be agreed with lenders. This creates a sound basis for planning.

The company predominantly covers its **financing requirements** from cash flow. To finance large investments and acquisitions, loans are taken out or promissory notes issued. Celesio is one of the most prominent issuers of promissory notes on the German market. At the balance sheet date, Celesio had promissory notes with an equivalent value of 800 million euro, 45 per cent of these payable in pound sterling.

In the first half of 2007, Celesio issued a promissory note to the value of 370 million euro as part of the restructuring of the financing portfolio. The issue was made in a number of instalments, subdivided into currencies and maturity of five to seven years. The high level of participation by international investors is testament to the degree of confidence that lenders have in Celesio. With the new promissory note, Celesio has improved the maturity structure of its loans and expanded its circle of investors.

At 31 December 2007, Celesio AG and its group companies had fulfilled the loan obligations and commitments from all its loan agreements.

Details on the financial liabilities for the year 2007 can be found in the notes to the consolidated financial statements on pages 174 to 175.

Business Review

Celesio AG financial statements

The financial statements of Celesio AG reflect its activity as a managing holding company.

At 31 December 2007 total assets increased by 127.0 million euro to 2,640.6 million euro. Shareholders' equity fell slightly as the dividend for the 2006 fiscal year of 127.6 million euro exceeded net profit by 16.9 million euro. The shareholders' equity ratio changed to 63.4 per cent (2006: 67.3 per cent). Non-current liabilities to banks and therefore also total assets increased in particular as the result of financing the acquisition of 149 pharmacies and DocMorris.

The net profit of Celesio AG showed an improvement over 2006 of 6.6 million euro to 110.7 million euro. Net profit is essentially made up of the costs of the holding company, income from investments by subsidiaries and the interest result. The income from investments is made up of the profit transfer of domestic subsidiaries and dividend payments of foreign subsidiaries. This fell by 29.3 million euro to 107.1 million euro. The profit for 2007 includes proceeds from the disposal of a holding in an affiliated company and the sale of the minority holding in the Croatian pharmaceutical wholesaler Medika, totalling 67.2 million euro. The holding company costs are essentially made up of personnel expenses and other expenses. Personnel expenses rose by 2.1 million euro, primarily due to the increase in the number of employees as a yearly average from 193 to 217. The interest result rose by 15.3 million euro due to the increase in the volume of financing and the rise in interest rates.

The net profit and a withdrawal from revenue reserves resulted in retained earnings of 131.0 million euro, which will be proposed at the annual general meeting as a dividend and paid out to shareholders.

Management board remuneration

The remuneration of the members of the management board is shown in the remuneration report. This can be found in the chapter on corporate governance on pages 26 to 27 and forms part of the management report.

Dividend

Celesio's management board and supervisory board are to propose at this year's annual general meeting a dividend of 0.77 euro per share for all 170.1 million full dividend-bearing no par value shares. A dividend of 0.75 euro per share had been paid out the previous year, therefore the proposed dividend for the 2007 fiscal year is 2.7 per cent up on the previous year's dividend. In all, a total of 131.0 million euro are to be paid out. This means Celesio is maintaining its long-standing dividend policy of paying out approximately 30 per cent of the net profit of 435.4 million euro to its shareholders.

Supplementary report

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

Profit Forecast

The European pharmaceutical market will continue to grow due to demographic trends and medical and pharmacological innovations. Structural changes in the market will also offer opportunities for growth, which Celesio will exploit. However, severe government measures announced or already introduced in 2007 will affect the 2008 fiscal year particularly negatively. Celesio nonetheless intends to increase revenue and approximately match the operating profit of the previous year. Today the management board is already very optimistic for 2009 and expects a marked improvement in the operating profit.

Concentration on the pharmaceutical growth market

The European pharmaceutical market remains a sustainable growth market. It will, however, change in the long-term as a result of the market trend described in detail in the chapter on market environment and market development. The management board is convinced that with its three divisions, Wholesale, Pharmacies and Solutions, Celesio is correctly positioned to continue to grow successfully in future in a changing market. Celesio will therefore concentrate on the pharmaceutical market in the foreseeable future and expand its activities there. It can be assumed that the importance of Celesio Pharmacies and Celesio Solutions within the group will continue to increase. While Celesio Wholesale is already a market leader in many European markets, the Pharmacies and Solutions divisions still have considerable room for expansion.

During the next few years, Celesio intends to strengthen its leading position in Europe in the long term and expand its regional presence, particularly in Eastern Europe. To this end, first talks were held with target companies in the Russian market. In the fourth quarter of 2007 Celesio held exclusive negotiations with the Russian Protek Group for the multi-level acquisition of a majority shareholding. As the mutual exclusivity is no longer valid since the beginning of 2008, Celesio can now hold talks again with other potential partners.

A challenging 2008 fiscal year for the Celesio Group

The effects of government cost-cutting measures will negatively affect the 2008 fiscal year. Firstly, the government measures introduced in 2007, especially the drastic reduction of reimbursement prices for medicines in the United Kingdom from 1 October 2007, will in particular carry weight in the year as a whole. Secondly, new government cost-saving activities are expected for 2008; in the year under review, the Irish and Dutch governments announced price reductions effective from January 2008. As a result of these government measures, the extent of which was unexpected and to some degree incomprehensible, Celesio will not be able to fully compensate for their effects in 2008.

Despite some uncertainties, the Celesio management board has the following expectations for the 2008 fiscal year. Exchange rate fluctuations, in particular between the pound sterling and euro, have not been taken into account:

– **Revenue** adjusted for exchange rate effects will show an improvement over the previous year in the low single-digit percentile range. Celesio Wholesale is likely to grow in line with the comparable market and Celesio Pharmacies considerably ahead of the comparable market. DocMorris and the pharmacies acquired in 2007 will contribute to this.

– **Gross profit** will grow in line with revenue. Government measures from 2007, in particular in the United Kingdom, will affect the year 2008 as a whole.

– The **operating profit (EBITDA),** adjusted for exchange rate effects, will approximate the previous year's level despite the effects of government measures.

– Due to the additional costs for financing the acquisitions made in 2007, the lack of positive effects from the expiration of an interest hedge and slightly higher depreciation and amortisation, it is unlikely that the level of **profit before tax**, adjusted for exchange rate effects, from the previous year will be achieved.

Performance in the first half of 2008 will be much weaker by comparison with the previous year. The reason for this is that the negative effects from 2007 only had an impact in the course of the year. These effects are basically the discount competition in German wholesale, which increased in intensity in the course of 2007, the negative reactions of some GEHE customers to the DocMorris takeover and the severe government measures introduced in the United Kingdom on 1 October 2007.

Profit Forecast

According to the current estimates, the second half of 2008 will show relative improvement. The management board is anticipating that Lloydspharmacy, Celesio's British pharmacy chain, will be able to compensate to some extent for the effects of government intervention and that GEHE will be able to regain market share in the German wholesale market. It remains to be seen whether the intense discount competition and therefore the loss of gross profit in German wholesale will tail off in the course of 2008.

Development of Celesio Wholesale in 2008

The management board expects Celesio Wholesale, adjusted to take account of exchange rate effects, to continue to grow in line with the comparable market in the 2008 fiscal year. This is assuming that AAH in the United Kingdom will participate in the new direct delivery models. In some of these models, trade turnover is being replaced with a service fee for the service rendered. This has a negative impact on revenue, but not necessarily on gross profit and profit. In the German market, it is expected that GEHE Pharma Handel will be able to recover further revenue and again increase its market share. At present, it is impossible to predict whether the discount competition in Germany will continue at this unreasonably high level.

EBITDA is likely to demonstrate low single-digit growth compared with 2007. The anticipated positive development is attributed in particular to growth in Germany and to the successes from the restructuring measures.

Celesio Wholesale is to expand its position in existing markets in the future and also continue to grow geographically where attractive opportunities for acquisitions arise.

Development of Celesio Pharmacies in 2008

Again in 2008, Celesio Pharmacies will enjoy a better growth rate than the comparable market, in organic terms. Taking further acquisitions into account, revenue, adjusted to take account of exchange rate effects, is to grow in the high single-digit range. The increase in revenue will be bolstered by the full-year consolidation of DocMorris and the pharmacies acquired in 2007.

Due to the considerable impact that interventions had on the earning power of British pharmacies in 2007, the Celesio management board is anticipating EBITDA development of the division to decline in 2008. These interventions are likely to lead to a further consolidation of the pharmacy markets in the United Kingdom. Celesio Pharmacies should be able to benefit from this and acquire further pharmacies in attractive locations and at reasonable prices.

Liberalisation trends in numerous Western European countries are creating growth potential for Celesio Pharmacies. Experts are anticipating decisions from the European Court of Justice in 2008 regarding the proceedings pending. Depending on when in 2008 these judgements are pronounced and how they are worded, liberalisation of these pharmacy markets may occur as early as the end of 2008 or the beginning of 2009. If the underlying conditions are stable and investment appears financially reasonable, Celesio Pharmacies will look to get involved in the liberalised pharmacy markets.

Profit Forecast

Development of Celesio Solutions in 2008

With Movianto and pharmexx, Celesio Solutions is operating in a young and strongly fragmented market for pharmaceutical-related services. This services business will grow strongly in the medium and long term. Celesio Solutions is well positioned for this, and it is expected that Celesio Solutions will, with Movianto in particular, derive benefit from the new distribution requirements of the pharmaceutical industry.

Celesio's cooperative partner pharmexx, in which Celesio has a strategic 30-per cent holding, will also perform well in 2008 in the view of the management board. pharmexx opens up new geographical markets constantly and pharmaceutical manufacturers' demand for sales services will continue to grow.

Growth in gross profit for Celesio Solutions, adjusted to take account of exchange rate effects, should be in the high single-digit range. EBITDA will also show positive growth.

Optimistic forecast for the Celesio Group from 2009

The management board is optimistic that Celesio will continue its sustained and profitable growth from 2009. The reasons for this are:
– The continued growth dynamics of European pharmaceutical markets
– The possible liberalisation of pharmacy markets
– Targeted acquisitions to increase regional presence or open up new business segments
– The expansion of existing business, for instance through new services in all divisions

A detailed forecast as to the development of revenue and the operating profit over several years is not possible at the moment. This is due to uncertainty regarding the timing and extent of government cost-cutting measures and the timing of the expected liberalisation of European pharmacy markets.

Good financial position for the Celesio Group

Solid financing scope

Celesio has a solid financing scope with free credit lines from syndicated loans or loans arranged bilaterally with banks. If the foreseeable liquidity requirements of the group go beyond the cash flow from operating activities, then Celesio can continue to cover it with credit facilities. More information on the financing strategy can be found on pages 68 to 69.

Investments

Celesio plans to invest between 150 and 170 million euro in the operating business in the 2008 fiscal year. About 40 per cent of this sum is likely to be invested in the Wholesale division, 50 per cent in Celesio Pharmacies and 10 per cent in Celesio Solutions.

The central focus at Celesio Wholesale will be the optimisation of the branch network. In the Pharmacies division, emphasis will be put on modernising pharmacies or relocating them to more attractive locations. The focal point in the Solutions division will be the expansion of existing warehouses and the construction of new ones. Celesio plans to invest in information technology in all three divisions.

Acquisitions and the opening of new pharmacies in attractive locations are to further strengthen the Celesio Pharmacies division. Acquisitions cannot be precisely planned for Celesio Wholesale and Celesio Solutions. Celesio investigates opportunities for expansion thoroughly and exploits them if the basic political and economic conditions are right.

As in the past, Celesio will finance its investment in the operating business and acquisitions predominantly using the cash flow from operating activities.

Probable dividend development

The management board anticipates that Celesio will continue its long-standing dividend policy during the next years and therefore pay out around 30 per cent of its net profit to shareholders.

Opportunity and Risk Management

Celesio takes an entrepreneurial approach in order to utilise market opportunities. This, of course, also involves risks. Celesio identifies and analyses risks systematically. The aim is to be proactive and responsible in dealing with risks. In this way the company guarantees its profitability and realises the resultant possibilities for sustained growth.

Opportunity management at Celesio

Identifying and exploiting opportunities at an early stage is a basic entrepreneurial task to ensure long-term success. Celesio identifies opportunities by means of continuous market observation and through dialogue with market participants and public health authorities. The key to rapid and flexible exploitation of the opportunities which arise lies in the decentralised structure of the group. A lean organisational structure and a strong emphasis on internal knowledge sharing enable rapid action. How Celesio exploits opportunities commercially is explained in the chapter on corporate strategy on pages 50 to 53. The chapter on market environment and market development on pages 42 to 45 details the opportunities Celesio is anticipating over the next years.

Risk management at Celesio

The group incorporates a risk management system in its entrepreneurial business activity in order to identify and evaluate possible risks promptly and deal with them effectively. Group-wide standards for risk management are defined in a risk management manual. This enables risks to be recorded and assessed according to a standardised methodical approach.

Celesio sees risk management as the responsibility of all group companies and not of an individual isolated department. Therefore each group company possesses the necessary expertise to assess and evaluate the risks, and to initiate the necessary measures in their individual countries.

Risk control and risk communication

In addition to the continuous recording of relevant risks, a group-wide risk inventory is carried out twice a year. In this process, risk experts from the group companies and central departments assess individual longer-term risks and issue an assessment of their possible effects and the probability of occurrence. It also defines measures which need to be initiated to minimise risk. The Corporate Audit and Consulting Services department checks the results for plausibility, summarises them and communicates them inter alia to the management board. In addition to the risk inventory, decision makers are informed of newly emerging risks and the most important events in their market environment by way of a monthly report.

Risk environments

Macroeconomic risks

Celesio is only dependent on general economic cycles to a limited extent. This is due to its business activity, which concentrates on efficiently supplying the public with medicines and healthcare products. Satisfying healthcare needs develops largely independently of economic business cycles.

Industry risks

The pharmaceutical industry in which Celesio operates has always been subject to government intervention. The ageing population and the associated increased demand for medicines leads to rising healthcare costs. Governments therefore strive to reduce costs in the healthcare segment for instance by cutting the prices of medicines, reducing reimbursement prices and changing wholesale and pharmacy remuneration. Government intervention may therefore affect Celesio's business development and earnings. In order to minimise the resultant risks, Celesio diversifies its activities both geographically and also in the form of various business models. More details on diversification can be found in the strategy chapter on page 50.

Opportunity and Risk Management

Risks from operational business

In 2007, Celesio considerably increased its requirements for dealing with risks that might arise from operational processes. So-called business continuity plans were developed for large areas of the company to safeguard business operation and the supply of medicines in the event of unforeseeable circumstances. For instance, if a wholesale branch were temporarily non-operational, customers' supplies would still be guaranteed in the short term by nearby branches. There are also insurances for interruptions to operation. In addition to the operational segments, concepts were also drawn up for selected central functions such as Corporate Finance and Treasury to ensure that the business continues to run as smoothly as possible in exceptional circumstances.

Personnel

Celesio minimises the risk of inadequately qualified personnel by means of efficient recruiting and successful personnel marketing. Celesio gains the loyalty of its employees thanks to its attractive working conditions and individual career advancement. However, a shortage of pharmacists can arise at times in individual countries. Celesio bridges such deficits by temporarily contracting self-employed pharmacists.

Since 2006, a code of conduct has been in place at Celesio which is binding on all employees. This commits employees to act with integrity, honesty and fairness and also observe the national laws and regulations of the countries in which they work. More information on the code can be found in the chapter on corporate governance on page 22.

Acquisition risks

Acquisitions are an important element of Celesio's internationalisation and diversification strategy. In order to rule out additional, unforeseen, expansion-related risks, all acquisition and investment projects are scrutinised prior to being agreed. Before due diligence, which includes legal, financial and technical subjects, the market conditions and Celesio's own investment assumptions are carefully checked. For smaller investments and acquisitions, for instance the takeover of an individual pharmacy, there are clearly defined assessment criteria. By using local knowledge of the market and competition, the purchase can then be performed locally. More complex and larger acquisition projects are prepared by the Corporate Mergers & Acquisitions department in close consultation with the specialist departments. The management board and, if necessary, the supervisory board make a decision on the projects. With this appraisal and approval procedure, and using local knowledge, Celesio remains flexible, yet at the same time the professional execution of acquisitions is guaranteed. When the acquisition is concluded, it is integrated into the group using a firmly established schedule and clearly defined responsibilities as a basis.

Project management

The company undertakes a variety of projects to further develop the Celesio divisions, for instance IT, construction and restructuring projects. In order to minimise typical project risks such as delays or budget overruns, in 2007 Celesio defined group-wide standardised requirements for handling larger projects. Observing these guidelines increases transparency for the whole period of the project. In this way, undesirable developments can be identified at an early stage and corrective measures taken promptly.

Information technology

Almost all operational processes are linked to information technology. For this reason, Celesio invests continually in its IT systems to guarantee a reliable and smooth-running operation. Celesio carries out regular IT updates and security tests. The company strives to prevent emergencies. Should problems arise, however, appropriate action can be taken. Established emergency plans ensure that business operations and hence also the supply of medicines can continue unaffectedly.

Legal risks

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

Financial risks

Market price risks: Celesio is faced with risks as regards its assets, liabilities and transactions arising inter alia from the variation in exchange rates and interest rates. To limit these risks, selected hedging instruments are used, depending on the assessment of the risks.

Opportunity and Risk Management

Exchange risk: The exchange risk is divided into transaction exposure and translation exposure. The transaction risk is very small for Celesio, as the subsidiaries operate their business predominantly in closed currency systems. To the extent that such a risk exists as the result of cross-border delivery relations, Celesio fully hedges against it, for instance by means of cash or forward transactions. The use of hedges is subject to group-wide standardised guidelines. Part of this is the separation of the functions trading, execution and accounting. Furthermore, only a few, qualified employees are authorised to deal with financial instruments. The observance of these guidelines is constantly monitored. Celesio enters into derivative instruments exclusively for hedging purposes and only with banks with excellent credit ratings. This occurs in order to minimise the credit risk involved with the trade in derivative financial instruments. Details on the use of derivative financial instruments can be found on pages 176 to 181 in the notes to the consolidated financial statements. With translation exposure, Celesio minimises the risk from foreign currency fluctuations as far as possible through natural hedges, while being careful to ensure that the currency of the source of funds is as far as possible identical with the currency of the application of funds. The greatest risk from currency conversion involves the pound sterling. As of the balance sheet date, Celesio disclosed a translation reserve of 5.0 million euro.

Interest rate risks

Celesio divides the interest risk into loss of assets from a change in market interest and increased interest expense due to changes in interest rate or margin. To minimise these risks, Celesio has set up a committee which meets regularly under the leadership of the Chief Financial Officer. The members of this committee draw up proposals for interest rate hedging for the group based on reports which simulate current interest rate risks. Interest rate hedging measures are based on established rules defined by Celesio which are reviewed at least once a year and adjusted if necessary.

Celesio also hedges against the increased interest expense resulting from a change in margin inter alia through fixed margin arrangements over a number of years in the standard loan agreements. The margin is the difference between the market interest rate and the interest rate that Celesio actually has to pay.

Celesio hedges against market price risks largely without affecting earnings. Care is taken in particular for interest derivatives that the regulations for hedge accounting are observed as defined in IAS 39.

Loss of receivables outstanding
The risk of loss of receivables outstanding is small for Celesio due to the structure of its customer base. The respective public health authorities normally enjoy very good credit standing. In addition, there is no significant concentration of risks due to the large number of business relations. The remaining default risks are minimised by strict credit management. This includes the ongoing monitoring of payment behaviour as well as comprehensive credit assessments.

Liquidity
Celesio minimises liquidity risks by means of systematic liquidity management, which includes monthly rolling liquidity planning. This makes it possible to determine the needs of the group companies and identify liquidity risks and liquidity bottlenecks at an early stage, and take countermeasures. Furthermore, Celesio has confirmed, unused, long-term bilateral credit lines with a large number of renowned banks in Europe with excellent credit ratings. The careful selection of credit institutions in Celesio's bank portfolio proved its worth in particular during the world financial crisis, which was triggered by the mortgage crisis in the USA. Irrespective of the market environment, Celesio was able to expand its banking circle at the balance sheet date and increase the amount of confirmed credit lines in comparison with the previous year's closing date.

Overall risk

The overall risk of Celesio in the year under review remained virtually unchanged in comparison with the previous year. As part of the audit of financial statements, the auditors validated the systems for the early identification of risks which might pose a risk to survival.

No risks have been identified at present which might pose a threat to the survival of Celesio.

Employees

Well-qualified, motivated employees are the basis for successful business development. For this reason, Celesio continued to invest heavily in the further education and training of its employees during 2007. Interesting tasks, international career opportunities in a dynamic environment and transparent performance incentives are what distinguish Celesio as an attractive employer. As a result of Celesio's growth course, the number of employees rose by 1,074 in 2007.

Number of employees

At 31 December 2007, Celesio had a total of 37,516 employees in 14 countries. This is tantamount to an increase of 2.9 per cent in comparison with the previous year. In the Wholesale division, the number of employees, at 13,543, declined slightly. The number of employees at Celesio Pharmacies increased by 8.9 per cent to 22,153, in particular due to the acquisitions of DocMorris and 113 pharmacies in the United Kingdom. Thanks to the dynamic business development, the number of jobs also increased in the existing pharmacies. In the Solutions division, at 1,569, the number of employees was slightly more than the previous year's level. The number of employees outside Germany increased from 33,508 to 34,558. Therefore at the balance sheet date, 92.1 per cent of all employees were working abroad.

Professional human resources

In order to improve the quality of the human resources work, Celesio introduced group-wide standardised instruments for personnel controlling in 2007. To this end, strategically important processes were defined in personnel management in close cooperation with all companies. To guide these processes, the human resources departments have laid down uniform indicators relating to personnel work and defined concrete quantifiable goals, taking account of the strategic orientation of the individual companies. Computer-assisted solutions help to monitor the achievement of goals both in the companies and also at group level. Knowledge transfer also plays an important role as proven processes are identified and made accessible to all the companies.

Awards for human resources work

In 2007, the personnel work of Celesio won several awards. The Irish pharmacy chain Unicarepharmacy was the only retailer to win a place in the top ten in the country in a competition run by the international Great Place to Work Institute. Lloydspharmacy got through to the final selection in the Employer of the Year category together with five other companies in the People in Retail Awards 2007 in the United Kingdom.

Personnel development

The aim of personnel development throughout the group is to tap the full potential of the employees. The annual staff appraisal at Celesio forms the basis for individual development. The different stages in personal and professional development are set out, individual development plans are prepared, and goals agreed for the following year. The results of the appraisals are recorded in a group-wide personnel information system. The data on qualifications, training and development progress in this system enable suitable candidates to be identified at home and abroad. In this way, vacant positions are largely filled from our own ranks. This is particularly true for management positions.

Training is based in particular on traditional tools and ranges from language training and group seminars to individual seminars that are carefully adapted to suit the individual requirements of the employees and the company. Celesio offers employees with management potential tailor-made training programmes. The aim is to identify future management in its own ranks at an early stage and prepare them thoroughly for their future roles. First of all, the personal abilities of management trainee candidates, in particular as regards leadership qualities, are systematically recorded so as to subsequently design the training programme to fit their individual requirements.

In addition to personal development, a transparent and fair reward system is one of the most important means of motivating employees. In addition to a competitive salary, employees at certain levels of the hierarchy can earn an attractive bonus by attaining agreed personal work-related goals. For managerial staff this is also measured by the cash flow development of the companies responsible or the group.

Employees

Recruitment

Celesio employs staff with a variety of qualifications. The aim of personnel marketing is to identify good employees and retain their loyalty to Celesio in the long term. Celesio offers suitable candidates an international environment, challenging tasks, fair and attractive remuneration, interesting opportunities for promotion and qualified professional training. Celesio showcases itself to students and alumni via, amongst other routes, lectures by various specialist departments and university career days.

Qualified pharmacy personnel are scarce in most European countries. The recruitment of pharmacy staff is therefore a top priority. Attractive job content, resulting from the further development of the range of services in Celesio Pharmacies, as well as top-quality training and educational programmes, highlight Celesio's good reputation as the employer of choice and lends the company a competitive edge on the job market for pharmacists.

Forecast

The selection and training of personnel is of central importance to enable the company to open up new business segments with highly qualified employees. This is also important for the Celesio Pharmacies division given the background of the anticipated liberalisation of pharmacy markets. Here, the right conditions must be created in terms of personnel in order to exploit opportunities consistently.

Sustainability

Celesio accepts corporate responsibility as a commitment. For this reason, at Celesio it is not only the shareholders who benefit from the sustained growth of the company, but also society.

Guiding principle

People's health is the focus of Celesio's entrepreneurial business activities. The company also applies this to its social commitment. People should benefit not only in Europe, but also in developing countries from Celesio's financial success as well as its competence and experience in the field of healthcare. This is why Celesio is working together with charitable organisations that operate in the field of healthcare.

Working with Doctors for Developing Countries

Since the end of 2004, supporting the aid organisation Doctors for Developing Countries has been one of the central elements of Celesio's social commitment. Doctors for Developing Countries offers basic medical provision in the poorest regions of the world. Since the organisation was founded in 1983, over 2,100 doctors have worked on a voluntary basis on more than 3,800 assignments in Africa, South America and Asia treating patients, vaccinating children and running hospitals. Celesio supports Doctors for Developing Countries both financially and with the personal commitment of Celesio staff.

In the past fiscal year the partnership reached a high point with the inauguration of the Pushpa Celesio Childrens Tuberculosis Clinic in Kolkata, India. In this clinic, 30 young patients suffering from bone and lung tuberculosis are treated as inpatients for up to six months. Tuberculosis is one of the most common diseases there. Hitherto there were hardly any facilities for inpatient treatment, especially for children from poor backgrounds, as they are not admitted to state hospitals due to overcrowding on children's wards. Furthermore, children are excluded from government support for tuberculosis treatment. During their stay at the clinic, the young patients are also provided with education. Celesio financed the medical equipment used in the clinic and the furnishing of the schoolroom. Employees und business partners collected more than 62,500 euro for this in 2007. To ensure the long-term survival of the clinic, Celesio has also taken on the financing of the hospital personnel.

Sustainability

In October 2007, Celesio extended its partnership agreement with Doctors for Developing Countries to the end of 2010, thus ensuring the long-term support for the excellent work undertaken by these doctors.

Fight against counterfeit drugs

The worldwide fight against counterfeit drugs is another focus of Celesio's social commitment. The company provides mini labs with which Celesio pharmacists at Doctors for Developing Countries locations can test medicines for their efficacy. In order to ensure that drug tests can still be continued after the two-week period that Celesio employees are on location, the pharmacists train the local staff from the aid organisation to use the mini labs. Since 2004, a total of 15 Celesio pharmacists have travelled from five countries to 19 locations in India, Africa and the Philippines to ensure drug safety.

Experts estimate that around 10 per cent of the drugs available on the global market are fake. Within Europe, this figure is under 1 per cent. Counterfeit drugs contain either no active ingredient, too little or too high a proportion of the active ingredient, or other substances not present in the original medicine. This can cause the patients' condition to deteriorate or cause them to develop drug resistance which results in the original medicine no longer having an effect.

Celesio supports the initiative of the Council of Europe to develop and introduce universally applicable quality standards for the distribution of pharmaceuticals. This should reduce the risk of counterfeit drugs penetrating the supply chain across Europe.

To prevent any counterfeit drugs entering the supply chain in Europe, Celesio is organising regular training sessions for staff in wholesale branches. This will enable staff to identify counterfeit drugs promptly by looking for irregularities and taking the necessary measures.

As a representative of the European Association of Pharmaceutical Wholesalers, Celesio is also involved in IMPACT, the International Medical Products Anti-Counterfeiting Taskforce introduced by the World Health Organization. The aim of this initiative is to achieve maximum possible drug safety for patients. Networks are being built up all over the world in a joint attack on the production, trade and sale of counterfeit drugs.

Barrier-free access to information for everyone

Celesio supports the notion that the Internet should also be able to be used by people with disabilities. Therefore in 2007 the company made its Internet presence barrier-free. On the Celesio website (www.celesio.com) for instance, people with impaired vision can change the text size using special programming or replace images with text. The site also offers perfect access to users who can only use the mouse with difficulty. In 2007, a review of the mandatory criteria according to the rules of the World Wide Web Consortium and Web Accessibility Initiative confirmed that www.celesio.com is 99.7 per cent barrier-free. Since then, the website has borne the quality seal for barrier-free Internet.

Ecological commitment

Environmental guidelines underline Celesio's philosophy of contributing to the protection and conservation of the environment. The company asks its employees to handle resources responsibly and sparingly.

In the United Kingdom, Lloydspharmacy, Celesio's largest pharmacy company, is completely switching its power supply to renewable energies, produced for instance by wind and hydropower. This will enable carbon dioxide emissions to be reduced by 16,000 tonnes a year.

Since October 2007, Celesio's main office in Stuttgart and GEHE Pharma Handel have been taking part in the pilot project ECOfit. This promotional programme run by the state of Baden-Württemberg is aimed at improving operational environmental protection. With the support of experts in environmental matters, both companies are, for instance, analysing the use of water, energy and paper, and coming up with improvements.

Responsibility

Celesio lives its socio-political and social responsibility as a company. This is therefore also part of the tradition and philosophy when dealing with employees, customers, shareholders and the public. The importance of social responsibility is manifested in the Celesio code of conduct and is also expressed by the central responsibility for corporate social responsibility. This group function was created to coordinate and control overriding group-wide activities in a targeted manner.

Dependence Report

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

Mandatory Information Pertaining to the Capital and Shareholder Structure

§§ 289 Para. 4 and 315 Para. 4 Handelsgesetzbuch [German Commercial Code] require additional information in the management report and group management report on certain features of the capital and shareholder structure and also on certain arrangements which might be of significance in a takeover situation.

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

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 to the transferability of shares.

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

4. There are no shareholders with special rights.

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

6. Members of the management board are appointed by the supervisory board for a maximum tenure of five years. 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 expiry of the previous term of office.

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

Mandatory Information Pertaining to the Capital and Shareholder Structure

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 constitutes for example gross breach of duty, incapability of proper management or a vote of no confidence at the annual general meeting, unless the vote of no confidence was on evidently unjustified grounds.

Any amendment of the articles of association requires resolution 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 was passed.

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

7. The management board is authorised to increase the share capital up until 25 April 2012 with the consent of the supervisory board by issuing new registered shares against cash contributions on one or more occasions by a maximum of 43,545,600 euro (authorised capital). In this respect, the shareholders shall be granted a subscription right; the management board is, however, authorised to exempt fractional amounts from the subscription right of the shareholders with the consent of the supervisory board. In accordance with § 186, Para. 5 of the Aktiengesetz [German Stock Corporation Act] the new shares may also be acquired by a credit institution provided they are offered to the shareholders for purchase.

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

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

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

Furthermore, the management board is authorised up until 25 October 2008 to acquire shares in the company, either through the stock market or by way of a public takeover bid for the company addressed to all the shareholders of the company, whichever method it chooses, amounting to a maximum proportionate amount of 10 per cent of the share capital represented at the time the resolution was passed.

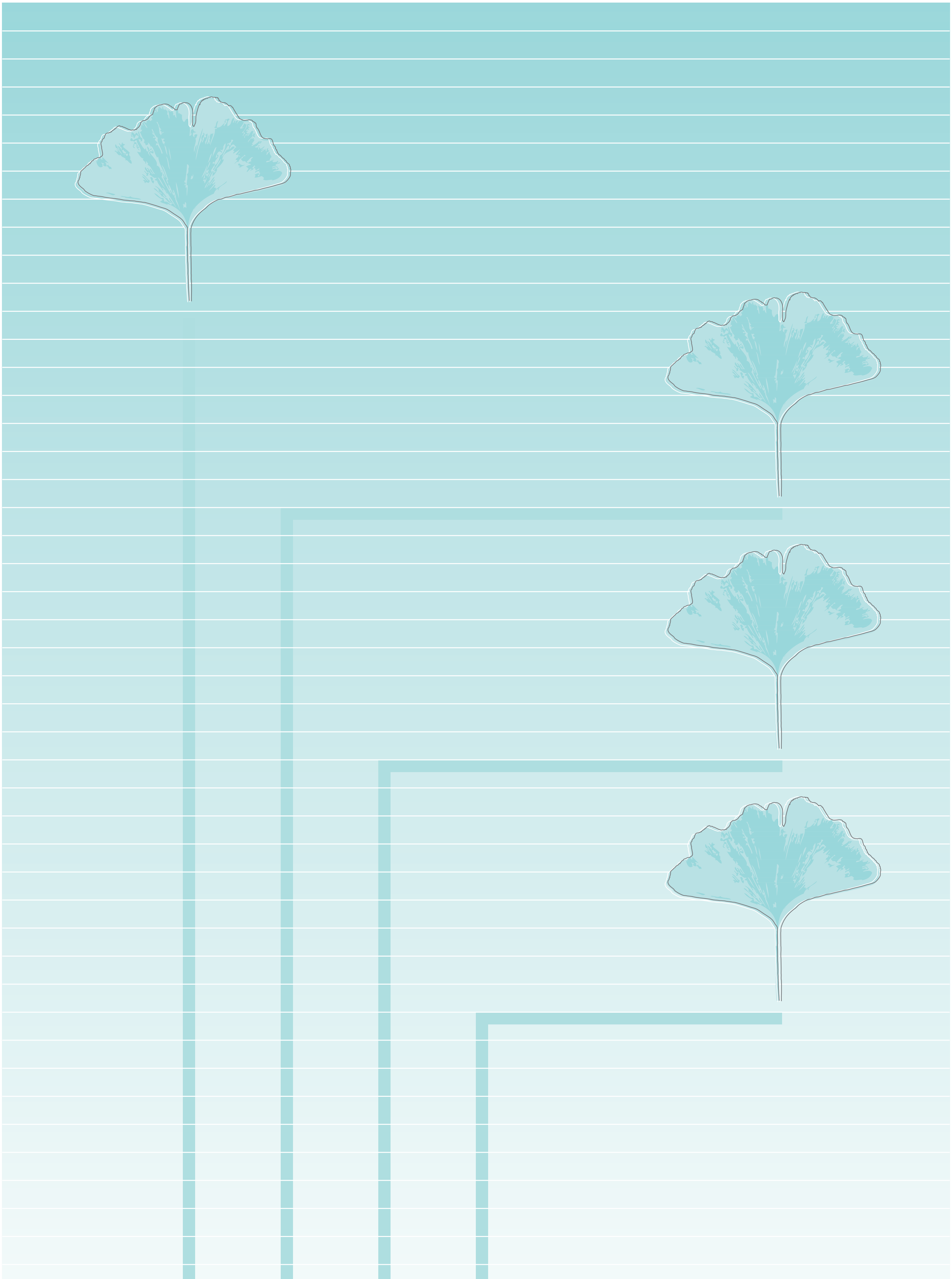
8. There are no substantial agreements by Celesio AG which are conditional upon a change in control as the result of a takeover bid.

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

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

Safe, fast, reliable:
supplying pharmacies everywhere with everything they need

123 branches in Europe



"For many years, OCP has been supplying our pharmacy reliably with everything our customers need. The wholesaler ensures that from the wide variety of medicines available, our pharmacy gets the right ones at the right time. OCP is and remains our highly efficient partner and service provider."

Nicolas Teknetzian and Stéphane Tchikirian, pharmacy proprietors in La Garenne-Colombes, France, and customers of OCP, Celesio's French wholesaler


ARMACIE
NICOPATCH

Countries	Revenue 2006 € m	**Revenue 2007 € m**	Revenue change in euro %	Revenue change in local currency %	Number of branches 2007	Number of employees 2007
France	7,039.9	**7,165.7**	1.8	1.8	50	4,371
Germany	3,632.5	**3,506.9**	– 3.5	– 3.5	20	2,504
United Kingdom	3,455.0	**3,311.3**	– 4.2	– 3.8	19	3,820
Austria	906.5	**952.4**	5.1	5.1	7	771
Portugal	476.9	**497.6**	4.3	4.3	7	275
Norway	442.3	**479.9**	8.5	8.1	3	460
Denmark	198.1	**399.9**	101.9	101.6	4	263
Belgium	384.9	**384.2**	– 0.2	– 0.2	5	286
Slovenia*	315.6	**335.1**	6.2	5.4	1	153
Ireland	299.2	**323.8**	8.2	8.2	3	225
Czech Republic	186.1	**238.1**	27.9	25.3	3	255
Italy	127.6	**135.5**	6.1	6.1	1	160
Total	**17,464.6**	**17,730.4**	**1.5**	**1.5**	**123**	**13,543**

* Information relating to revenue includes subsidiaries in Croatia and Romania; information relating to branches and employees as at 31 December 2007 excludes these subsidiaries

Celesio Wholesale

Celesio Wholesale supplies pharmacies quickly, safely and reliably with everything they need. A wide range of services helps to strengthen the economic position of pharmacies and provides them with a competitive advantage. The division maintained its leading position in Europe.

Functions of pharmaceutical wholesale

Pharmaceutical wholesale acts as a hub in the pharmaceuticals market, guaranteeing pharmacies a reliable supply of an extensive range of products from a wide range of pharmaceutical manufacturers. Since direct business relations between all manufacturers and all pharmacies are neither economically productive nor logistically feasible, wholesale assumes an important grouping function. The wholesale division is committed to providing a complete range – in other words, it holds stock for virtually all relevant licensed medicines for each market. In Germany, for instance, this means over 100,000 different items. Pharmaceutical wholesale therefore has the proven recipe for the safe, fast, reliable and nationwide supply of medicinal products.

Pharmaceutical wholesale business model

In normal practice, the wholesaler purchases goods from the manufacturer and sells them on to pharmacies, hospitals or other institutions. For this logistics service the wholesaler normally receives a margin (markup), which differs from country to country, but is generally government-regulated. As wholesalers are in competition with one another, they compete in terms of their range of services, prices or discounts. Given the intensity of competition, wholesalers frequently pass a large portion of their markup on to their customers in the form of discounts.

In addition to the central logistics service, pharmaceutical wholesale offers its customers, pharmacies in particular, a number of additional services. Celesio Wholesale offers customer loyalty schemes in virtually all of its markets. They underpin pharmacies financially and help them to stand out from the competition. Several thousand pharmacies are already using Celesio Wholesale schemes to enjoy exclusive services. They range from better purchase conditions by pooling demand, an attractive range of its own brands, sales support and managerial consultation right through to providing training programmes. In France for instance, almost 1,000 pharmacies are participating in Pharmactiv, the customer loyalty programme offered by OCP, Celesio's

Celesio Wholesale

French wholesaler. GEHE Pharma Handel's gesund leben [live healthily] co-operation is one of the leading cooperation models in Germany with almost 2,600 pharmacies currently taking part. They are given exclusive access to its top-quality range of own brands, gesund leben. The programme will be further strengthened from the first quarter of 2008 through its participation in DeutschlandCard. It is a cross-sector bonus card which enables end users to collect bonus points and then redeem them for attractive rewards. In addition to the gesund leben pharmacies, Edeka, Marktkauf and Deutsche Bank are also partners of DeutschlandCard. Since May 2007, Celesio can offer German pharmacies not only the gesund leben cooperation, but also DocMorris brand partnerships. In this way, independent pharmacists are able to benefit from Germany's best-known pharmacy brand. Whether distribution, the gesund leben cooperation or DocMorris brand partnership – German pharmacists can find the best solution to suit their needs.

Business model in transition

Due to new requirements on the part of the pharmaceutical industry, the traditional wholesale model is undergoing fundamental change. Since March 2007, a large manufacturer of medicinal products in the United Kingdom has no longer been selling its products to all full-line wholesalers to sell on to pharmacies, but instead now distributes its entire range exclusively through a sole logistics service provider directly to all pharmacies – hence the designation direct delivery model (direct to pharmacy). Unlike the traditional wholesale model, the pure logistics provider gains no ownership of the products, but merely supplies these on behalf and on account of the manufacturer to all pharmacies in Britain. This allows the manufacturer to negotiate discount conditions with the pharmacies itself.

Other manufacturers have followed this example and have already made changes or announced changes to their distribution model. One manufacturer plans to introduce a direct delivery model in the first quarter of 2008 with which it will distribute its entire product range to pharmacies via two logistics service providers, one of which being Celesio's British wholesale company, AAH. In the fourth quarter of 2007, two other pharmaceutical manufacturers announced changes in their distribution system. Both are retaining the traditional wholesale model, but are restricting the number of wholesalers with whom they operate to three. In both cases, AAH is one of these wholesalers.

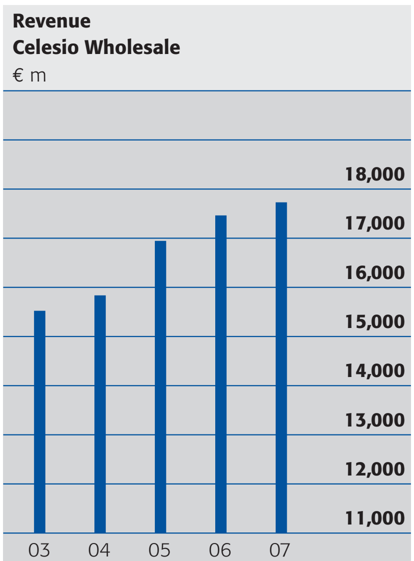
As the leading trade and services company for pharmaceuticals in Europe, Celesio is optimally positioned to offer the pharmaceutical industry flexible and competitive solutions. In addition to the traditional wholesale model, which in future will remain the most efficient solution for the vast majority of manufacturers, Celesio Wholesale, in close collaboration with Celesio Solutions, is developing both supplementary and alternative distribution solutions. This is in order to meet the needs of the manufacturers and take account of the interests of pharmacies and patients. More information can be found in the Celesio Solutions chapter on pages 125 to 127.

Leading in European pharmaceutical wholesale

During the past year, average growth in the European pharmaceutical markets where Celesio Wholesale has a presence was in the lower single-digit range. In 2007, the division developed in line with the comparable market, not taking two extraordinary items into consideration. Firstly, some German wholesale customers, above all driven by campaigns by German pharmacist associations, transferred their business following the acquisition of DocMorris. Secondly, the products of one large pharmaceutical manufacturer in the United Kingdom are now supplied exclusively through a single logistics partner and therefore no longer through Celesio Wholesale in the United Kingdom. Despite both these effects, Celesio Wholesale maintained its number one position in Europe. Apart from Italy, where Celesio Wholesale only has a regional presence, Celesio occupies a top position in all its wholesale countries. At the end of 2007, 123 Celesio Wholesale branches were supplying about 35,000 pharmacies in 12 countries.

Celesio continually reviews its portfolio to ensure it remains future-proof and financially attractive. Celesio disposed of its 12-per cent holding in the Croatian pharmaceutical wholesaler Medika in the third quarter of 2007, as it was not possible to acquire the majority holding needed for control of the company for a reasonable price. In the fourth quarter of 2007, Kemofarmacija, Celesio's Slovenian wholesaler, sold its subsidiary Unipharm in Croatia and its share in PharmaFarm in Romania. A logical step, as both companies only had a small market share with no prospect of achieving a leading market position.

Celesio Wholesale



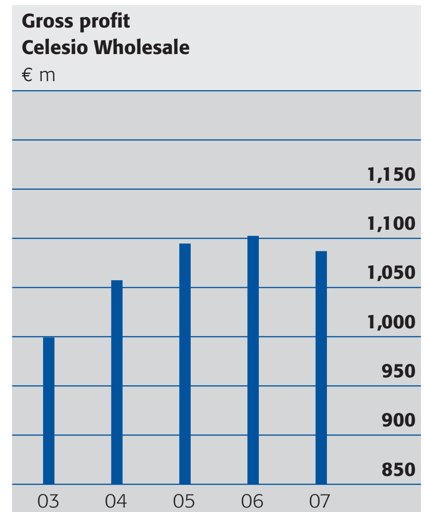
Significant items in the profit and loss account

Revenue of Celesio Wholesale increased in 2007 to 17,730.4 million euro, thereby surpassing the previous year's figure by 1.5 per cent (1.5 per cent in local currency). The Danish companies K.V. Tjellesen and Max Jenne acquired on 1 July 2006 were consolidated for a full year for the first time in 2007 and therefore made a positive contribution to growth. Excluding K.V. Tjellesen and Max Jenne, revenue increased by 0.4 per cent (0.4 per cent in local currency). The good business development of Celesio Wholesale was curbed by extraordinary items in two countries, in particular. On the one hand, discount competition between wholesalers in Germany had already intensified at the beginning of the year and once the law to strengthen competition in statutory health insurance [GKV-WSG: Gesetz zur Stärkung des Wettbewerbs in der gesetzlichen Krankenversicherung] had entered into force on 1 April 2007, discount competition intensified further. There then followed the response of German pharmacists, fuelled by pharmacy associations, to Celesio's acquisition of DocMorris, which caused some of them to transfer their business to other wholesalers. On the other hand, a major pharmaceutical manufacturer in the United Kingdom switched to an exclusive, direct distribution system for its own products at the beginning of March 2007. This means that all of this manufacturer's products are now no longer supplied via the British Celesio wholesaler AAH. Apart from this, AAH performed very well.

The division showed particularly positive growth in Norway and Slovenia. This is attributed in particular to increasing business with hospitals. In the Czech Republic and Ireland, market growth was surpassed primarily thanks to the acquisition of new customers.

In a growing market for generic medicines, Celesio Wholesale is able to offer its customers an extensive range of generic medicines at attractive conditions thanks to its collaboration with leading manufacturers of these products. Celesio profits from the continued strong growth in this market and aims to further increase its share in this segment.

With 1,087.0 million euro, **gross profit** in the year under review was only slightly below the 2006 level despite the developments mentioned in Germany and the United Kingdom. The gross profit margin declined by 18 basis points to 6.13 per cent, however, mainly due to the intensified competition in Germany. Competition had already intensified at the beginning of the year and was further fuelled when the law to strengthen competition in statutory health insurance [GKV-WSG: Gesetz zur Stärkung des Wettbewerbs in der gesetzlichen Krankenversicherung] came into force on 1 April 2007.



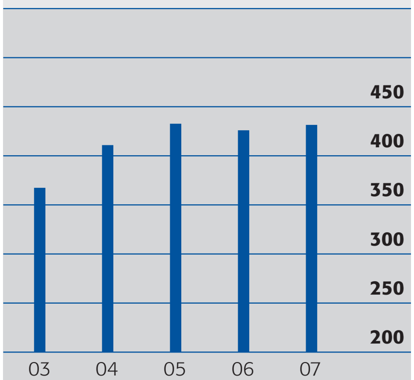
Net expenses from **other expenses and income** decreased by 16.5 per cent. Other expenses (in particular, operating and transportation costs) increased due to the companies K.V. Tjellesen and Max Jenne being consolidated for an entire fiscal year for the first time. Furthermore, expenses also increased as a result of the opening of the new GEHE branch in Günzburg. Considerable cost reductions were achieved in several countries due to the restructuring of the branch network and business processes. For example, in France the branch network was streamlined, operational processes improved, delivery routes reorganised and the call centre modernised. Following the initial successes recorded in the period under review, the restructuring of the French branch network will continue in 2008 as planned. OCP reached a milestone in 2007 with the opening of the new, highly automated branch in Péronne, which combines the activities of three former branches under one roof. Due to the closures of further branches in Norway and Portugal and the disposal of Unipharm in Croatia and PharmaFarm in Romania, the number of Celesio Wholesale branches decreased from 135 to 123. Reducing costs is, however, only one side of restructuring measures, quality being the other. For this reason, Celesio Wholesale places particular emphasis on maintaining the high quality of service to its customers when making changes to its operational service processes. Other income showed an increase in particular due to higher advertising subsidies in the industry and the income from deconsolidation of two wholesale companies. In the fourth quarter of 2007 Kemofarmacija, Celesio's wholesaler in Slovenia, disposed of both Unipharm in Croatia and the shares in PharmaFarm in Romania. In neither market was the desired position of market leader attainable, so the disinvestment was logical.

The sale of an NMD branch in Norway and an AAH branch in Scotland positively affected other income.

Celesio Wholesale

Personnel expenses rose by 1.3 per cent compared with the previous year. The reasons for this are salary increases arising from collective wage agreements, the new GEHE branch in Günzburg and the inclusion of the Danish companies. Celesio was able to partially compensate for these increased costs thanks to the restructuring processes undertaken in particular at OCP in France and AAH in the United Kingdom.

EBITDA Celesio Wholesale
€ m

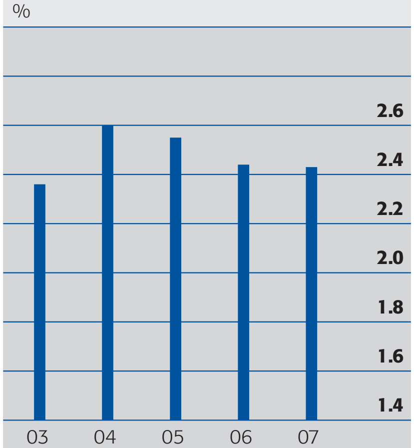


EBITDA, Earnings Before Interest, Taxes, Depreciation and Amortisation, increased in comparison with the previous year by 1.3 per cent (1.4 per cent in local currency) to 431.5 million euro. Return on sales, EBITDA compared to revenue, declined by 1 basis point to 2.43 per cent.

With 54.6 million euro, **depreciation and amortisation** was below the previous year's level (2006: 66.9 million euro). The higher depreciation and amortisation in the 2006 fiscal year was attributed to an unforeseen write-off of 16.2 million euro in wholesale, which resulted from a software development project not being continued. Excluding these unforeseen write-offs, depreciation and amortisation increased by 3.9 million euro. This is essentially due to the investments made in the restructuring of the branch network.

EBIT, Earnings Before Interest and Taxes, increased in comparison with the previous year by 5.0 per cent (5.1 per cent in local currency) to 377.0 million euro.

Return on sales* **Celesio Wholesale**
%



* In relation to EBITDA

Celesio Wholesale	2006		2007		Change in euro	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	17,464.6	100.00	**17,730.4**	**100.00**	1.5	1.5
Gross profit	1,102.5	6.31	**1,087.0**	**6.13**	– 1.4	– 1.4
EBITDA	426.0	2.44	**431.5**	**2.43**	1.3	1.4
EBIT	359.1	2.06	**377.0**	**2.13**	5.0	5.1

Forecast for 2008

The management board expects Celesio Wholesale to grow organically alongside the comparable market in 2008. Acquisitions are difficult to plan for the Wholesale division. In markets that are economically and politically stable, Celesio will exploit every attractive opportunity for acquisition to expand its regional presence and strengthen the division. Further information on the forecast for Celesio Wholesale can be found in the profit forecast chapter on page 74.

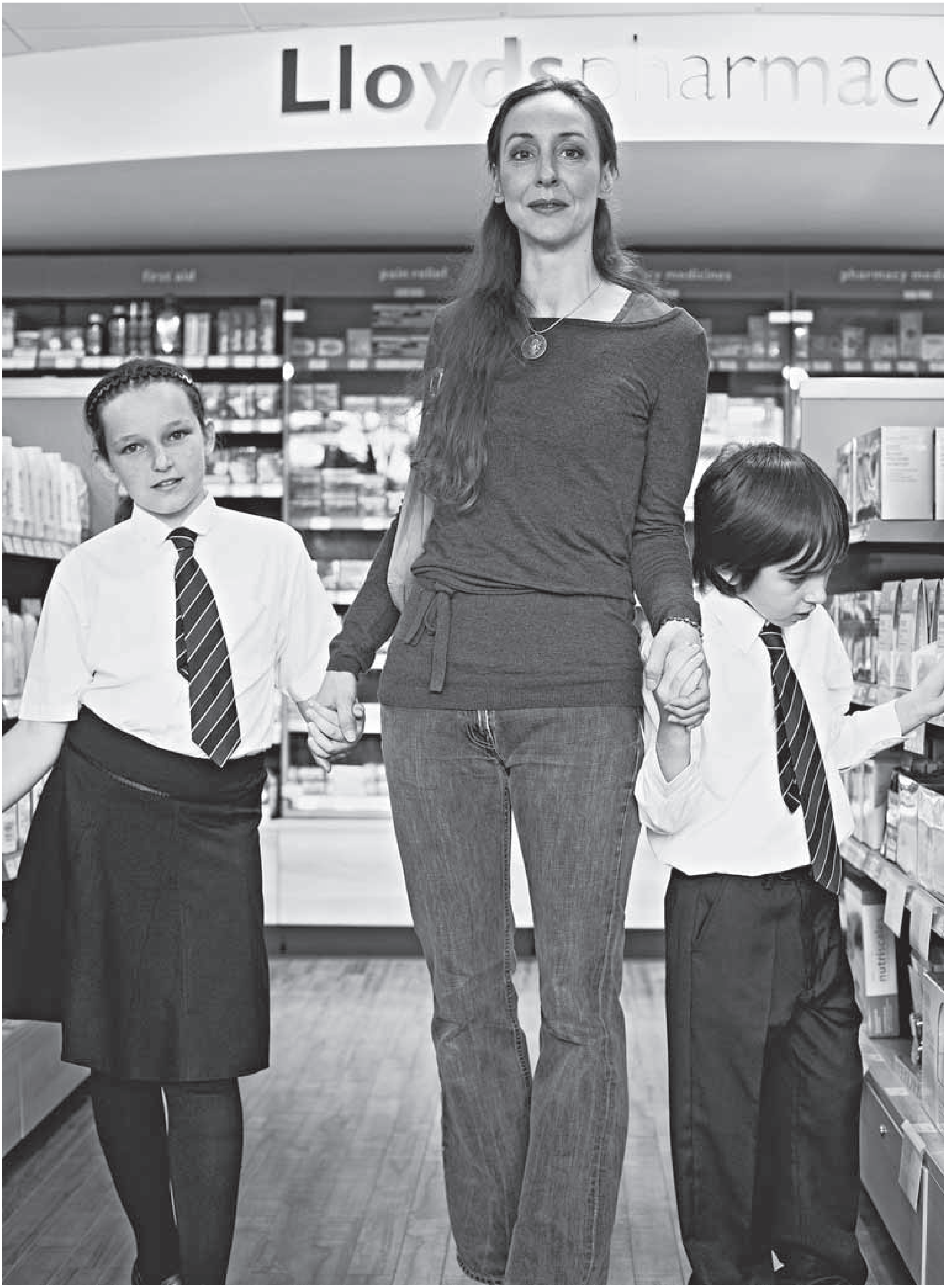
Individual advice and provision for your health

2,273 pharmacies in Europe

Celesio Pharmacies

"Our local Lloydspharmacy is indispensable for the healthcare needs of my family. My children Vicky and Henry, aged nine and eight, are both healthy and happy but every now and then they suffer from the usual childhood ailments. I then go to Lloydspharmacy and get detailed advice from the pharmacist. My husband also has his blood pressure taken and his cholesterol level checked there regularly."

Tabitha Taylor from London, United Kingdom


Lloydspharmacy
first aid
pain relief

Countries	Revenue 2006 € m	**Revenue 2007 € m**	Revenue change in euro %	Revenue change in local currency %	Number of pharmacies 2007	Number of employees 2007
United Kingdom	2,266.0	**2,403.6**	6.1	6.4	1,684	16,722
Norway	391.4	**433.7**	10.8	10.4	149	1,495
Netherlands*	151.9	**291.0**	91.6	91.6	61	1,331
Italy	205.5	**207.5**	1.0	1.0	163	763
Ireland	121.6	**131.4**	8.1	8.1	72	987
Belgium	97.6	**111.6**	14.3	14.3	101	493
Czech Republic	36.3	**39.9**	9.9	7.6	43	362
Total	**3,270.3**	**3,618.7**	**10.7**	**10.8**	**2,273**	**22,153**

* Including DocMorris

Celesio Pharmacies

Celesio Pharmacies can look back on a very successful 2007 characterised by good organic growth, a high level of acquisition activity and numerous new openings. Celesio acquired Germany's best-known pharmacy brand and Europe's largest mailorder pharmacy DocMorris as well as 149 pharmacies. In addition to this, Celesio Pharmacies also expanded its range of services.

Market environment

As has been the trend in recent years, increased life expectancy and a higher proportion of older people in the demographic pyramid brought about an increase in demand for medicines, particularly prescription medicines, during 2007. The higher level of health awareness amongst the population also increased demand for OTC medicines and for health and beauty products. People with good health awareness are noticeably better informed, using information sources such as the Internet and demanding competent advice from pharmacists and a comprehensive range of health-related services. These customers are particularly open-minded when it comes to self-medication, health and beauty products.

Government measures, some of which had come into force in 2006, dampened growth in many countries, quite severely in some cases. Cost pressure in public health systems led to reductions in pharmacies' remuneration and margins in virtually all countries where Celesio is active, for example the United Kingdom, Ireland, Italy, the Netherlands and Norway (more information on the main government measures can be found on pages 46 to 49). In the United Kingdom, it is evident that, at the same time, and virtually opposing this direction, professional healthcare services are being encouraged financially in pharmacies. In 2007, the National Health Service increased the remuneration for so-called medicines use reviews from 25 to 27 pound sterling per consultation. Celesio Pharmacies distinguishes itself already today from competition by offering a wide range of innovative services. In many countries, providing consultations and other services is now seen as an integral part of the role of a pharmacy in the public health system. In 2007, Celesio Pharmacies built on its leading position in this field with a broad range of services.

Celesio Pharmacies

Customer loyalty and high-quality consultations are essentially achieved by the personnel employed in the pharmacies. The recruiting and qualification of excellent pharmacy personnel is therefore a top priority for Celesio Pharmacies – all the more so as pharmacy staff are in short supply in almost all the markets relevant to Celesio. The high level of investment in employees has paid off; in 2007 Lloydspharmacy and Unicarepharmacy took the top places in nationwide employer competitions. Further details on our human resources work can be found in the chapter on employees from page 84.

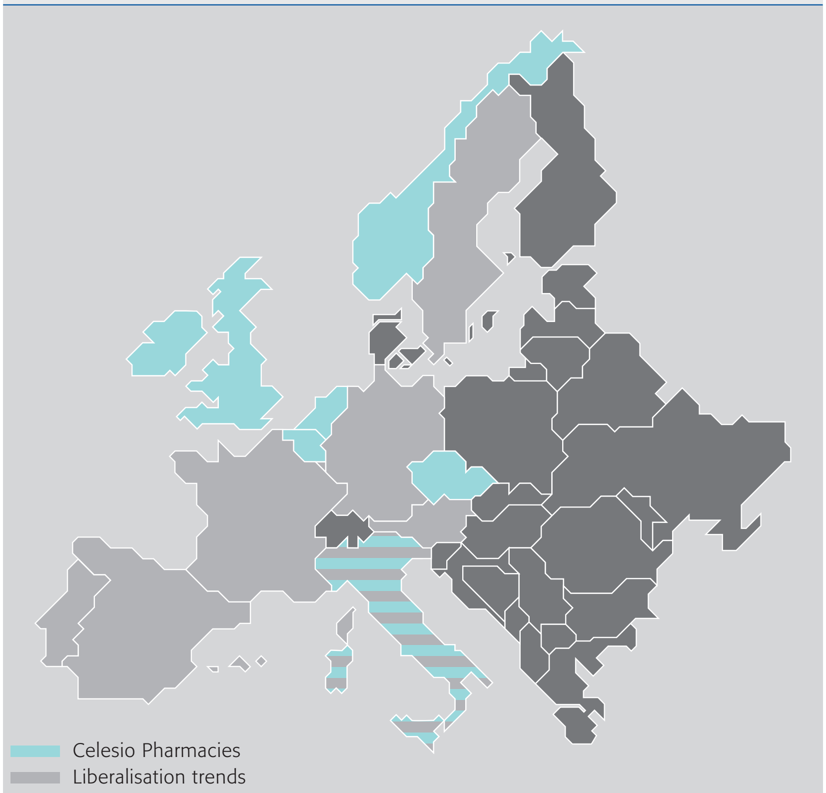
Liberalisation as an opportunity

Driven by the legal situation in Europe, liberalisation trends increased in many European pharmacy markets in 2007. The focus of attention in many Western European countries in this respect was the current ban on third-party ownership. The EU Commission has already initiated infringement proceedings against Austria, Spain and France. Two cases are also pending before the European Court of Justice concerning the compatibility of third-party ownership of pharmacies with European Community law. One case concerns the granting of a licence to the Dutch company DocMorris to operate a branch pharmacy in Germany. The other case is directed against limitations for acquiring holdings in and establishing pharmacies in Italy. A detailed discussion of these cases can be found in the chapter on market environment and market development on pages 44 to 45.

Liberalisation trends in the pharmacy markets do not only emanate from the European Commission. In October 2007, the framework conditions for ownership of pharmacies were relaxed in Portugal. In addition to pharmacists, legal entities may now operate up to four pharmacies, and mailorder pharmacy businesses are also permitted. Wholesalers are, however, excluded from the ownership of pharmacies. In Sweden, a government commission had developed proposals by the end of the year 2007 for breaking up the present state pharmacy monopoly and creating a more liberalised pharmacy market. To which extent the government will follow the proposal of the commission is not clear. In France, the government has announced that the absence of competition and the present restrictions as regards ownership structures for self-employed service providers, including pharmacies, is to be put under scrutiny.

An overview of the countries with liberalisation trends is shown in the following illustration. Celesio is observing developments in these countries very closely. If the basic legal, economic and political conditions are reliable and attractive, Celesio Pharmacies will look to expand its presence in these markets.

Liberalisation trends in European pharmacy markets



Celesio Pharmacies

Positioning of Celesio Pharmacies

At 31 December 2007, Celesio Pharmacies was operating 2,273 pharmacies in seven European countries. The division expanded its pharmacy portfolio with the acquisition of 149 pharmacies in the United Kingdom, Norway, Ireland, Belgium and the Netherlands, making 2007 a very successful year for acquisitions. Acquiring smaller and medium-sized pharmacy chains, alongside individual pharmacies in the United Kingdom and Ireland, made this possible. Celesio opened 41 pharmacies in attractive locations and closed or sold 17 pharmacies. The population's increasing awareness of health issues is driving demand for professional healthcare services in pharmacies. For this reason, Celesio has for some years been running a scheme aimed at modernising pharmacies in order to be able to offer professional services in a pleasant and discreet atmosphere. In 2007, a further 125 pharmacies were modernised.

The aim of Celesio Pharmacies' location strategy is to establish a presence wherever patients need to be provided quickly and professionally with medicines and relevant advice. In its choice of location, Celesio gives priority to being close to patients and sources of prescriptions. Health centres are also being developed in suitable locations together with doctors, the authorities and other partners. For patients, this means attractive all-round medical provision and short journeys to the chemist, while Celesio Pharmacies benefits from being in the vicinity of the source of prescriptions. During the past fiscal year, Celesio Pharmacies was involved in the planning and construction of 20 health centres in the United Kingdom, Norway and the Netherlands.

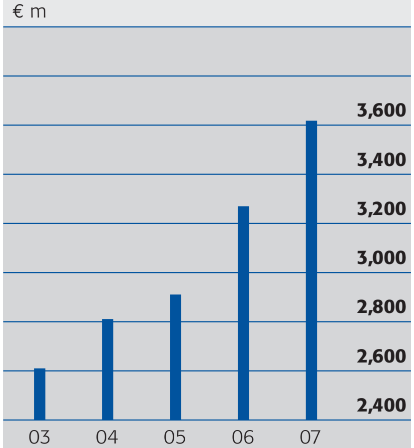
Celesio set a milestone in May 2007 with the acquisition of DocMorris, Germany's best-known pharmacy brand and Europe's largest mailorder pharmacy. This acquisition represents a strategic and forward-looking step for Celesio in view of the expected liberalisation of the German pharmacy market. Today, DocMorris has already started to offer independent German pharmacists a brand partnership. The aim of this cooperation is to better position owner-managed pharmacies in the marketplace using Germany's best-known pharmacy brand DocMorris, whilst at the same time placing pharmacists centre-stage as health professionals. At the end of the last fiscal year, DocMorris had concluded more than the originally intended 100 brand partnerships.

Not only do above-average advice, reliable service and fair prices distinguish the brand partners, but also the DocMorris mailorder pharmacy. The mail-order business is growing strongly: DocMorris welcomed its millionth customer last December. Chronically ill patients in particular can purchase their medicines from DocMorris simply and cheaply by presenting the relevant prescriptions, and medicines are delivered to customers' homes quickly and conveniently. When the order is accepted, customers are given comprehensive advice and routinely advised of possible interactions. In the first half of 2007, Stiftung Warentest tested the performance indicators advice, ordering and delivery services as well as the websites of 15 mailorder pharmacies. DocMorris received a 'good' rating in all fields. With the overall rating 'good', DocMorris ranked second out of the 15 mailorder pharmacies tested.

The integration of DocMorris into the Celesio Group is now complete. Thanks to intensive collaboration with the other Celesio Pharmacies companies, DocMorris was able to benefit very quickly from knowledge available locally. The profile of the brand partner concept as an advice and service-orientated pharmacy with fair prices was thus enhanced in this way. Under the programme name "Alles im grünen Bereich" [ALL CLEAR], diabetes risk tests are offered and an anti-smoking campaign has been launched in all DocMorris brand partner pharmacies. These initiatives make DocMorris an innovative pharmacy brand with a broader, more modern range of services which will make this concept even more attractive to independent pharmacists, end-users and patients. This is also being demonstrated by rising numbers of applications for DocMorris brand partnerships and significantly improved business figures for pharmacies that have already concluded a DocMorris brand partnership.

Celesio Pharmacies

Revenue
Celesio Pharmacies
€ m



Significant items in the profit and loss account

In 2007, the division continued its growth course and grew ahead of the comparable market.

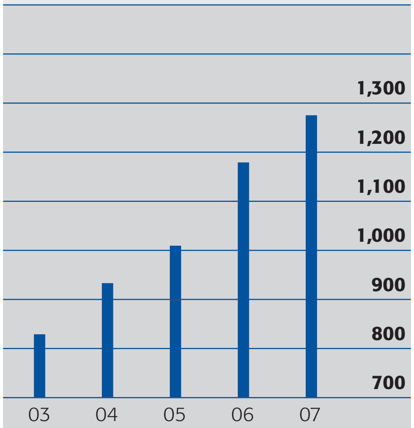
Revenue of Celesio Pharmacies increased by 10.7 per cent (10.8 per cent in local currency) to 3,618.7 million euro. This increase was due to organic growth, acquisitions and new openings as well as the consolidation of DocMorris as of 31 May 2007. Adverse weather conditions, in particular during the summer months of 2007, however, resulted in a loss of revenue for medicines and allergy and sun protection products. Revenue adjusted for acquisitions, new openings and pharmacy disposals improved nonetheless by 1.7 per cent (1.8 per cent in local currency).

On a comparable basis, i.e. not taking acquisitions, new openings or disposals and closures into account, the British pharmacy chain Lloydspharmacy grew better than the market. The increase in demand for non-prescription medicines, services and electronic equipment for the prevention, diagnosis and treatment of illnesses made a positive contribution to business. Services particularly in demand included blood pressure, blood sugar and cholesterol tests. Furthermore, Lloydspharmacy pharmacists conducted over 219,000 consultations with patients about their medication in the reporting period. The company strengthened its market position through the acquisition of 113 pharmacies and 29 new openings.

Celesio's other pharmacy chains also grew predominantly ahead of the comparable market thanks to their attractive service range and their consistent customer orientation. The non-prescription product segment developed particularly well in Norway. In Ireland and the Netherlands, the division showed strong growth in all product groups.

Gross profit at 1,275.2 million euro was 8.2 per cent (8.3 per cent in local currency) up on last year's figure. The gross profit margin fell by 81 basis points to 35.24 per cent as the result of two effects. Firstly, the average gross profit margin is affected by the inclusion of the DocMorris mailorder business from 31 May 2007, as the gross profit margins in mailorder are lower than those in fixed-location pharmacy business. On the other hand, the reduction in the reimbursement prices for generics and the pharmacy dispensing fees in the United Kingdom negatively impacted on the gross profit margin. Disregarding these effects, the gross profit margin would have clearly risen as the result of the strong demand for services, the higher proportion of generics in the product mix and better purchase conditions.

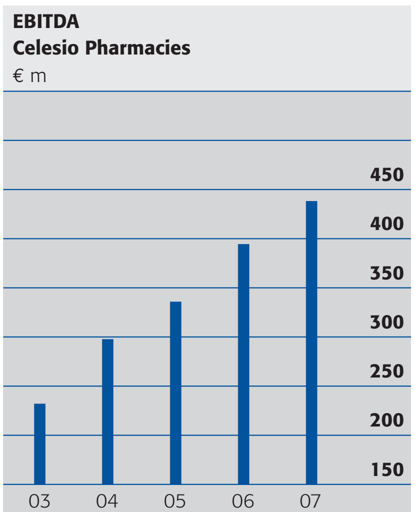
Gross profit
Celesio Pharmacies
€ m

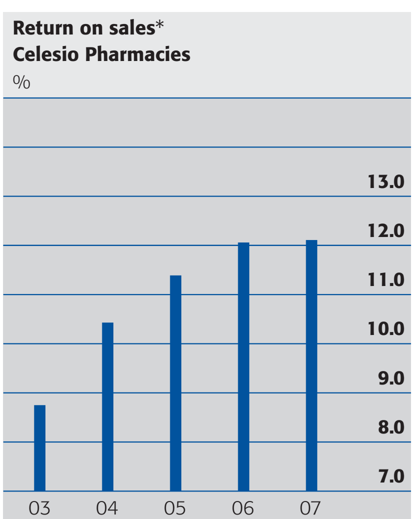


Net expenses from **other expenses and income** increased by 0.3 per cent, this being below the increase in revenue. The marked increase in the number of pharmacies and the acquisition of DocMorris brought about a rise in other expenses. Higher advertising subsidies in Norway and the sale of pharmacies in the United Kingdom as part of Lloydspharmacy's regular portfolio optimisation process had a positive effect on income.

Personnel expenses were up 9.6 per cent on the previous year, essentially due to the acquired pharmacies and the acquisition of DocMorris. Furthermore, salary increases arising from collective wage agreements and a rise in the number of employees due to the increasing business activity caused an increase in personnel expenses.

Celesio Pharmacies





* In relation to EBITDA

Thanks to the consistently tight cost discipline, **EBITDA** growth was disproportionately high in comparison to revenue and gross profit. With 438.3 million euro, the figure was 11.1 per cent (11.3 per cent in local currency) higher than in the previous year. Return on sales, EBITDA compared to revenue, rose by 5 basis points to 12.11 per cent. The operating profit in the fourth quarter was strongly characterised by the price cuts introduced on 1 October 2007 in the United Kingdom. This caused an additional burden of over 30 million euro for Lloydspharmacy, not taking into account any countermeasures initiated. Celesio will take all sensible steps to compensate as far as possible for this additional burden without putting long-term growth goals at risk as a result.

With 51.4 million euro, **depreciation and amortisation** was up on the previous year's level (2006: 42.8 million euro). This is a consequence of the high level of acquisition activity in 2007. Furthermore, both new pharmacies and those already in the portfolio were refitted in order for the company to be able to meet the customers' increased demand for health-related services and consultations in the best possible way and to secure a qualitative competitive edge for Celesio Pharmacies.

Despite the effects of government measures, which were at times severe, **EBIT** increased from 351.7 million euro to 386.8 million euro, an improvement on the previous year of 10.0 per cent (10.2 per cent in local currency). This positive development underlines the high level of performance of Celesio Pharmacies and the sustainability of positive business growth, even under difficult market conditions.

Celesio Pharmacies	2006		**2007**		Change in euro	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	3,270.3	100.00	**3,618.7**	**100.00**	10.7	10.8
Gross profit	1,179.1	36.05	**1,275.2**	**35.24**	8.2	8.3
EBITDA	394.5	12.06	**438.3**	**12.11**	11.1	11.3
EBIT	351.7	10.76	**386.8**	**10.69**	10.0	10.2

Forecast for 2008

In organic terms, Celesio Pharmacies will develop better than the comparable market in the year 2008, too. The management board, however, is expecting that EBITDA growth will decline in the 2008 fiscal year as a whole due to the substantial intervention in the profitability of the UK pharmacies in the year 2007.

Celesio Pharmacies is equipped for the future as its existing companies form a strong basis for further growth. Their knowledge of efficient processes, innovative services and the professional education and training of employees can be quickly transferred to new companies. The liberalisation trends present in numerous Western European countries create enormous growth potential for Celesio. Experts are anticipating decisions by the European Court of Justice for 2008 regarding the proceedings currently pending. Depending on when in 2008 these judgements are made and how they are worded, the liberalisation of the pharmacy markets may ensue as early as the end of 2008 or the beginning of 2009. Celesio is equipped for imminent liberalisation. With DocMorris, Celesio now owns the only nationally renowned pharmacy brand in Germany. DocMorris is already a familiar name with customers, thanks to its brand partnerships with independent pharmacists, and is held in esteem as a service-orientated pharmacy with fair prices. In Italy, Celesio already operates 163 municipal pharmacies and is therefore well acquainted with the market. Celesio is observing developments in France, Austria, Sweden and Spain closely and preparing for an anticipated liberalisation in these countries. Detailed forecasts for 2008 can be found in the profit forecast chapter on page 75.

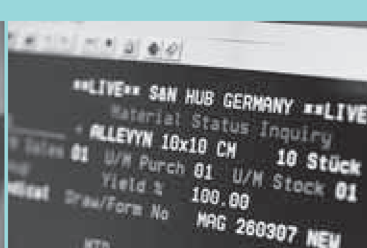
Growth driver:
innovative services for everything relating to medicines

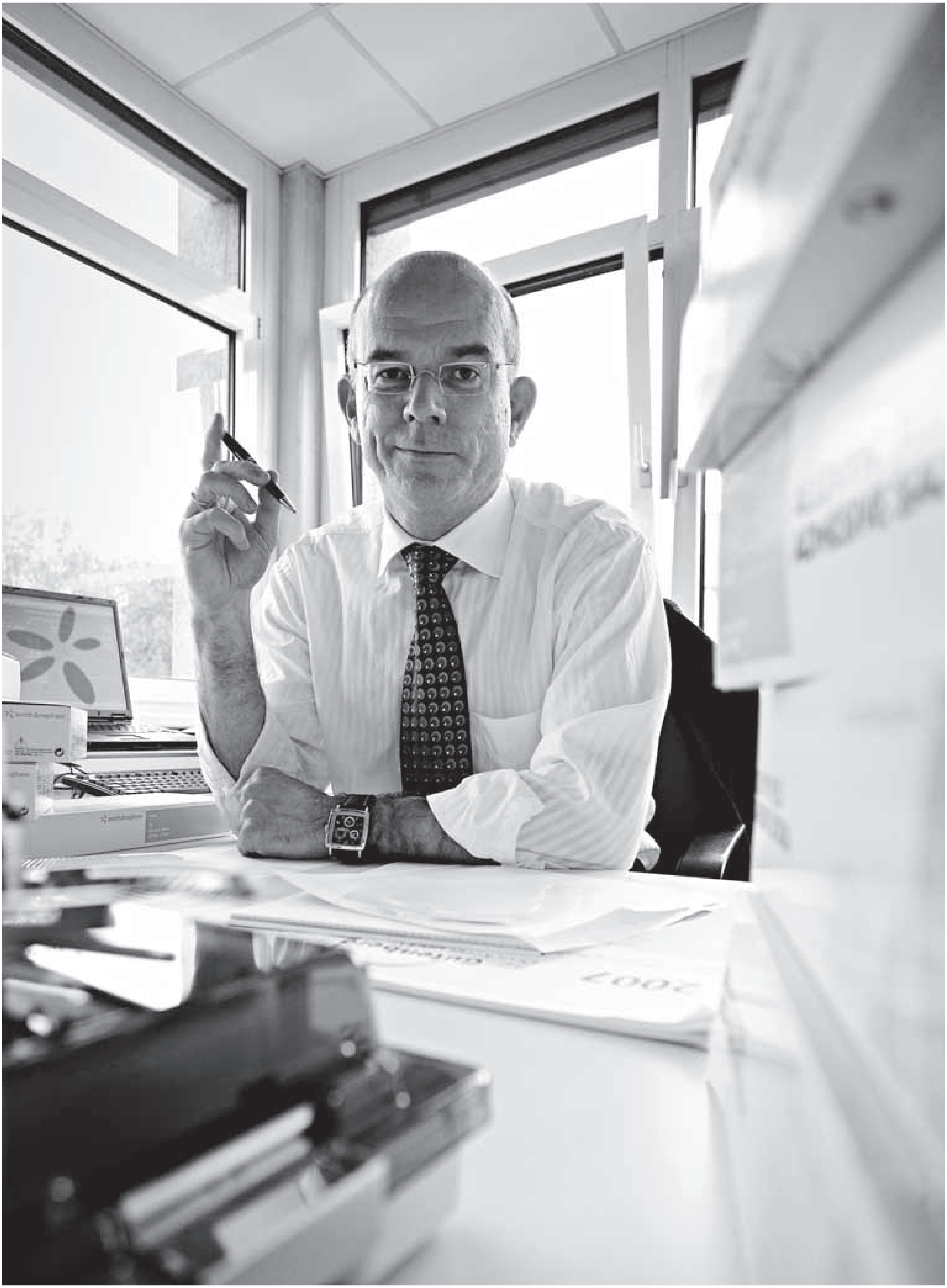
Movianto and pharmexx: tailor-made solutions for pharmaceutical manufacturers

Celesio Solutions

"In order for Smith & Nephew to be able to concentrate solely on their core competence – the research, development and production of medical equipment and wound management products – it is important to have competent and reliable partners for activities such as logistics. We have found such a partner in Movianto, who we have commissioned to undertake the pan-European storage and distribution of our entire range of wound management products and all the associated services."

Peter Heinemann, Customer Service and Logistics Manager
Continental Europe at Smith & Nephew



Business unit	Gross profit 2006	**Gross profit 2007**	Gross profit change in euro	Gross profit change in local currency	Number of employees 2007
	€ m	**€ m**	%	%	
Movianto	150.0	**161.5**	7.7	7.8	1,569

Celesio Solutions

This business division offers pharmaceutical manufacturers logistics and distribution solutions at local, national and European levels under the European umbrella brand name Movianto. Celesio Solutions is also expanding its range of services through the strategic alliance with pharmexx, one of the world's leading providers of sales and marketing solutions for the pharmaceutical industry.

Services for the pharmaceutical industry

Pharmaceutical manufacturers are increasingly outsourcing processes in order to concentrate on their core competences, thereby creating an increase in demand for new services relating to pharmaceuticals. The market is immature, very fragmented and not subject to direct government regulation.

Through Movianto, Celesio is responding to this development and providing the pharmaceutical industry with innovative logistics and distribution services under a European umbrella brand name. These range from storage, transportation and cold chain logistics to administrative services for manufacturers such as order taking, invoicing and accounts receivable accounting. This range is supplemented by customer-specific services such as individual packaging and labelling.

Movianto – European brand name with a central service

In order to develop Movianto into one of the leading European brand names for logistics, transportation and distribution services for the pharmaceutical industry, since September 2007 all national companies have appeared on the market under the single name Movianto. At the same time, Movianto expanded its key account management at the European level during the period under review so that clients can be given central support for cross-border services. The new central IT platform (Movianto Prince) allows customers throughout Europe round-the-clock access to orders, incoming goods, stock levels, deliveries and sales statistics. This enhances transparency whilst at the same time allowing a high degree of control.

During the 2007 fiscal year, Movianto increased its storage capacity considerably with the construction of an additional refrigerated warehouse with 2,000 pallet spaces in Germany. With this new building, Movianto created the necessary basis for meeting the increasing demand of pharmaceutical manufacturers for closed cold chains for their sensitive products. In Ireland and the Czech Republic, the business unit put two new warehouses into operation at the beginning of 2007, increasing capacity in these countries threefold.

Celesio Solutions

Increased demand for additional services

Movianto is registering increased demand for product and country-specific solutions such as the packaging, labelling and kitting of pharmaceuticals or their associated packaging material. In the German Movianto warehouses in Neunkirchen and Kist, the hub of European logistics for some customers, products are stored that are not yet completely kitted. The packaging for these products is neutral and not yet printed for a specific country. Storage costs can be reduced in this way because if there is demand for a product, Movianto can make up the relevant quantity of medicines or medical equipment and then ship them – all over Europe. In addition to kitting and packaging, Movianto also offers services such as printing labels and package leaflets in different languages or correspondingly adapting packaging. Movianto holds a limited manufacturing authorisation for this.

Growth potential due to new distribution requirements in the industry

With the increase and change in the pharmaceutical industry's requirements for the distribution of its products, the demand for special logistics services has also increased. This is particularly true for the increasingly important high-tech and biotech products (more information on this trend can be found in the chapter on market environment and market development on pages 42 to 44). This development offers great growth potential for Movianto. For example, Movianto offers manufacturers of high-quality products a tracking service using RFID technology (RFID = radio frequency identification) and a geographical tracking system. In addition to defining the position of their products, the temperature, air humidity and light admission are monitored, giving manufacturers complete transparency as regards their products in the supply chain. This includes the point at which risk is transferred to the customer – when the transport box is opened and light enters. Movianto offers manufacturers central access to this information via the European IT platform, Prince, which enables manufacturers to access all the relevant information on their products in real time.

The collaboration of Celesio Solutions, as a services specialist for manufacturers, and Celesio Wholesale, as an expert in the precise distribution of pharmaceuticals, increases the range of services available in the pharmaceutical market. An example of this is Movianto in Germany and GEHE Pharma Handel, which combine their logistics expertise to offer a joint service to pharmaceutical manufacturers. This enables the manufacturers to benefit on the one hand from the transparency and control of a direct delivery model, and on the other hand from the decentralised branch structure of a pharmaceutical wholesaler with short response times and high-quality service.

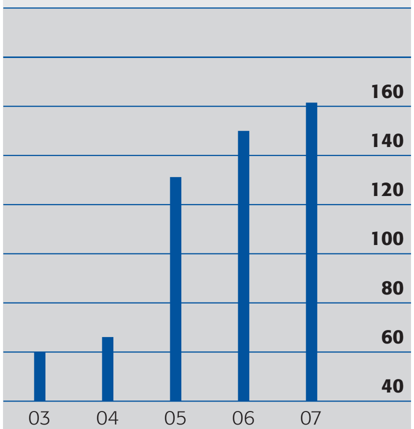
pharmexx cooperation as a second pillar of Celesio Solutions

In spring 2006, Celesio expanded its Solutions division by adding a 30-per cent holding in and a collaboration with pharmexx GmbH, one of the world's leading sales and marketing service providers for the pharmaceutical industry. pharmexx provides its customers with qualified field staff for a short-term or project-related period. In 2007, pharmexx demonstrated renewed growth and made a positive contribution to the division's operating profit. In addition to its 24 existing markets, pharmexx opened up markets in Chile and Brazil during the past fiscal year. pharmexx has won a number of awards for its successful development. In 2007, for the sixth time in succession, it gained a place in the top ten of Europe's 500 job creating companies published by MCI, the communications consultants.

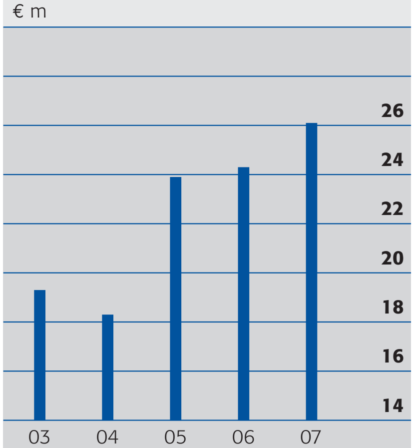
The proportion of Celesio's profit from pharmexx was posted to income from investments and exceeded the financing costs.

Celesio Solutions

Gross profit
Celesio Solutions
€ m



EBITDA
Celesio Solutions
€ m



Significant items in the profit and loss account

During 2007, the Movianto business unit increased **gross profit*** by 7.7 per cent (7.8 per cent in local currency) to 161.5 million euro despite the loss of two important customers in the United Kingdom. Growth drivers were the conclusion of new contracts and the renewal of existing ones in Germany, Spain and the Czech Republic, in particular. Furthermore, in the United Kingdom and France, Movianto took on the delivery of approximately three million units of flu vaccine to wholesalers and hospitals, and in France also to pharmacies. The logistics division of the Danish company K.V. Tjellesen, consolidated for the first time for a full fiscal year, also contributed to growth.

Net expenses from **other expenses and income** increased by 10.1 per cent and therefore lay above the increase in gross profit. This is attributed in particular to the continued expansion in Europe and the increased storage capacity.

Personnel expenses were up 6.2 per cent on the previous year, primarily due to salary increases arising from collective wage agreements and an increase in the number of employees due to the increasing business activity.

EBITDA, Earnings Before Interest, Taxes, Depreciation and Amortisation, of the division improved by 7.4 per cent (7.5 per cent in local currency) to 26.1 million euro. The costs involved in the further expansion of Movianto in Europe and the improvement of processes dampened growth of the operating profit. The profit from the shareholding in pharmexx has contributed positively to the development of EBITDA.

With 7.2 million euro, **depreciation and amortisation** exceeded the previous year's level (2006: 5.9 million euro). This was essentially due to investment in enlarging the storage capacity of the division.

The division improved its **EBIT,** Earnings Before Interest and Taxes, from 18.5 million euro to 18.9 million euro. In comparison with the previous year, this represents a rise of 2.4 per cent (2.4 per cent in local currency).

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

Celesio Solutions	2006		**2007**		Change in euro	Change in local currency
	€ m	% of gross profit	**€ m**	**% of gross profit**	%	%
Gross profit	150.0	100.00	**161.5**	**100.00**	7.7	7.8
EBITDA	24.3	16.21	**26.1**	**16.17**	7.4	7.5
EBIT	18.5	12.31	**18.9**	**11.70**	2.4	2.4

Forecast for 2008

The management board is expecting considerable growth for Celesio Solutions in the 2008 fiscal year. This is based on the increasing requirements of the pharmaceutical industry for the distribution of its products, a development for which Movianto is very well positioned. Through its strategic alliance with pharmexx, Celesio is also able to offer manufacturers services that go beyond logistics. Similar to the Wholesale division, acquisitions are difficult to plan in the Solutions division. Again, Celesio applies the same ethos of exploiting attractive acquisition opportunities which match the aims of expanding the division and strengthening Celesio. Details on the management board's expectations for the division can be found on page 76 in the profit forecast chapter.

Revenue and profit increased for the 21st time in succession

Celesio – a European group

Consolidated Financial Statements

The consolidated financial statements were authorised for issue by the management board on 12/02/2008.

Income statement for the 2007 fiscal year of the Celesio Group

	Notes	2006 € '000	**2007** **€ '000**
Revenue	1	**21,569,146**	**22,349,472**
Own work capitalised		2,947	629
Total operating performance		**21,572,093**	**22,350,101**
Cost of raw materials, consumables and supplies, and of purchased goods		19,140,507	19,826,387
Gross profit		**2,431,586**	**2,523,714**
Other expenses and income	2	– 489,441	– 478,897
Personnel expenses	3	1,158,408	1,219,287
Income from associates accounted for using the equity method	4	2,521	2,952
Net income from other investments	4	17,448	14,044
EBITDA		**803,706**	**842,526**
Amortisation of intangible assets and depreciation of property, plant and equipment	5	117,906	114,778
EBIT		**685,800**	**727,748**
Interest expenses	6	– 113,020	– 139,739
Interest income	6	9,977	14,198
Other financial result	6	7,381	6,606
Profit before tax		**590,138**	**608,813**
Income taxes	7	164,570	173,395
Net profit		**425,568**	**435,418**
Profit attributable to minority interests		2,394	4,854
Profit attributable to equity holders of Celesio AG		**423,174**	**430,564**
Earnings per share – basic (€)	8	**2.49**	**2.53**
Earnings per share – diluted (€)	8	**2.49**	**2.53**

Balance sheet at 31/12/2007 of the Celesio Group

Assets

	Notes	31/12/2006 € '000	**31/12/2007 € '000**
Non-current assets			
Intangible assets	9	2,569,836	2,966,500
Property, plant and equipment	10	636,838	646,192
Investments accounted for using the equity method	11	55,516	54,903
Other financial assets	11	134,785	146,978
Income tax receivables		3,471	4,143
Deferred tax assets	12	46,382	48,233
		3,446,828	**3,866,949**
Current assets			
Inventories	13	1,645,925	1,640,781
Trade receivables	14	2,503,246	2,503,947
Income tax receivables	14	65,282	55,125
Other receivables and other assets	14	255,570	269,245
Cash and cash equivalents	15	9,644	7,130
		4,479,667	**4,476,228**
Total assets		**7,926,495**	**8,343,177**

Equity and liabilities

	Notes	31/12/2006 € '000	**31/12/2007 € '000**
Shareholders' equity	16		
Issued capital		217,728	217,728
Capital reserves		1,113,030	1,113,030
Revenue reserves		1,148,923	1,451,912
Revaluation reserves		129,254	20,729
Minority interests		19,125	16,212
		2,628,060	**2,819,611**
Liabilities	20		
Non-current liabilities			
Financial liabilities	20	1,727,356	2,049,342
Pension provisions	17	139,468	136,406
Other non-current provisions	18	34,906	35,107
Other liabilities	19	5,340	18,561
Deferred tax liabilities	13	55,720	85,572
		1,962,790	**2,324,988**
Current liabilities			
Financial liabilities	20	168,603	312,485
Trade payables	21	2,447,464	2,124,919
Other current provisions	18	146,062	128,473
Income tax liabilities	19	130,308	145,438
Other liabilities	19	443,208	487,263
		3,335,645	**3,198,578**
Total equity and liabilities		**7,926,495**	**8,343,177**

Cash flow statement for the 2007 fiscal year of the Celesio Group

	2006 € '000	**2007** **€ '000**
Net profit	425,568	435,418
Depreciation and amortisation/write-up of property, plant and equipment and intangible assets	117,906	109,689
Net result from disposals of non-current assets	– 7,758	– 65,502
Non-cash changes in net working capital	72,304	49,787
Other non-cash income and expenses	– 18,058	– 29,233
Cash flow	**589,962**	**500,159**
Change in operating assets	35,126	– 108,490
Change in operating liabilities	107,965	– 220,953
Net cash flow from operating activities	**733,053**	**170,716**
Proceeds from the disposal of non-current assets	21,757	46,887
Investment in non-current assets	– 204,662	– 156,846
Proceeds from the disposals of subsidiaries	7,418	34,820
Cash paid for acquisitions of subsidiaries	– 149,718	– 452,903
Net cash flow from investing activities	**– 325,205**	**– 528,042**
Dividends paid to shareholders	– 120,322	– 128,672
Proceeds from borrowings	238,463	761,132
Repayment of borrowings	– 524,518	– 277,439
Net cash flow from financing activities	**– 406,377**	**355,021**
Net change in cash and cash equivalents	**1,471**	**– 2,305**
Net foreign exchange difference	94	– 209
Cash and cash equivalents at the beginning of the period	8,079	9,644
Cash and cash equivalents at the end of the period	**9,644**	**7,130**

More information can be found on page 188 of the notes.

Statement of shareholders' equity for the 2007 fiscal year of the Celesio Group

	Issued capital	Capital reserves	Revenue reserves	Revaluation reserves		**Share-holders of Celesio AG**	**Minority interests**	**Share-holders' equity**
				Translation reserve	Other com-prehensive income			
	€ '000	€ '000	€ '000	€ '000	€ '000	**€ '000**	**€ '000**	**€ '000**
01/01/2007	**217,728**	**1,113,030**	**1,148,923**	**104,360**	**24,894**	**2,608,935**	**19,125**	**2,628,060**
Revaluation of financial instruments	0	0	0	0	9,133	9,133	– 1	9,132
Currency adjustments	0	0	0	– 109,357	– 1,849	– 111,206	– 7	– 111,213
Changes to consolidated group/others	0	0	0	0	0	0	– 6,662	– 6,662
Gains or losses recognised directly in equity	**0**	**0**	**0**	**– 109,357**	**7,284**	**– 102,073**	**– 6,670**	**– 108,743**
Recognition of financial instruments in profit and loss	0	0	0	0	– 6,452	– 6,452	0	– 6,452
Net profit	0	0	430,564	0	0	430,564	4,854	435,418
Gains or losses posted to profit and loss	**0**	**0**	**430,564**	**0**	**– 6,452**	**424,112**	**4,854**	**428,966**
Sum of gains and losses recognised directly in equity and posted to profit and loss	**0**	**0**	**430,564**	**– 109,357**	**832**	**322,039**	**– 1,816**	**320,223**
Dividends	0	0	– 127,575	0	0	– 127,575	– 1,097	– 128,672
31/12/2007	**217,728**	**1,113,030**	**1,451,912**	**– 4,997**	**25,726**	**2,803,399**	**16,212**	**2,819,611**
01/01/2006	**217,728**	**1,113,030**	**845,479**	**88,542**	**11,346**	**2,276,125**	**8,056**	**2,284,181**
Revaluation of financial instruments	0	0	0	0	21,505	21,505	– 8	21,497
Currency adjustments	0	0	0	15,818	242	16,060	45	16,105
Changes to consolidated group/others	0	0	– 660	0	0	– 660	9,890	9,230
Gains or losses recognised directly in equity	**0**	**0**	**– 660**	**15,818**	**21,747**	**36,905**	**9,927**	**46,832**
Recognition of financial instruments in profit and loss	0	0	0	0	– 8,199	– 8,199	0	– 8,199
Net profit	0	0	423,174	0	0	423,174	2,394	425,568
Gains or losses posted to profit and loss	**0**	**0**	**423,174**	**0**	**– 8,199**	**414,975**	**2,394**	**417,369**
Sum of gains and losses recognised directly in equity and posted to profit and loss	**0**	**0**	**422,514**	**15,818**	**13,548**	**451,880**	**12,321**	**464,201**
Dividends	0	0	– 119,070	0	0	– 119,070	– 1,252	– 120,322
31/12/2006	**217,728**	**1,113,030**	**1,148,923**	**104,360**	**24,894**	**2,608,935**	**19,125**	**2,628,060**

More information can be found in note (16).

Notes to the consolidated financial statements

Segment reporting for the 2007 fiscal year of the Celesio Group by business division

Segmentation by business division	Celesio Wholesale		Celesio Pharmacies	
	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**
Income statement				
Revenue	**17,464,624**	**17,730,416**	**3,270,311**	**3,618,670**
External revenue	17,464,603	17,730,416	3,270,311	3,618,670
Inter-segment revenue	21	0	0	0
Gross profit	**1,102,468**	**1,086,968**	**1,179,104**	**1,275,234**
Segment profit from operations	**357,682**	**375,995**	**351,615**	**386,734**
Assets, liabilities and capital expenditures				
Segment assets	4,437,638	4,334,458	2,893,054	3,406,115
of which goodwill	500,882	485,239	1,892,191	2,217,129
Segment liabilities	2,427,311	2,094,979	485,331	531,910
Associates accounted for using the equity method	11,322	8,932	265	268
Capital expenditures	98,248	44,783	202,968	627,881
Employees				
Average for the year	14,222	14,071	19,636	21,119
at 31/12	14,325	13,543	20,335	22,153
Reconciliation to net profit				
Income from associates accounted for using the equity method	1,380	973	107	114
EBITDA	**425,935**	**431,542**	**394,508**	**438,269**
Amortisation of intangible assets and depreciation of property, plant and equipment	66,873	54,574	42,786	51,421
EBIT	**359,062**	**376,968**	**351,722**	**386,848**

More information can be found on page 189 of the notes.

	Celesio Solutions		Others		Consolidation		Group	
	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**
	1,124,979	**1,322,756**	**0**	**0**	**– 290,768**	**– 322,370**	**21,569,146**	**22,349,472**
	834,232	1,000,386	0	0	0	0	21,569,146	22,349,472
	290,747	322,370	0	0	– 290,768	– 322,370	0	0
	150,014	**161,512**	**0**	**0**	**0**	**0**	**2,431,586**	**2,523,714**
	17,435	**17,039**	**– 43,453**	**– 54,972**	**0**	**0**	**683,279**	**724,796**
	408,154	389,184	94,976	104,514	– 27,838	– 23,524	7,805,984	8,210,747
	109,134	92,572	1,754	2,103	0	0	2,503,961	2,797,043
	225,536	206,390	54,254	77,200	– 13,761	– 9,707	3,178,671	2,900,772
	43,929	45,703	0	0	0	0	55,516	54,903
	54,096	5,100	1,746	14,582	0	0	357,058	692,346
	1,455	1,542	219	244	0	0	35,532	36,976
	1,550	1,569	232	251	0	0	36,442	37,516
	1,034	1,865	0	0	0	0	2,521	2,952
	24,321	**26,118**	**– 41,058**	**– 53,403**	**0**	**0**	**803,706**	**842,526**
	5,852	7,214	2,395	1,569	0	0	117,906	114,778
	18,469	**18,904**	**– 43,453**	**– 54,972**	**0**	**0**	**685,800**	**727,748**

Segment reporting for the 2007 fiscal year of the Celesio Group by geographical region

Segmentation by region	Germany		France		United Kingdom		Other countries		Group	
	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**	2006 € '000	**2007 € '000**
Segment revenue	3,650,015	**3,656,129**	7,074,718	**7,208,287**	5,894,001	**5,889,435**	4,950,412	**5,595,621**	21,569,146	**22,349,472**
Segment assets	939,207	**937,145**	1,285,090	**1,287,066**	3,134,866	**3,194,713**	2,446,821	**2,791,823**	7,805,984	**8,210,747**
Segment capital expenditures	57,167	**218,749**	14,316	**9,259**	155,376	**311,174**	130,199	**153,164**	357,058	**692,346**

More information can be found on page 189 of the notes.

General

Basis of presentation

The consolidated financial statements for the year ended 31/12/2007 of Celesio AG, based in Stuttgart, Germany, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, United Kingdom, as approved for adoption in the European Union at the balance sheet date, and supplemented by the provisions of Sec. 315a (1) HGB [Handelsgesetzbuch: German Commercial Code].

The consolidated financial statements have been prepared in euro (€) with all figures generally rounded to the nearest thousand (€ '000).

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

Consolidation methods

Subsidiaries over which Celesio AG has either direct or indirect control as defined by IAS 27 and SIC 12 have been fully consolidated in the consolidated financial statements.

Pursuant to IAS 28, associates are included in the consolidated financial statements using the equity method at the time of acquisition.

Other equity investments are recognised at fair value in accordance with IAS 39 or, if no market value is available and fair value cannot be reliably determined, at acquisition cost.

The consolidated financial statements have been prepared from the separate financial statements of consolidated group companies at 31/12/2007. These have been prepared in compliance with the group's uniform recognition and measurement principles, based on IFRS. All consolidated companies have reported at the same balance sheet date as that used for the consolidated financial statements.

Pursuant to IFRS 3, any equity interest in subsidiaries has been consolidated using the purchase method of accounting, i.e. assets and liabilities and, if the criteria of IFRS 3 are met, any contingent liabilities are measured at their fair value at the date when control is transferred. Interim financial statements were prepared for this purpose. Any difference arising between the purchase price and the share in the net assets of the company acquired is allocated to the respective assets and liabilities where their carrying amounts differ from their fair values. Purchase price payments that are contingent on future events were considered in the purchase accounting to the extent they are probable and can be reliably estimated. Any remaining difference attributable to the group is recognised as goodwill under non-current assets and subject to an impairment test at least once a year in accordance with IFRS 3 and IAS 36. Any negative difference is expensed immediately.

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.

Consolidated group

The consolidated group comprises 603 fully consolidated domestic and foreign companies (2006: 575). This includes 8 (2006: 8) special-purpose entities which are consolidated pursuant to SIC 12 even though Celesio AG does not hold the majority of the voting rights. The purpose of these companies is to lease properties. As compared to the prior year the group of consolidated companies has developed as follows:

01/01/2007	**575**
Changes in the 2007 fiscal year	
Acquisition of shares	64
Formation of new companies	3
Mergers with other group companies	– 15
Disposals	– 4
Liquidations	– 20
31/12/2007	**603**
of which domestic companies	30
of which foreign companies	573

15 (2006: 19) associates have been consolidated using the equity method.

In total, 149 pharmacies were acquired in the fiscal year, primarily in the United Kingdom. In addition, the DocMorris Group was included in the Celesio Pharmacies division at 31/05/2007. All shares were acquired. Acquired entities are initially consolidated on the basis of provisional figures, and adjusted for the definitive values within twelve months in accordance with IFRS 3.62. This does not result in any material amendments for acquisitions effected in 2006.

At the balance sheet date, Celesio has a 90.44 % shareholding in the DocMorris Group. Option agreements for the acquisition of remaining shares not held by Celesio were agreed on with the remaining shareholders. The options require Celesio to make payments that are not under its own control; they have therefore been recognised as other non-current liabilities in accordance with IAS 32.23. The initial recognition and measurement of these items is at fair value, being the net present value of any right to receive payment held by the holders of the options. Due to the fact that the options were granted in the course of a business combination, the acquisition of the minority interests is anticipated. The acquisition of the minority interests and financial obligations must be included in the measurement of the costs of the business combination which is treated as a contract with a contingent consideration. Consequently, when measuring the costs of the business combination, it was assumed that 100 % of the shares in the DocMorris Group were acquired. This had an impact on goodwill.

The acquisition cost, including purchase price payments contingent on future events, amounted to € 492,181,000 (2006: € 142,562,000). Of this amount € 182,932,000 is attributable to the acquisition of the DocMorris Group. The acquisition cost contains € 16,159,000, of which the DocMorris Group € 1,397,000, (2006: € 5,566,000) for purchased cash and cash equivalents. In accordance with IFRS 3 this does not include additional share purchases in companies that have already been fully consolidated. The purchase price obligations are settled in full by cash payments, i.e. no share transfers were involved.

These companies acquired in the reporting period generated revenue of € 239,318,000, of which the DocMorris Group € 127,069,000, (2006: € 388,228,000) and net profit of € 19,320,000, of which DocMorris Group € 7,435,000, (2006: € 5,011,000). If these companies had already been purchased at the beginning of the fiscal year, they would have contributed € 430,877,000 of which the DocMorris Group € 213,163,000, (2006: € 723,930,000) to revenues and € 23,711,000, of which the DocMorris Group € 4,360,000, (2006: € 5,832,000) to the net profit of the Celesio Group. The first-time inclusion of the companies does not affect comparability with the prior year.

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

	2006 € '000	**2007** **€ '000**
Property, plant and equipment	13,159	15,571
Intangible assets	19,242	109,050
Deferred tax assets	264	8,820
Inventories	58,916	23,051
Trade receivables	150,685	53,138
Other assets	37,185	20,937
Total	**279,451**	**230,567**
Financial liabilities	117,317	45,991
Deferred tax liabilities	5,525	36,377
Trade payables	95,160	51,180
Other liabilities	27,367	32,140
Total	**245,369**	**165,688**

The following table shows the carrying amounts of the assets and liabilities from the purchase of the DocMorris Group, directly before the acquisition, and the corresponding fair values:

	DocMorris Group	
	Carrying amount **€ '000**	**Fair value** **€ '000**
Property, plant and equipment	1,088	1,088
Intangible assets	1,583	100,533
Deferred tax assets	6,053	8,820
Inventories	7,499	7,499
Trade receivables	21,684	21,534
Other assets	1,793	3,075
Total	**39,700**	**142,549**
Financial liabilities	14,307	14,307
Deferred tax liabilities	86	36,054
Trade payables	27,729	27,729
Other liabilities	7,391	20,651
Total	**49,513**	**98,741**

In the course of the purchase price allocation of the DocMorris Group, some of the debit difference arising from initial recognition of the business combination taking account of deferred taxes was allocated to the customer base acquired (€ 25,071,000) and brand names (€ 73,879,000) recognised as intangible assets. In addition, contingent liabilities were recognised totaling € 13,411,000.

The carrying values of the assets and liabilities acquired in connection with other acquisitions generally correspond to their fair market values.

Goodwill amounted to € 411,771,000. This is primarily allocable to the DocMorris Group (€ 123,593,000) and pharmacy acquisitions (€ 287,985,000). The goodwill stated in the balance sheet mainly represents the positive anticipated future development associated with each acquisition, as well as the experience of the employees taken over (assembled workforce).

Liabilities relating to purchase agreements amounting to € 28,052,000 existed at the time of acquisition for the purchase of the DocMorris Group.

During the reporting period, the two units acquired in connection with the acquisition of the wholesaler in Slovenia, PharmaFarm S.A. of Romania and Unipharm d.o.o. of Croatia were sold in addition to a number of individual pharmacies. Unipharm and PharmaFarm were deconsolidated upon the loss of control in December. Assets of € 57,409,000 (subdivided into € 5,793,000 non-current and € 51,615,000 current assets) and liabilities of € 53,833,000 (subdivided into € 244,000 non-current and € 53,589,000 current liabilities) were sold in the course of the transaction. In the reporting period the companies generated revenues of € 93,297,000. Taking account of the loss of cash and cash equivalents (€ 192,000), the total cash impact of the sale of all entities was € 34,820,000. There were no non-cash components of the sale.

The full list of shareholdings pursuant to Sec. 313 (4) HGB [Handelsgesetzbuch: German Commercial Code] is published in the electronic Bundesanzeiger [German Federal Gazette].

General

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, the assets and liabilities have been translated at the mean rate on the balance sheet date in accordance with IAS 21. Income statement items are translated using the annual average exchange rates. Any differences arising from currency translation are posted directly to equity. Goodwill arising from business combinations is recorded in the currency of the acquiree and thus translated at the balance sheet date using the mean closing rate. In the event that group companies leave the consolidated group, any currency differences carried in equity are released to income. Changes in exchange rates on the prior year are as follows:

Country	Currency	Closing rate		Average rate	
		31/12/2006	**31/12/2007**	2006	**2007**
United Kingdom	**GBP**	0.6715	0.7334	0.6817	0.6840
Norway	**NOK**	8.2380	7.9580	8.0430	8.0133
Czech Republic	**CZK**	27.4850	26.6280	28.3391	27.7499
Slovenia*	**SIT**	239.6400	–	239.5961	–
Romania	**RON**	3.3835	3.6077	3.5249	3.3316
Croatia	**HRK**	7.3500	7.3310	7.3245	7.3376
Denmark	**DKK**	7.4560	7.4583	7.4591	7.4506

* SIT was converted into euro at a rate of 239.6400 at 31/12/2006

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

Exchange rate losses in the year under review amounted to € 14,590,000 (2006: exchange rate gains of € 7,165,000). Offsetting effects from the valuation of allocated hedge instruments at fair market value were not taken into account. Depending on their origin, these are disclosed in other expenses and income or other financial result respectively.

Accounting policies

The consolidated financial statements have been prepared in accordance with the historical cost convention with the exception of derivative financial instruments, available-for-sale financial assets and financial assets at fair value through profit and loss; these have generally been 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 allocable to development as well as an appropriate portion of allocable overheads. Borrowing costs are not capitalised. The item payments on account includes expenses recognised for software being developed including own work capitalised.

Franchises, industrial rights, licences, patents and software have useful lives ranging from 2 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 indicate that the carrying amount 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 and brand names have an indefinite useful life. Correspondingly, they are not amortised pursuant to IFRS 3. 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 recognised at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset’s net selling price and its value in use. Value in use is the present value of the future cash flows expected to be derived from the unit concerned.

Impairment losses are determined by allocating goodwill to cash-generating units. For the Pharmacies and Wholesale divisions, these correspond to the national units (e.g. Celesio Wholesale Germany). In the Celesio Solutions division, Movianto and pharmexx are considered together as a cash-generating unit. The planning covers a period of five years. The planning projections are rolled forward to the following years. The budgeted figures are based on past developments and expectations of future market developments. Cash flows are discounted using the weighted cost of capital (before taxes). The cost of capital is composed of borrowing costs, which are based on long-term market interest rates, and the costs of equity, which are calculated from a risk-free basic rate of return and a country-specific risk premium.

In the 2007 fiscal year, the value in use of the cash-generating units was based on a growth factor of 3 % (2006: 3 %) for all cash flows beyond the detailed planning projections. This is below the long-term average market growth rate. In addition, the discount factors used ranged from 8.2 % to 12.1 %.

General

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

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

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

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

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

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

If the economic title to a leased asset can be allocated to a group company (finance leases), the asset is capitalised on the inception date of the lease at the present value of the minimum lease payments plus any incidental costs borne by the lessee or, if lower, at its fair value pursuant to IAS 17. These leases primarily relate to real estate. The agreements have terms of up to 11 years and some contain purchase options. The depreciation methods and useful lives applied correspond to those of comparable assets acquired for a consideration.

In addition to the finance leases, the Celesio Group entered into rental agreements under which the economic title to the assets remains with the lessor (operating leases). The payments on these leases are posted to profit and loss. Depending on the type of assets, the leases contain the customary rental conditions and right of first refusal.

Investments and **financial assets** classified as **available-for-sale** and **at fair value through profit and loss** are initially recognised at historical cost in accordance with IAS 39. Acquisitions and sales are recognised on their settlement date. These assets are measured at fair value in the following periods, if this can be reliably determined. Fair value is determined from the official listings issued by stock exchanges. In the available-for-sale category of financial assets, unrealised gains or losses are reported in other comprehensive income under equity after considering any deferred tax effects until they are realised. If their fair value falls below their carrying amount for the foreseeable future, an impairment loss is recorded against income. If the reasons no longer apply, they are written up without effect on income. In the financial assets at fair value through profit and loss category, on the other hand, changes in market value are recognised directly in the income statement.

If no active market exists for the assets and their fair value cannot be determined without incurring an unreasonable expense, these financial assets are reported at (amortised) cost.

In one case the fair value option was exercised and a financial asset was allocated to the financial assets measured at fair value through the profit and loss category. The seller had a covered option for the corresponding investment until the end of 2006. Generally, this kind of seller purchase option is accounted for at fair value through profit and loss. However, had the fair value option not been exercised, the financial asset would be classified as available for sale. Classifying the assets in this way avoids incongruence in their measurement. The purchase option lapsed at the end of 2006. This does not affect the classification of the financial asset at fair value through profit and loss. Thus fluctuations in the fair value of the financial asset have an impact on profit and loss.

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

Investments in associates are accounted for using the equity method pursuant to IAS 28. 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. An impairment test is carried out if there is any indication that that total carrying amount of the investment is impaired. Listed market prices do not exist for any of the associates measured at equity.

General

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

With the exception of financial derivatives, **receivables** and **other assets** are carried at amortised cost. All discernible specific risks are therefore accounted for by appropriate valuation allowances. The carrying amount is the maximum possible theoretical bad debt risk. Carrying amounts generally correspond with fair value. Receivables denominated in foreign currency are translated using the mean exchange rate prevailing on the balance sheet date. Changes in value due to exchange rate fluctuations are posted to the income statement.

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

Cash in hand and **bank deposits** have been recognised at face value. Foreign cash reserves have been valued using the mean rate on the balance sheet date.

All **derivative financial instruments** entered into within the Celesio Group such as forward exchange contracts, options, and 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 historical cost on the face of the balance sheet and subsequently measured at their market value on the balance sheet date.

Hedges are used to secure both the net realisable value of balance sheet items and future cash flows. This includes exchange rate hedges for intended purchases of merchandise within a 12-month period.

The provisions of IAS 39 have been applied for hedge accounting. This involves recognising any financial instrument used as a hedge either as a fair value hedge or as a cash flow hedge. Changes in the value of a fair value hedge are recorded directly in profit or loss for the period. By contrast, that portion of the change in value of a cash flow hedge qualifying as highly effective is posted to shareholders' equity without affecting earnings where it will be released when the underlying future cash flow eventuates.

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

The market values of derivatives are determined by reference to capital market data on the balance sheet date and use of suitable valuation methods. If interest rates are needed for the valuation, the market interest rates for the respective residual term of the derivatives are taken.

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

Deferred tax assets and liabilities are deferred in accordance with IAS 12 using the 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. No deferred taxes are recorded for the retained earnings of domestic and foreign subsidiaries or affiliated companies as they are expected to remain within the company in the long term. Unused tax losses that are likely to be realised in future are recognised at the amount of the deferred tax claim. The calculation of deferred taxes is based on the tax rates valid in the separate countries at the time they were recognised or which had been enacted for future periods. For German companies, the average tax rate since 01/07/2007 is 30.7 % (2006: 38.9 %).

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. Actuarial gains and losses are not posted to income until they lie outside a corridor of 10 % of the higher of the present value of the pension obligation and the plan assets (corridor method). Any amount above this corridor is amortised over the average remaining period of service of the workforce. The interest portion contained in the pension expense and the expected income from the plan assets are reported under net interest income.

General

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 rights of recourse are not offset against provisions. If it is not possible to recognise a provision because one of the above criteria is not met, the obligation is disclosed under contingent liabilities. Provisions for onerous contracts are recognised if the contractual obligation is higher than the expected economic benefits.

Provisions with a term of more than one year are discounted. This involves applying interest rates ranging from 4.3 % to 5.5 % (2006: 3.8 % to 5.3 %) depending on the term and currency zone.

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

Financial liabilities designated as the underlying of a fair value hedge are recognised at fair value. The fair values of financial liabilities have been determined using interest rates valid for the corresponding maturities and repayment schedules at the balance sheet date.

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

Shares in assets and liabilities whose residual terms are less than one year are reported under current assets on principle.

Revenue in the Celesio Pharmacies and Celesio Wholesale divisions mainly originates from the sale of merchandise and, to a lesser extent, from the provision of services and royalties. In the Celesio Solutions division revenue is also generated from services related to pharmaceuticals. Merchandise sales are not recognised until the risks and rewards of ownership have been transferred to the customer concerned. Revenue from services is recognised upon performance of the services concerned. Licence revenue is recognised in the period it is received and in accordance with the respective contractual provisions.

New International Financial Reporting Standards

The IASB has ratified a number of amendments to existing standards and released some new IFRSs which must be applied for financial periods beginning on or after 01/01/2007. The following standards and IFRSs (year of publication) were adopted by the Celesio Group for the first time in the 2007 fiscal year:

– IFRS 7 – Financial Instruments Disclosures has been adopted for the first time and requires extensive additional disclosures in the notes on the significance of financial instruments for the assets and earnings position of the Celesio Group as well as disclosures describing and quantifying the nature and scope of the risks associated with the financial instruments.

– The changes to IAS 1 – Presentation of Financial Statements: Capital Disclosures require information to be provided about targets, strategies and processes for the management of measures taken to manage the equity base. The changes are mandatory from 01/01/2007 and require additional disclosures in the notes.

In the years 2006 and 2007, IASB published some new standards and revisions to existing standards which must be applied to fiscal periods beginning on or after 01/01/2008. The application of these standards is contingent upon the EU recognising those standards which it has not as yet already recognised. Specifically, the standards concerned are:

– In 2006 the IASB published IFRS 8 (2006) – Operating Segments which replaces IAS 14 Segment Reporting. According to IFRS 8, the Chief Operation Decision Maker has to regularly review and report on the economic situation of the segments. The segments and the segment figures are cut off on the basis of the internal management system which the management uses to measure the business success of the operating segments and to distribute resources to the operating segments. The adoption of IFRS 8 is mandatory for reporting years beginning on or after 01/01/2009; early adoption is permitted. Celesio does not currently believe that the adoption of the standard will have a material effect on the presentation of its financial statements.

– In 2006, the IFRIC also issued the interpretation IFRIC 11 – IFRS 2 Group and Treasury Share Transactions. The interpretation deals with the treatment of share-based compensation programmes in which treasury shares or shares issued by another group company are granted by a company or its shareholders. Adoption of IFRIC 11 is mandatory for reporting periods beginning on or after 01/03/2007. The interpretation does not have any impact on the consolidated financial statements of Celesio.

– In mid-2007 IFRIC published the interpretation IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This interpretation provides guidance on how to determine the limit of IAS 19 Employee Benefits for a surplus that can be carried as an asset. In addition, it explains the effects of the measurement of assets and provisions from defined benefit plants on account of a legal or contractual obligation to make minimum contributions. Adoption of IFRIC 14 is mandatory for reporting periods beginning on or after 01/01/2008. Celesio currently assumes that the interpretation will not have a material impact on the presentation of its consolidated financial statements.

– IFRIC 13 – Customer Loyalty Programmes deals with the accounting treatment of customer award credits granted to customers as part of a sales campaign and which can be used in future to obtain free or discounted goods or services. According to IFRIC 13 they are accounted for as a multiple element arrangement as defined by IAS 18.13. The interpretation has to be adopted for the first time for reporting periods beginning on or after 01/07/2008. Celesio currently assumes that the interpretation will not have a material impact on the presentation of the consolidated financial statements.

– In March 2007, IASB published an amended version of IAS 23 – Borrowing Costs. According to the amended version, borrowing costs which can be allocated directly to a qualifying asset have to be capitalised. The current option for the immediate recognition of borrowing costs as an expense will be abolished. The revised standard has to be adopted for borrowing costs of qualifying assets recognised on or after 01/01/2009. Early adoption is permitted. Celesio does not currently expect the revised standard to have a material effect on its consolidated financial statements.

The group has not availed itself of the option to adopt the standards before they become mandatory.

Management estimates and judgements

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

Accounting for acquisitions

In the course of business combinations goodwill is disclosed. Upon first-time consolidation, all the identified 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 measurement methods. 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

The annual impairment test of goodwill is based on assumptions pertaining to the future. This is based on planning for a five-year period taking past developments and anticipated market development into account. The most important assumptions when estimating the impairment of goodwill are estimated growth rates and weighted costs of capital and tax rates. 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.

Trade receivables and other assets

Writing off bad debts is based to a large extent on estimates and judgements of individual receivables taking the creditworthiness of the respective customer into account.

Provisions

When measuring provisions, particularly relating to property, litigation risks, potential losses and restructuring measure 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.

All assumptions and estimates are based on circumstances prevailing at the balance sheet date. Future events and changes in conditions often 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 are not expected to be subject to any major changes. Consequently, a significant adjustment of the carrying amounts of the assets and liabilities disclosed in the consolidated financial statements is not expected in the 2008 fiscal year.

Notes to the income statement

(1) Revenue

A breakdown of revenue by business division and region is part of segment reporting.

(2) Other expenses and income

	2006 € '000	**2007** **€ '000**
Advertising subsidies	56,008	63,022
Income from data sales	16,625	17,807
Income from rent and lease	6,169	7,860
Net gain/loss on the disposal of non-current assets	6,766	57,492
Income/expense from the write-off of bad debt allowances	– 179	– 11,251
Exchange rate gains/losses	1,012	290
Building expenses	– 170,239	– 182,563
Transportation expenses	– 161,188	– 176,456
IT and communication expenses	– 71,203	– 76,096
Promotion and advertising expenses	– 49,518	– 53,730
Legal and consulting costs	– 30,043	– 36,569
Third-party personnel services	– 23,676	– 22,760
Other expenses and income	– 69,975	– 65,943
Total expenses	**– 489,441**	**– 478,897**

Other income includes income from transactions that are not part of the core business of the Celesio Group. In the Celesio Pharmacies and Celesio Wholesale divisions, this includes income from marketing activities, services and data processing and IT services as well as income from renting out buildings.

The personnel-related third-party services mainly contain expenses for recruiting and basic and advanced staff training.

The net result of disposals of non-current non-financial assets pertains to property, plant and equipment and above all the sale of pharmacies as well as the income from the deconsolidation of PharmaFarm S.A., Romania, and Unipharm d.o.o., Croatia. It contains income of € 59,350,000 (2006: € 7,908,000) and expenses of € 1,858,000 (2006: € 1,142,000). Income from the disposal of financial assets is recorded in the net income from investments.

The result of writing down bad debts is presented in note (14).

The net currency result from operations contains exchange rate gains of € 1,782,000 (2006: € 1,564,000) and offsetting exchange rate losses of € 1,492,000 (2006: € 552,000), in both cases including the revaluation of the allocated derivatives with effect on income.

An amount of € 98,789,000 was spent on rent and leases (2006: € 87,357,000).

Other expenses and income comprise expenses of € 128,696,000 (2006: € 121,918,000) and income of € 62,753,000 (2006: € 51,943,000). These expenses are mainly general costs for administration and distribution, such as travel expenses, expenditures on customer seminars and conferences, literature and office supplies. Income from the reversal of provisions related to other expenses has been deducted from other expenses.

In total, other expenses amount to € 708,113,000 (2006: € 647,300,000) while other income amounts to € 229,216,000 (2006: € 157,859,000).

In the reporting period, research and development expenses for the development of software of € 13,490,000 (2006: € 14,397,000) had to be recorded as other expenses because the recognition criteria pursuant to IAS 38 were not satisfied.

(3) Personnel expenses/employees

	2006 € '000	**2007** **€ '000**
Wages and salaries	904,467	955,204
Social security	155,538	158,504
Post-employment expenses	23,206	26,406
Personnel services	67,629	71,386
Other personnel expenses	7,568	7,787
Total	**1,158,408**	**1,219,287**

The item personnel services essentially includes expenses for locums used to fill in for absent employees.

Income from the reversal of personnel-related provisions has been used to offset personnel expenses.

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

Notes to the income statement

(4) Net income from investments

	2006 € '000	**2007** **€ '000**
Income from investments accounted for using the equity method	2,521	2,952
Income from other investments	17,448	14,044
Total	**19,969**	**16,996**

Income from other investments includes impairment losses of € 142,000 (2006: none).

(5) Depreciation and amortisation

	2006 € '000	**2007** **€ '000**
Depreciation of property, plant and equipment	90,203	98,827
Amortisation of intangible assets	27,703	15,951
Total	**117,906**	**114,778**

As in the prior year, the depreciation of property, plant and equipment does not include impairment losses.

Amortisation of intangible assets contains impairment losses in the Wholesale division of € 2,754,000 (2006: € 16,188,000). In the prior year, these mainly related to a software project that was discontinued.

(6) Financial result

	2006 € '000	**2007** **€ '000**
Interest and similar expenses	**– 113,020**	**– 139,739**
of which to affiliated companies	– 71	– 90
of which finance leases	– 1,954	– 2,036
of which for pensions	– 2,512	– 2,174
Interest and similar income	**9,977**	**14,198**
of which from affiliated companies	9	21
Other financial result	**7,381**	**6,606**
Total	**– 95,662**	**– 118,935**

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

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

The item other financial result relates to changes in the fair value of derivatives used to hedge financial liabilities. In addition, the item contains exchange rate fluctuations related to non-operating receivables and liabilities denominated in foreign currency.

(7) Income taxes

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

In the event of a future profit distribution or sale of the investment, an additional tax liability of € 23,263,000 (2006: € 20,838,000) would arise for deferred taxes, which have not been recognised in the balance sheet, on the retained earnings of foreign subsidiaries and associates.

In the fiscal year no deferred taxes (2006: € 879,000) were recognised on unused tax losses. The utilisation of these unused tax losses, which in past periods was considered unlikely, plus tax claims resulted in a reduction of taxes on income of € 2,080,000 in 2007 (2006: € 68,000). In addition, the group carries unused tax losses of € 144,755,000 (2006: € 100,354,000) on the balance sheet date which from a current perspective are unlikely to be utilised. No deferred taxes have been recognised on these unused tax losses. Of the existing unused tax losses a total of € 91,656,000 (2006: € 73,696,000) can be carried forward for an unlimited period of time; an amount of € 23,099,000 (2006: € 26,658,000) lapses within the next ten years.

	2006 € '000	**2007** **€ '000**
Current taxes	118,117	171,450
Deferred taxes	46,453	1,945
Income taxes	**164,570**	**173,395**

The current tax burden includes tax expenses from other periods of € 1,593,000 (2006: tax income of € 14,724,000).

Notes to the income statement

The differences between the current taxes reported in the income statement and the theoretical tax expenses arising from applying the tax rate of Celesio AG to the group's profit before tax can be reconciled as follows:

	31/12/2006		**31/12/2007**	
	€ '000	%	**€ '000**	**%**
Profit before tax	590,138	100.0	608,813	100.0
Estimated income tax expense	**229,564**	**38.9**	**236,828**	**38.9**
Effect of differing national tax rates	– 49,356	– 8.4	– 58,985	– 9.7
Tax from previous periods	– 14,724	– 2.5	1,593	0.3
Tax effect of non-deductible expenses and tax-exempt income	– 28	0.0	861	0.1
Impact of changes to tax rates on deferred taxes	278	0.1	– 7,918	– 1.3
Non-recognition, adjustment or unused tax losses	74	0.1	5,710	0.9
Other tax effects	– 1,238	– 0.2	– 4,694	– 0.7
Income tax expense	**164,570**	**27.9**	**173,395**	**28.5**

(8) Earnings per share

	2006	**2007**
Profit attributable to shareholders of Celesio AG (€ '000)	423,174	430,564
Weighted number of no-par shares outstanding	170,100,000	170,100,000
Earnings per share (€)	**2.49**	**2.53**

Pursuant to IAS 33, earnings per share are calculated by dividing the profit allocable to the shareholders of Celesio AG by the weighted average number of shares outstanding during the fiscal year. As in the prior year, there are no dilutive effects from the issue of any financial instruments granting a right to ordinary shares in the group.

Notes to the balance sheet

Non-current assets

	2006				2007			
	Intangible assets € '000	Property, plant and equipment € '000	Financial assets € '000	**Total € '000**	Intangible assets € '000	Property, plant and equipment € '000	Financial assets € '000	**Total € '000**
Accumulated historical cost 01/01	**2,475,196**	**1,354,192**	**138,813**	**3,968,201**	**2,665,976**	**1,473,120**	**194,738**	**4,333,834**
Currency translation differences	25,019	5,992	4	31,015	– 119,230	– 35,292	– 58	– 154,580
Changes to consolidated group	140,888	24,192	58	165,138	515,086	26,285	226	541,597
Changes in fair market value	0	0	3,215	3,215	0	0	986	986
Additions	27,292	119,811	75,067	222,170	27,497	116,797	32,377	176,671
Reclassifications	2,518	– 2,513	– 7,306	– 7,301	831	– 830	– 14,498	– 14,497
Disposals	– 4,937	– 28,554	– 15,113	– 48,604	– 26,904	– 31,116	– 8,407	– 66,427
31/12	**2,665,976**	**1,473,120**	**194,738**	**4,333,834**	**3,063,256**	**1,548,964**	**205,364**	**4,817,584**
Accumulated impairments 01/01	**67,546**	**755,974**	**4,881**	**828,401**	**96,140**	**836,282**	**4,437**	**936,859**
Currency translation differences	313	3,824	1	4,138	– 1,563	– 22,185	– 1	– 23,749
Changes to consolidated group	297	11,189	0	11,486	2,331	15,802	0	18,133
Additions	27,703	90,203	0	117,906	15,951	98,827	142	114,920
Reclassifications	1,257	– 1,252	0	5	204	– 203	– 97	– 96
Disposals	– 976	– 23,656	– 73	– 24,705	– 16,307	– 20,661	– 608	– 37,576
Reversals	0	0	– 372	– 372	0	– 5,090	– 390	– 5,480
31/12	**96,140**	**836,282**	**4,437**	**936,859**	**96,756**	**902,772**	**3,483**	**1,003,011**
Carrying amount at 31/12	**2,569,836**	**636,838**	**190,301**	**3,396,975**	**2,966,500**	**646,192**	**201,881**	**3,814,573**

Notes to the balance sheet

(9) Intangible assets

	2006				
	Franchises, industrial and similar rights € '000	Goodwill € '000	Other intangible assets € '000	Payments on account € '000	**Total € '000**
Accumulated historical cost 01/01	**93,168**	**2,356,501**	**14,606**	**10,921**	**2,475,196**
Currency translation differences	258	24,716	26	19	25,019
Changes to consolidated group	320	123,008	16,481	1,079	140,888
Additions	13,381	903	3,052	9,956	27,292
Reclassifications	4,625	0	52	– 2,159	2,518
Disposals	– 1,278	– 1,167	– 2,263	– 229	– 4,937
31/12	**110,474**	**2,503,961**	**31,954**	**19,587**	**2,665,976**
Accumulated impairments 01/01	**62,585**	**0**	**4,961**	**0**	**67,546**
Currency translation differences	210	0	20	83	313
Changes to consolidated group	297	0	0	0	297
Additions	10,328	0	1,363	16,012	27,703
Reclassifications	1,257	0	0	0	1,257
Disposals	– 961	0	– 15	0	– 976
Reversals	0	0	0	0	0
31/12	**73,716**	**0**	**6,329**	**16,095**	**96,140**
Carrying amount at 31/12	**36,758**	**2,503,961**	**25,625**	**3,492**	**2,569,836**

Goodwill at € 1,281,951,000 (2006: € 1,149,781,000) mainly relates to Pharmacies United Kingdom.

The additions in the year 2007 primarily relate to the goodwill arising in the course of the acquisition of pharmacies and the acquisition of the DocMorris Group. In the prior year, the addition was due in particular to the acquisition of Max Jenne and K.V. Tjellesen. More information on the acquisitions made in the reporting period can be found on page 140.

2007				
Franchises, industrial and similar rights € '000	Goodwill € '000	Other intangible assets € '000	Payments on account € '000	**Total € '000**
110,474	**2,503,961**	**31,954**	**19,587**	**2,665,976**
– 2,124	– 116,589	– 39	– 478	– 119,230
3,394	411,771	99,921	0	515,086
14,820	8,336	243	4,098	27,497
1,946	0	49	– 1,164	831
– 366	– 10,436	– 46	– 16,056	– 26,904
128,144	**2,797,043**	**132,082**	**5,987**	**3,063,256**
73,716	**0**	**6,329**	**16,095**	**96,140**
– 1,065	0	– 32	– 466	– 1,563
1,842	0	489	0	2,331
10,084	0	3,706	2,161	15,951
204	0	0	0	204
– 209	0	– 42	– 16,056	– 16,307
0	0	0	0	0
84,572	**0**	**10,450**	**1,734**	**96,756**
43,572	**2,797,043**	**121,632**	**4,253**	**2,966,500**

In the reporting period, other intangible assets includes brand names capitalised in the course of acquisitions of € 81,242,000 (2006: € 7,365,000).

Notes to the balance sheet

(10) Property, plant and equipment

	2006				
	Land, land rights and buildings € '000	Technical equipment and machines € '000	Other equipment, furniture and fixtures € '000	Payments on account and assets under construction € '000	**Total** **€ '000**
Accumulated historical cost					
01/01	**612,667**	**268,485**	**470,583**	**2,457**	**1,354,192**
Currency translation differences	592	1,446	3,990	– 36	5,992
Changes to consolidated group	16,408	4,112	3,502	170	24,192
Additions	17,210	14,066	77,997	10,538	119,811
Reclassifications	1,044	3,105	– 1,505	– 5,157	– 2,513
Disposals	– 7,422	– 3,531	– 17,390	– 211	– 28,554
31/12	**640,499**	**287,683**	**537,177**	**7,761**	**1,473,120**
Accumulated impairments					
01/01	**260,961**	**176,651**	**318,362**	**0**	**755,974**
Currency translation differences	87	892	2,845	0	3,824
Changes to consolidated group	5,672	3,394	2,123	0	11,189
Additions	23,759	22,299	44,145	0	90,203
Reclassifications	0	410	– 1,662	0	– 1,252
Disposals	– 4,459	– 3,421	– 15,776	0	– 23,656
Reversals	0	0	0	0	0
31/12	**286,020**	**200,225**	**350,037**	**0**	**836,282**
Carrying amount at 31/12	**354,479**	**87,458**	**187,140**	**7,761**	**636,838**
of which **finance leases**					
Carrying amount at 31/12	**45,704**	**3,894**	**2,990**	**0**	**52,588**

	2007				
	Land, land rights and buildings € '000	Technical equipment and machines € '000	Other equipment, furniture and fixtures € '000	Payments on account and assets under construction € '000	**Total** **€ '000**
	640,499	**287,683**	**537,177**	**7,761**	**1,473,120**
	– 4,904	– 7,770	– 22,637	19	– 35,292
	15,033	6,660	4,604	– 12	26,285
	25,315	9,803	74,893	6,786	116,797
	3,539	– 12,386	19,419	– 11,402	– 830
	– 13,745	– 1,777	– 15,546	– 48	– 31,116
	665,737	**282,213**	**597,910**	**3,104**	**1,548,964**
	286,020	**200,225**	**350,037**	**0**	**836,282**
	– 2,016	– 5,236	– 14,933	0	– 22,185
	6,550	6,641	2,611	0	15,802
	25,286	20,694	52,847	0	98,827
	779	– 14,441	13,459	0	– 203
	– 5,353	– 1,631	– 13,677	0	– 20,661
	– 4,090	– 1,000	0	0	– 5,090
	307,176	**205,252**	**390,344**	**0**	**902,772**
	358,561	**76,961**	**207,566**	**3,104**	**646,192**
	42,283	**2,857**	**393**	**0**	**45,533**

Notes to the balance sheet

(11) Financial assets

	2006					
	Associates accounted for using the equity method € '000	Available-for-sale financial assets € '000	Financial assets measured at fair value through profit and loss € '000	Loans to associates € '000	Other loans € '000	**Total € '000**
Accumulated historical cost 01/01	**9,810**	**35,802**	**48,890**	**4,050**	**40,261**	**138,813**
Currency translation differences	0	24	0	– 4	– 16	4
Changes to consolidated group	0	44	0	0	14	58
Changes in fair value	0	1,516	1,699	0	0	3,215
Additions	48,621	6,861	0	2,649	16,936	75,067
Reclassifications	– 107	2,491	0	– 202	– 9,488	– 7,306
Disposals	– 2,768	– 5,066	0	– 1,084	– 6,195	– 15,113
31/12	**55,556**	**41,672**	**50,589**	**5,409**	**41,512**	**194,738**
Accumulated impairments 01/01	**0**	**2,712**	**0**	**110**	**2,059**	**4,881**
Currency translation differences	0	0	0	0	1	1
Changes to consolidated group	0	0	0	0	0	0
Additions	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0
Disposals	0	– 73	0	0	0	– 73
Reversals	0	0	0	0	– 372	– 372
31/12	**0**	**2,639**	**0**	**110**	**1,688**	**4,437**
Carrying amount at 31/12	**55,556**	**39,033**	**50,589**	**5,299**	**39,824**	**190,301**

If no active market exists for the assets and their fair value cannot be determined without incurring an unreasonable expense, these financial assets are reported at (amortised) cost. At 31/12/2007, equity investments totalling € 28,635,000 (2006: € 25,274,000) were measured at cost for this reason.

2007					
Associates accounted for using the equity method € '000	Available-for-sale financial assets € '000	Financial assets measured at fair value through profit and loss € '000	Loans on associates € '000	Other loans € '000	**Total € '000**
55,556	**41,672**	**50,589**	**5,409**	**41,512**	**194,738**
0	– 89	0	18	13	– 58
0	1	0	0	225	226
0	185	801	0	0	986
1,879	7,213	0	1,342	21,943	32,377
– 40	40	0	– 408	– 14,090	– 14,498
– 2,492	– 4,562	0	– 46	– 1,307	– 8,407
54,903	**44,460**	**51,390**	**6,315**	**48,296**	**205,364**
0	**2,639**	**0**	**110**	**1,688**	**4,437**
0	0	0	0	– 1	– 1
0	0	0	0	0	0
0	142	0	0	0	142
0	0	0	– 97	0	– 97
0	0	0	– 5	– 603	– 608
0	0	0	11	– 401	– 390
0	**2,781**	**0**	**19**	**683**	**3,483**
54,903	**41,679**	**51,390**	**6,296**	**47,613**	**201,881**

The investment in Andreae-Noris Zahn AG was recognised using the fair value option. The investments in associates mainly consist of the 30 % investment in pharmexx GmbH, Hirschberg, Germany, acquired in the prior year.

The share of the net profit of all associates accounted for using the equity method allocable to Celesio, including amortisation of intangible assets identified during the purchase price allocation, amounts to € 2,952,000 (2006: € 2,521,000). The investments measured using the equity method total € 54,903,000 (2006: € 55,516,000). The goodwill attributable to these investments comes to € 35,166,000 (2006: € 34,521,000). These companies generated revenue of € 284,853,000 (2006: € 215,334,000) and net profit of € 23,602,000 (2006: € 3,811,000) in the 2007 fiscal year. Total assets amounted to € 183,693,000 (2006: € 118,387,000) and total liabilities to € 160,445,000 (2006: € 99,068,000).

Notes to the balance sheet

(12) Deferred taxes

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

	31/12/2006 Assets € '000	31/12/2006 Liabilities € '000	**31/12/2007 Assets € '000**	**31/12/2007 Liabilities € '000**
Intangible assets	1,077	56,254	737	83,449
Property, plant and equipment	5,401	46,771	1,539	51,746
Other non-current assets	4,214	361	3,581	320
Current assets	12,370	2,974	20,838	957
Financial liabilities	8,397	446	6,865	503
Provisions	41,724	369	36,406	972
Other liabilities	34,349	16,094	35,416	23,308
Sum of deferred taxes on temporary differences	107,532	123,269	105,382	161,255
Deferred taxes on unused tax losses	6,399	0	18,534	0
less offsetting	– 67,549	– 67,549	– 75,683	– 75,683
Total	**46,382**	**55,720**	**48,233**	**85,572**

These include deferred tax claims offset against equity and recorded without effect on income totaling € 10,262,000 (prior year: € 11,195,000). These are a result of accounting for changes in the value of available-for-sale financial assets and derivative financial instruments used for cash flow hedges without any effect on income.

More information on deferred taxes can be found in note (7).

(13) Inventories

	31/12/2006 € '000	**31/12/2007 € '000**
Raw materials, consumables and supplies	2,327	3,147
Finished goods and merchandise	1,641,329	1,637,104
Payments on account	2,269	530
Total	**1,645,925**	**1,640,781**

In the reporting period inventories were written down by € 12,493,000 (2006: € 5,161,000). This was counterbalanced by revaluations from reversing valuation allowances of € 2,775,000 (2006: € 2,644,000). The carrying amount of inventories valued at net realisable value amounts to € 79,256,000 (2006: € 63,142,000).

(14) Receivables and other assets

At the balance sheet date, current receivables and other assets are as follows:

	31/12/2006 € '000	**31/12/2007 € '000**
Trade receivables	**2,503,246**	**2,503,947**
Tax receivables	**65,282**	**55,125**
Receivables from affiliated companies	984	453
Receivables from associates	34	27
Derivative financial instruments	6,106	25,305
Input tax and other tax receivables	66,601	25,174
Other assets	181,845	218,286
Other receivables and other assets	**255,570**	**269,245**
Total	**2,824,098**	**2,828,317**

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

Derivative financial instruments are used primarily to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in full in note (22, g).

The table below presents the development of bad debts, receivables from affiliated and associated companies and the receivables contained in other assets:

	31/12/2006 € '000	**31/12/2007 € '000**
01/01	93,593	96,751
Additions	19,552	28,949
Utilisation	– 2,515	– 15,216
Reversals	– 15,643	– 18,320
Currency, consolidated group and other changes	1,764	– 2,919
31/12	**96,751**	**89,245**

Notes to the balance sheet

The ageing structure of the overdue receivables and other assets which were not written down at the balance sheet date is presented below:

	31/12/2006 € '000	**31/12/2007** **€ '000**
Carrying amounts	2,824,098	2,828,317
Carrying amounts of impaired receivables and other assets	67,997	54,462
Carrying amounts of receivables and other assets that are not impaired	2,756,101	2,773,855
Carrying amounts of receivables that are not impaired or overdue and other assets	2,466,653	2,404,946
Carrying amounts of overdue receivables and other assets that are not impaired	289,448	368,909
of which < 3 months	227,719	316,133
of which 3 – 6 months	45,850	30,271
of which 6 – 12 months	10,256	16,176
of which > 12 months	5,623	6,329

In the case of the receivables that are not impaired, there is no indication that the debtor will not be able to meet its payment obligations.

(15) Cash and cash equivalents

	31/12/2006 € '000	**31/12/2007** **€ '000**
Cash in hand and cheques	4,708	3,874
Bank balances	4,936	3,256
Total	**9,644**	**7,130**

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

Celesio only has bank balances at banks whose credit standing is impeccable. No bank deposits have been assigned as collateral, either for existing loans or approved lines of credit.

(16) Shareholders' equity

A two-for-one stock split was carried out on 24/07/2006. Since this date, the issued capital of Celesio AG has been split into 170,100,000 no-par value shares. Authorised capital of € 43,546,000 is available until 25/10/2012.

In the reporting period, an ordinary dividend of € 0.75 per no-par value share was paid for the prior year.

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

Other comprehensive income contains changes to equity arising from measuring financial instruments used for cash flow hedges at fair value. These amounted to € 25,183,000 (2006: € 24,539,000). In addition, this item also includes changes in the fair value of securities categorised as available-for-sale financial assets which totalled € 543,000 in the reporting period (2006: € 355,000). An amount of € 6,452,000 was released to income in the fiscal year (2006: € 8,199,000).

The reduction in minority interests is mainly due to the purchase of additional shares in K.V. Tjellesen, Denmark. The group held 74.02 % of the shares on 31/12/2007 (prior year 49.98 %) and 91.06 % of the voting rights (2006: 82.79 %).

Capital management

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

The Celesio Group monitors its capital structure based on the equity ratio, gearing and the interest coverage ratio.

		31/12/2006	**31/12/2007**
Equity	€ '000	2,628,060	2,819,611
/ total assets	€ '000	7,926,495	8,343,177
Equity ratio	**%**	**33.2**	**33.8**
Net financial debt	€ '000	1,912,693	2,354,690
/ equity	€ '000	2,628,060	2,819,611
Gearing		**0.73**	**0.84**
EBIT	€ '000	685,800	727,748
/ – financial result	€ '000	95,662	118,935
Interest coverage ratio		**7.2**	**6.1**

Notes to the balance sheet

(17) 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.

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

	2006 %	**2007** **%**
Discount rate by currency region		
EUR	4.5	5.7
NOK	4.3	4.8
GBP	4.9	6.0
Future salary increases	1.8 – 4.8	2.5 – 5.1
Future pension increases	1.0 – 3.3	1.75 – 3.3
Expected return on plan assets	5.0 – 6.2	4.5 – 6.6

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

	31/12/2006 € '000	**31/12/2007** **€ '000**
Service cost	17,889	20,805
Amortisation of actuarial gains and losses	300	– 3,852
Interest expense	26,201	27,655
Expected return on plan assets	– 23,689	– 25,481
Curtailments and settlements	– 3,825	– 1,937
Total	**16,876**	**17,190**

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

Pension provisions developed as follows in the reporting period:

	2006 € '000	**2007** **€ '000**
Provisions for pension liabilities at 01/01	140,236	139,468
Pension expenses	16,876	17,190
Pension payments	– 17,431	– 19,641
Currency, consolidated group and other changes	– 213	– 611
Provisions for pension liabilities at 31/12	**139,468**	**136,406**

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

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

	2006 € '000	**2007** **€ '000**
Present value of funded obligations	502,465	477,833
Present value of unfunded obligations	106,780	95,598
Fair value of plan assets	– 431,455	– 412,875
Unrecognised actuarial gains/losses (accumulated)	– 38,322	– 24,150
Pension provisions at 31/12	**139,468**	**136,406**

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

	2006 € '000	**2007** **€ '000**
Defined benefit obligation at 01/01	**569,876**	**609,245**
Service cost	17,889	20,805
Interest expense	26,201	27,655
Contributions by plan participant	413	682
Benefits paid	– 24,059	– 24,111
Actuarial gains/losses	21,897	– 37,582
Curtailments and settlements	– 3,825	– 1,937
Currency, consolidated group and other changes	853	– 21,326
Defined benefit obligation at 31/12	**609,245**	**573,431**

Notes to the balance sheet

	2006 € '000	**2007** **€ '000**
Fair value of plan assets at 01/01	**401,862**	**431,455**
Expected return on plan assets	23,689	25,481
Contributions by employer	11,780	13,187
Contributions by plan participant	413	682
Payments from plan assets	– 18,408	– 17,657
Actuarial gains/losses	11,053	– 19,558
Currency, consolidated group and other changes	1,066	– 20,715
Fair value of plan assets at 31/12	**431,455**	**412,875**

	2003 € '000	2004 € '000	2005 € '000	2006 € '000	**2007** **€ '000**
Defined benefit obligation	354,660	410,009	569,876	609,245	573,431
Fair value of plan assets	273,928	360,610	401,862	431,455	412,875
Surplus/deficit	**80,732**	**49,399**	**168,014**	**177,790**	**160,556**

The plan assets consist of the following components:

	2006 € '000	**2007** **€ '000**
Equity instruments	134,209	138,393
Fixed-interest securities	253,035	233,573
Real estate	30,548	27,242
Other	13,663	13,667
Fair value of plan assets at 31/12	**431,455**	**412,875**

The expected return on assets may diverge from the income actually realised if capital markets fail to develop in line with expectations. The table below compares the expected return with actual income:

	2003 € '000	2004 € '000	2005 € '000	2006 € '000	**2007** **€ '000**
Expected return on plan assets	17,958	17,696	21,395	23,689	25,481
Actual return on plan assets	19,753	23,109	48,669	25,893	5,723

The defined contribution pension plan installed for companies of the Celesio Group involves no commitment for the group at the balance sheet date other than payment of the defined contribution to the external fund. Expenses from current contributions to these plans amounted to € 11,297,000 in the reporting period (2006: € 8,436,000). In addition, employer contributions were made to state pension funds. The directly allocable employer contributions amount to € 31,585,000.

(18) Other provisions

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

	2006		2007							
	Carrying amount 31/12 € '000	of which due within 1 year € '000	Changes in currency and in the consolida-tion group € '000	Additions € '000	Utilisations € '000	Reversals € '000	Discount rate adjustment € '000	Reclassifi-cations € '000	Carrying amount 31/12 € '000	of which due within 1 year € '000
Other personnel obligations	84,339	52,473	– 1,319	43,226	– 41,869	– 4,271	569	339	81,014	48,739
Other provisions	96,629	93,589	– 751	9,210	– 16,236	– 5,947	0	– 339	82,566	79,734
Total	**180,968**	**146,062**	**– 2,070**	**52,436**	**– 58,105**	**– 10,218**	**569**	**0**	**163,580**	**128,473**

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

(19) Liabilities

	31/12/2006				31/12/2007			
	Due in				Due in			
	1 year € '000	1 – 5 years € '000	more than 5 years € '000	Carrying amount € '000	1 year € '000	1 – 5 years € '000	more than 5 years € '000	**Carrying amount € '000**
Financial liabilities								
Liabilities to banks	148,289	184,975	887,479	1,220,743	228,788	35,866	1,284,231	1,548,885
Promissory notes	0	515,423	104,244	619,667	77,883	433,533	258,524	769,940
Lease liabilities	7,123	14,084	11,475	32,682	4,019	10,791	10,592	25,402
Other financial liabilities	13,191	4,526	5,150	22,867	1,795	9,709	6,096	17,600
	168,603	**719,008**	**1,008,348**	**1,895,959**	**312,485**	**489,899**	**1,559,443**	**2,361,827**
Trade payables and other liabilities								
Trade payables	2,447,464	0	0	2,447,464	2,124,919	0	0	2,124,919
Income tax liabilities	130,308	0	0	130,308	145,438	0	0	145,438
Liabilities to affiliated companies	24	0	0	24	183	0	0	183
Liabilities to associates	2,847	0	0	2,847	2,610	0	0	2,610
Other liabilities	440,337	5,340	0	445,677	484,469	18,561	0	503,030
	3,020,980	**5,340**	**0**	**3,026,320**	**2,757,619**	**18,561**	**0**	**2,776,180**
Liabilities	**3,189,583**	**724,348**	**1,008,348**	**4,922,279**	**3,070,104**	**508,460**	**1,559,443**	**5,138,007**

(20) Financial liabilities

a) Liabilities to banks

The Celesio Group generally financed itself with long-term bilateral credit facilities and promissory notes. There is furthermore a liquidity reserve due to a syndicated loan (see page 83). In addition, special-purpose lease entities have arranged fixed-interest loans of € 75,248,000 (2006: € 77,031,000) to finance real estate. The fair value of fixed-interest loans comes to € 77,015,000 (2006: € 79,318,000). Liabilities to banks are broken down by maturity.

b) Promissory notes

In the course of diversifying and optimising the financing structuring, Celesio placed promissory notes of € 368,694,000 in the second quarter of 2007. The promissory notes are denominated in euro or pound sterling and are subject to a floating or fixed rate of interest. They have maturities of between 5 and 7 years. The new borrowed funds were used for general financing purposes and the premature repayment of a promissory note of € 188,000,000. The Celesio Group also holds several promissory loans from prior years, with original terms of 4 – 7 years, that were borrowed on the European private placement market. These are likewise denominated in euro or pound sterling and are subject to a floating or fixed rate of interest. A sub-amount of all these loans with a nominal value of € 200,946,000 (2006: € 159,744,000) is subject to a fixed rate of interest and has a market value of € 205,489,000 (2006: € 160,290,000). The effective interest rates at the balance sheet date range between 4.58 and 6.70 % (2006: between 3.62 and 5.52 %).

c) Lease liabilities

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

	31/12/2006 € '000	**31/12/2007 € '000**
Minimum lease payments	39,764	30,823
due within one year	8,510	5,122
due after one year but not more than five years	17,716	13,586
due in more than 5 years	13,538	12,115
Interest portion	– 7,082	– 5,421
Present value	**32,682**	**25,402**

d) Other financial liabilities

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

Collateral for financial liabilities has mainly been assigned to special-purpose lease companies for long-term leases of real estate. In these cases, collateral equal to the secured loans of € 83,201,000 (2006: € 94,377,000) has been assigned.

(21) Trade payables and other liabilities

Trade payables contain payments on account of € 50,108,000 (2006: € 48,413,000).

Other liabilities are as follows:

	31/12/2006 € '000	**31/12/2007** **€ '000**
Personnel liabilities	112,099	115,421
Other tax liabilities	51,640	78,738
Outstanding invoices	123,581	145,705
Derivative financial instruments	37,781	29,800
Interest liabilities	9,300	14,215
Other liabilities	111,276	119,151
Total	**445,677**	**503,030**

Derivative financial instruments are used to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in full in note (22, g).

(22) Financial risk management and derivative financial instruments

a) Principles of risk management

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

The use of derivatives is subject to uniform group guidelines set by the management board, compliance with which is monitored constantly. These include functional segregation of trading, handling and posting and the authorisation of a few qualified employees to enter into derivative financial instruments. All derivatives are entered into exclusively for hedging purposes and are entered into with banks displaying the best credit ratings. In other words, derivatives are not used for trading or other speculative purposes.

b) Interest rate risks

Interest rate risks are understood as the negative impact of fluctuating interest rates on the 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 the market interest rates fluctuate, the market price of the financial instrument will change (fair value risk due to interest rates). The market price is based on the present value of future payments (interest payments plus repayment of principal) discounted using the market interest rate prevailing on the balance sheet date. The interest rate-related risk will therefore lead to a profit or loss if the fixed-interest instrument is sold before maturity.

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

Interest caps and swaps were used in the fiscal year to hedge interest risks. An interest cap puts an upper limit on a variable interest rate. An interest swap involves swapping the underlying transaction subject to a fixed interest rate for a financial instrument with a variable interest rate or vice versa for the entire term of the underlying instrument. The decision on whether to use derivative financial instruments is based on the interest rate risk, based on the projected 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 balance sheet date would have had on the pre-tax profit and on equity. It is assumed here that the exposure at the balance sheet date is representative of the year as a whole and that the assumed change in the market interest rate at the balance sheet date was possible.

A hypothetical increase (decrease) of the euro market interest rate by one percentage point as of 31 December 2007 would lower (raise) the profit before tax by € 349,000 (€ 2,587,000) (2006: € 4,415,000 or € 5,576,000).

In the event of an increase (decrease) of the euro market increase rate on 31 December 2007 by one percentage point, equity would rise (fall) by € 11,106,000 (€ 9,213,000) (2006: € 11,069,000 or € 9,298,000).

A hypothetical increase (decrease) of the pound sterling market interest rate by one percentage point as of 31 December, 2007 would lower (raise) the pre-tax profit by € 571,000 (€ 1,266,000) (2006: € 507,000 or € 558,000). In the event of an increase (decrease) of the pound sterling market interest rate by one percentage point, equity would rise (fall) by € 15,717,000 (€ 16,898,000) (2006: € 22,631,000 or € 22,560,000).

c) Currency risks

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

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

Forward exchange contracts and currency swaps were used in the 2007 fiscal year to hedge against exchange rate fluctuations.

The majority of the foreign exchange risks are a result of the development of the euro (EUR) against the pound sterling (GBP).

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, generally a currency swap. 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.

The primary originating financial instruments in place as of the balance sheet date, held by group companies in a non-functional currency, form part of the basis for the analysis of foreign currency exchange rate sensitivity. The Celesio Group has concentrated its medium and long-term loan borrowing activities in Celesio Finance B.V., based in the Netherlands. This also takes out loans in currencies other than euro and transfers them within the group, according to the needs of the individual group subsidiaries. According to IFRS 7.40, these loans are to be included in the calculation of the exchange rate risk because they were not taken out in the company's functional currency, although Celesio Finance B.V. and the entire group do not see any risk.

Without adjustment for loans in non-functional currencies, a 10 % increase (decrease) in the GBP/EUR exchange rate would have increased the pre-tax profit by € 67,988,000 (or reduced it by € 83,804,000) (2006: € 42,120,000 reduction or € 55,293,000 increase).

Adjusted for these loans, a 10 % increase (decrease) in the GBP/EUR exchange rate would have reduced (increased) the pre-tax profit by € 3,186,000 (2006: € 17,157,000).

A significant portion of this adjusted foreign currency exchange rate sensitivity results from fluctuations in the market price of foreign currency swaps. Celesio uses foreign currency swaps to eliminate the economic exchange rate risk for the cross-currency granting of loans between two group subsidiaries.

If the GBP/EUR exchange rate had been higher (lower) at 31/12/2007 equity would have decreased (increased) by € 2,978,000 (2006: € 3,581,000).

It is assumed for the purpose of this analysis that the exchange rates at the balance sheet date change by the percentage stated. Movements over time and the changes in other market parameters observed in reality are not considered in this analysis.

d) Credit risk
The credit risk pertains to the risk that a contractual partner will fail wholly or partly to meet its obligations, leading to a financial loss. To mitigate this risk Celesio only enters into derivative financial instruments with selected business associates. Given the current derivative financial instruments, the maximum theoretical risk of default equals the positive fair values of the instruments. These amount to € 25,305,000 at the balance sheet date (2006: € 6,106,000).

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 2006, 20 European banks provided Celesio AG and Celesio Finance B.V. with a syndicated line of credit of € 600,000,000. The line of credit expires on 11/02/2013. The line of credit had not been used at the balance sheet date.

The Celesio Group sets itself the target of having an adequate reserve of freely available credit lines in relation to the group's debt.

f) Other price risks

The risk of share price fluctuations primarily relates to the investment in Andreae-Noris Zahn AG (ANZAG). If the share price of ANZAG rose (fell) by 10 % this would lead to a higher (lower) pre-tax profit of € 5,139,000 and to a non-income related increase (decrease) in equity of € 530,000 (2006: € 275,000). The seller held a covered option for the shares in the prior year. This option on the part of the buyer was always accounted for as a derivative at fair market value with an effect on income, and ran exactly counter to the change in value of the shares with an effect on income.

The Celesio Group is not exposed to any other material risks from other price differences.

g) Hedge accounting

Hedges are used by the Celesio Group to secure both the net realisable value of balance sheet items and future cash flows. This includes currency hedges to secure the planned purchase of merchandise as well as investments and divestments.

Cash flow hedge

The Celesio Group is primarily financed via long-term bilateral credit lines, as well as promissory loans. Bilateral credit lines are generally taken out on a revolving basis with the interest rate fixed for the short term. As of 31/12/2007, the contractual due dates for the bilateral credit lines and promissory loans taken out that serve as designated underlying transactions in connection with a cash flow hedge were as follows:

	2006		**2007**	
	Nominal value € '000	Due date	Nominal value € '000	Due date
	25,160	15/03/2008	101,872	15/09/2009
	134,352	15/12/2008	81,811	15/12/2010
	111,262	15/09/2009	20,844	15/09/2011
	25,160	15/03/2010	100,000	15/06/2012
	89,352	15/12/2010	739,067	31/01/2013
	59,568	31/01/2011	181,811	15/06/2014
	22,766	15/09/2011	40,905	31/01/2015
	569,136	31/01/2012		
	61,370	31/01/2013		
	44,676	31/01/2014		
Total	**1,142,802**		**1,266,310**	

Notes to the balance sheet

Gains of € 11,170,000 were made in the reporting period in connection with cash flow hedges (2006: € 29,781,000) which have been recorded under equity without affecting income for the year. Gains made in prior years of € 8,960,000 were transferred from equity to interest income (2006: € 11,371,000).

Fair value hedge

A fair value hedge resulted in an adjustment of € 197,000 to the underlying balance sheet item which was posted to other financial result (2006: € – 1,393,000). The contrary changes in the fair value of the hedge amounted to € – 197,000 (2006: € 1,393,000) which were also posted to other financial result.

Summary of derivative financial instruments

Derivative financial instruments break down as follows:

	31/12/2006			**31/12/2007**		
	Fair market value € '000	of which fair value hedge € '000	of which cash flow hedge € '000	**Fair market value € '000**	of which fair value hedge € '000	of which cash flow hedge € '000
Assets						
Interest instruments	5,810	0	5,272	15,013	0	14,400
Currency instruments	296	0	0	10,292	0	1,227
Total assets	**6,106**	**0**	**5,272**	**25,305**	**0**	**15,627**
Equity and liabilities						
Interest instruments	35,092	365	34,695	29,581	562	29,018
Currency instruments	2,689	0	537	219	0	0
Total liabilities	**37,781**	**365**	**35,232**	**29,800**	**562**	**29,018**

The table overleaf presents the contractually agreed undiscounted debt service payments due on the primary financial liabilities and derivative financial assets and liabilities over time.

At 31/12/2007 the figures were as follows:

	Cash flows 2008 € '000	Cash flows 2009 € '000	Cash flows 2010 – 2012 € '000	Cash flows 2013 – 2017 € '000	Cash flows 2018 onwards € '000
Primary financial liabilities					
Liabilities to banks	– 235,244	– 36,521	– 5,678	– 1,287,415	0
Promissory notes	– 121,010	– 150,372	– 400,179	– 280,817	0
Trade payables	– 2,124,919	0	0	0	0
Liabilities to affiliated companies	– 183	0	0	0	0
Liabilities to associates	– 2,610	0	0	0	0
Lease liabilities	– 5,662	– 3,223	– 10,839	– 9,199	– 629
Other financial liabilities	– 2,316	– 2,231	– 7,978	– 9,685	0
	– 2,491,944	**– 192,347**	**– 424,674**	**– 1,587,116**	**– 629**
Derivative financial liabilities					
Derivatives used as hedges	691	– 653	– 4,458	– 7,975	– 299
	691	**– 653**	**– 4,458**	**– 7,975**	**– 299**

At 31/12/2006 the figures were as follows:

	Cash flows 2007 € '000	Cash flows 2008 € '000	Cash flows 2009 – 2011 € '000	Cash flows 2012 – 2016 € '000	Cash flows 2017 onwards € '000
Primary financial liabilities					
Liabilities to banks	– 158,683	– 10,054	– 179,797	– 899,131	0
Promissory notes	– 214,473	– 100,682	– 274,226	– 99,053	0
Trade payables	– 2,447,464	0	0	0	0
Liabilities to affiliated companies	– 24	0	0	0	0
Liabilities to associates	– 2,847	0	0	0	0
Lease liabilities	– 9,397	– 4,523	– 11,544	– 11,686	– 2,948
Other financial liabilities	– 14,642	– 2,185	– 3,676	– 6,222	0
	– 2,847,530	**– 117,444**	**– 469,243**	**– 1,016,092**	**– 2,948**
Derivative financial liabilities					
Derivatives used as hedges	– 3,741	691	– 3,503	– 7,988	– 1,895
Derivatives without hedge accounting	– 19	– 8	– 25	– 13	0
	– 3,760	**683**	**– 3,528**	**– 8,001**	**– 1,895**

On-call liabilities have been allocated to the earliest possible period in the table.

Notes to the balance sheet

Reconciliation of financial instruments to IAS 39 categories

	2006							
	Financial assets at fair value through profit and loss € '000	Financial assets held for trading € '000	Loans and receivables € '000	Available-for-sale financial assets € '000	No IAS 39 category € '000	Outside the scope of IFRS 7 € '000	**Carrying amounts € '000**	**Fair value € '000**
Assets								
Available-for-sale financial assets	0	0	0	39,072	0	0	39,072	39,072
Financial assets at fair value through profit and loss	50,589	0	0	0	0	0	50,589	50,589
Loans to associates	0	0	5,299	0	0	0	5,299	5,299
Other loans	0	0	39,825	0	0	0	39,825	39,825
Other financial assets	**50,589**	**0**	**45,124**	**39,072**	**0**	**0**	**134,785**	**134,785**
Trade receivables	**0**	**0**	**2,503,246**	**0**	**0**	**0**	**2,503,246**	**2,503,246**
Receivables from affiliated companies	0	0	984	0	0	0	984	984
Receivables from associates	0	0	34	0	0	0	34	34
Derivative financial instruments	0	834	0	0	5,272	0	6,106	6,106
Other assets	0	0	181,163	682	0	66,601	248,446	248,446
Other receivables and other assets	**0**	**834**	**182,181**	**682**	**5,272**	**66,601**	**255,570**	**255,570**
Bank balances	0	0	4,936	0	0	0	4,936	4,936
Cash in hand and cheques	0	0	4,708	0	0	0	4,708	4,708
Cash and cash equivalents	**0**	**0**	**9,644**	**0**	**0**	**0**	**9,644**	**9,644**

The fair value of financial assets at fair value through profit and loss corresponds to the number of shares multiplied by the share price on the balance sheet date.

The fair value of loans to associates and other loans corresponds to the net present value of the assets associated with the payments taking account of the current interest curves.

	2007							
	Financial assets at fair value through profit and loss € '000	Financial assets held for trading € '000	Loans and receivables € '000	Available-for-sale financial assets € '000	No IAS 39 category € '000	Outside the scope of IFRS 7 € '000	**Carrying amounts** **€ '000**	**Fair value** **€ '000**
	0	0	0	41,679	0	0	41,679	41,679
	51,390	0	0	0	0	0	51,390	51,390
	0	0	6,296	0	0	0	6,296	6,296
	0	0	47,613	0	0	0	47,613	47,613
	51,390	**0**	**53,909**	**41,679**	**0**	**0**	**146,978**	**146,978**
	0	**0**	**2,503,947**	**0**	**0**	**0**	**2,503,947**	**2,503,947**
	0	0	453	0	0	0	453	453
	0	0	27	0	0	0	27	27
	0	9,678	0	0	15,627	0	25,305	25,305
	0	0	218,286	0	0	25,174	243,460	243,460
	0	**9,678**	**218,766**	**0**	**15,627**	**25,174**	**269,245**	**269,245**
	0	0	3,256	0	0	0	3,256	3,256
	0	0	3,874	0	0	0	3,874	3,874
	0	**0**	**7,130**	**0**	**0**	**0**	**7,130**	**7,130**

Trade receivables, receivables from associates and other assets, current financial assets, cash and cash equivalents generally all have short terms. For this reason, their carrying amounts approximate their fair values on the closing date.

Notes to the balance sheet

	2006					
	Financial liabilities held for trading € '000	Other financial liabilities € '000	No IAS 39 category € '000	Outside the scope of IFRS 7 € '000	**Carrying amounts € '000**	**Fair value € '000**
Equity and liabilities						
Liabilities to banks	0	1,072,454	0	0	1,072,454	1,074,741
Promissory notes	0	619,667	0	0	619,667	620,213
Liabilities to associates	0	0	0	0	0	0
Liabilities to shareholders	0	0	0	0	0	0
Lease liabilities	0	0	0	25,559	25,559	25,559
Other financial liabilities	0	9,676	0	0	9,676	9,676
Non-current financial liabilities	**0**	**1,701,797**	**0**	**25,559**	**1,727,356**	**1,730,189**
Other non-current liabilities	**0**	**0**	**5,340**	**0**	**5,340**	**5,340**
Liabilities to banks	0	148,289	0	0	148,289	148,289
Promissory notes	0	12,838	0	0	12,838	12,838
Lease liabilities	0	0	0	7,123	7,123	7,123
Other financial liabilities	0	353	0	0	353	353
Current financial liabilities	**0**	**161,480**	**0**	**7,123**	**168,603**	**168,603**
Trade payables	**0**	**2,447,464**	**0**	**0**	**2,447,464**	**2,447,464**
Liabilities to affiliated companies	0	24	0	0	24	24
Liabilities to associates	0	2,847	0	0	2,847	2,847
Personnel liabilities	0	0	0	112,099	112,099	112,099
Other tax liabilities	0	0	0	51,640	51,640	51,640
Outstanding invoices	0	0	0	123,581	123,581	123,581
Derivative financial instruments	2,183	0	35,598	0	37,781	37,781
Interest liabilities	0	9,300	0	0	9,300	9,300
Other liabilities	0	45,111	17,853	42,972	105,936	105,936
Other current liabilities	**2,183**	**57,282**	**53,451**	**330,292**	**443,208**	**443,208**

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

	2007					
	Financial liabilities held for trading € '000	Other financial liabilities € '000	No IAS 39 category € '000	Outside the scope of IFRS 7 € '000	**Carrying amounts € '000**	**Fair value € '000**
	0	1,320,097	0	0	1,320,097	1,321,864
	0	692,057	0	0	692,057	696,600
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	21,383	21,383	21,383
	0	15,805	0	0	15,805	15,805
	0	**2,027,959**	**0**	**21,383**	**2,049,342**	**2,055,652**
	0	**0**	**18,561**	**0**	**18,561**	**18,561**
	0	228,788	0	0	228,788	228,788
	0	77,883	0	0	77,883	77,883
	0	0	0	4,019	4,019	4,019
	0	1,795	0	0	1,795	1,795
	0	**308,466**	**0**	**4,019**	**312,485**	**317,028**
	0	**2,124,919**	**0**	**0**	**2,124,919**	**2,124,919**
	0	183	0	0	183	183
	0	2,712	0	0	2,712	2,712
	0	0	0	115,421	115,421	115,421
	0	0	0	78,738	78,738	78,738
	0	0	0	145,705	145,705	145,705
	219	0	29,581	0	29,800	29,800
	0	14,215	0	0	14,215	14,215
	0	52,024	7,773	40,692	100,489	100,489
	219	**69,134**	**37,354**	**380,556**	**487,263**	**487,263**

Due to their short terms, the fair value of current financial liabilities, trade payables and other current liabilities correspond to their carrying amounts.

Notes to the balance sheet

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

	2006 € '000	**2007** **€ '000**
Financial assets at fair value through profit and loss	1,935	2,735
Financial assets held for trading	– 8,850	18,336
Available-for-sale financial assets	4,166	11,309
Loans and receivables	11,263	4,028
Other financial liabilities	– 91,469	– 147,076
Financial assets held for trading	11,346	0
Total	**– 71,609**	**– 110,668**

Measurement gains of € 188,000 on available-for-sale financial assets were recorded in equity in the reporting period (2006: € 1,121,000). No profits generated in prior years were transferred from equity to other investment income (2006: € 319,000).

(23) Contingent liabilities and other financial obligations

Warranties and guarantees stood at € 169,695,000 (2006: € 161,103,000) on the balance sheet date.

The warranties and guarantees were primarily issued by the Celesio Wholesale division in the United Kingdom of € 95,182,000 (2006: € 114,502,000) and Austria of € 25,429,000 (2006: € 23,565,000) as well as the Celesio Pharmacies division in Italy of € 1,643,000 (2006: € 18,132,000).

In the prior year Celesio AG issued the following guarantee for the benefit of its Irish subsidiaries (Celesio Wholesale and Celesio 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." According to the management board of Celesio AG, it is unlikely that a substantial risk will result from these guarantees. Consequently, these subsidiaries were exempted from certain disclosure requirements.

Other financial obligations	31/12/2006 € '000	**31/12/2007** **€ '000**
Rent agreements and operating leases due within one year	99,554	110,302
due after one year but not more than five years	302,873	319,623
due in more than 5 years	431,045	446,758
	833,472	**876,683**
Purchase price obligations associated with business combinations	9,795	9,474
Purchase obligations for capital expenditures	7,891	6,543
Property, plant and equipment	7,457	2,305
Intangible assets	114	3,417
Other assets	320	821
	851,158	**892,700**

Obligations related to rental agreements and leases are mainly attributable to the Celesio Wholesale and Celesio Pharmacies divisions in the United Kingdom of € 510,224,000 (2006: € 511,767,000) and to the Celesio Pharmacies in Ireland of € 123,306,000 (2006: € 114,202,000). In addition, future rental income of € 43,589,000 (2006: € 40,991,000) can be expected from sub-leases of property.

The purchase price obligations associated with business combinations relate to the acquisition of pharmacies in Belgium and additional shares in K.V. Tjellesen A/S, Denmark.

Notes to the cash flow statement

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

Changes in cash and cash equivalents from operating activities are calculated indirectly. This involves eliminating all non-cash items from the net profit or loss made by the group for the year such as depreciation or amortisation and considering the cash effects of changes in net working capital. Current operating assets include inventories, trade receivables and other assets. Current operating liabilities include trade payables, provisions and other interest-free liabilities. The changes in cash from operating activities include interest income of € 14,211,000 (2006: € 9,966,000), and interest payments of € 131,381,000 (2006: € 109,570,000). Income taxes resulted in cash payments of € 144,248,000 (2006: € 131,779,000).

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

Cash flows from investing activities comprise payments for capital expenditures, receipts from the sale of non-current assets, and the cash effects of acquiring and disposing of companies. Payments made for acquisitions of subsidiaries correspond with the payments of the purchase price less any cash and cash equivalents acquired. This also contains cash paid for the purchase of additional shares in companies that are already fully consolidated. In the prior year, non-cash investments in non-current assets amounted to € 418,000 relating to finance leases.

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

Notes on segment reporting

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

Internal organisational and reporting structures at Celesio are based on the business divisions of Celesio Wholesale, Celesio Pharmacies and Celesio Solutions as well as Others. The primary format used for segment reporting is by business division.

Notes on segment reporting by business division

The Celesio Wholesale segment comprises the wholesale trading activities Celesio conducts with third-party customers. The Celesio Pharmacies segment includes all activities related to the services provided by pharmacies belonging to the Celesio Group. This includes the entire logistics chain starting with purchasing from the manufacturers through to selling to the consumers. The Celesio Solutions segment includes the provision of medicines related transport and logistics services for pharmaceutical manufacturers in the Movianto business unit as well as the strategic cooperation initiated with pharmexx during the prior year. The Others segment is used to report the activities of the parent, Celesio AG, and other non-operating companies. Consolidation of inter-segment activities is shown separately.

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

Segment profit pursuant to IAS 14 corresponds to the EBIT without considering the profit from associates accounted for using the equity method.

Segment assets and liabilities consist solely of operating assets and liabilities, i.e. financial liabilities and income tax receivables and liabilities have not been included pursuant to IAS 14.

Notes on segment reporting

The table below shows the reconciliation of gross assets/gross liabilities to segment assets/segment liabilities:

	31/12/2006 € '000	**31/12/2007 € '000**
Gross assets	7,926,495	8,343,177
Deferred tax assets	– 46,382	– 48,233
Long-term and short-term income tax receivables	– 68,753	– 59,268
Derivative financial instruments	– 6,106	– 25,305
Other assets	730	376
Segment assets	**7,805,984**	**8,210,747**
Gross liabilities	5,298,435	5,523,566
Deferred tax liabilities	– 55,720	– 85,572
Long-term and short-term financial liabilities	– 1,895,959	– 2,361,827
Income tax liabilities	– 130,308	– 145,438
Derivative financial instruments	– 37,781	– 29,800
Other liabilities	4	– 157
Segment liabilities	**3,178,671**	**2,900,772**

Capital expenditures are derived from the internal reporting and also contain non-cash additions to non-current assets.

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

Notes on segment reporting by geographical region

The segment entitled other countries contains the Netherlands, Austria, Norway, Spain, Portugal, the Czech Republic, Belgium, Ireland, Italy, Slovenia and Denmark and, up to the deconsolidation of PharmaFarm S.A. and Unipharm d.o.o., the countries Romania and Croatia.

Segment revenue is allocated to the region in which the revenue has been realised. Segment assets are allocated to the region in which the assets are located. Capital expenditures relate to non-current assets allocable to the segment.

Other notes

Related parties

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

There are contracts for management and other services in place with Franz Haniel & Cie. GmbH and its subsidiaries. In addition, the German companies of the Celesio Group are included in the fiscal unity for VAT of which Franz Haniel & Cie. GmbH is the parent.

Ongoing trade relations exist with associates.

The items from related party transactions are presented below:

	Franz Haniel & Cie. GmbH, Duisburg, and subsidiaries		Associates	
	2006 € '000	**2007** **€ '000**	2006 € '000	**2007** **€ '000**
Receivables and loans	984	**479**	41	**27**
Liabilities	24	**183**	2,847	**2,610**
Income	26	**34**	35,458	**37,427**
Expenses	730	**812**	32	**32**

Total remuneration and the structure of compensation paid to members of the management board and supervisory board are presented in the sections that follow.

Other notes

Statutory audit

The annual financial statements of Celesio AG, the main German subsidiaries and the consolidated financial statements were audited by Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft (PwC), Stuttgart. In the fiscal year, expenses for services rendered by PwC Deutschland totalled € 475,000 (2006: € 601,000). Of this amount, € 418,000 (2006: € 419,000) related to statutory audits while € 57,000 was spent on other services (2006: € 182,000).

In the course of the audit of the consolidated financial statements, the subsidiaries were also audited by auditors from the PricewaterhouseCoopers network and other audit firms. The audit costs for the group totalled € 2,857,000 (2006: € 2,595,000).

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

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

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

Notices from shareholders

According to a notice dated 02/04/2002 pursuant to Sec. 41 (2) Sent. 1 WpHG [Wertpapierhandelsgesetz: Securities Trading Act], Franz Haniel & Cie. GmbH, Duisburg, Germany, held a total of 60 % of the voting rights in Celesio on 01/04/2002. Franz Haniel & Cie. GmbH prepares consolidated financial statements containing Celesio AG and its subsidiaries. These consolidated financial statements are published in the electronic Bundesanzeiger [German Federal Gazette].

According to Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 52.9 % (2006: 52.9 %) at the end of the reporting period.

Corporate governance

The management board and supervisory board last issued a declaration of compliance with the recommendations of the German Corporate Governance Code pursuant to Sec. 161 AktG [Aktiengesetz: German Stock Corporation Act] on 13/12/2007 and published this on their website at www.celesio.com.

Total remuneration and remuneration structure of the management board

Total remuneration paid to the management board in the 2007 fiscal year amounted to € 7,201,000 (2006: € 8,221,000). Of this amount € 1,567,000 (2006: € 1,513,000) was fixed remuneration, € 4,633,000 (2006: € 5,278,000) performance-related remuneration (profit bonus) and € 1,001,000 (2006: € 1,430,000) remuneration with long-term incentive (strategy bonus). An amount of € 104,000 was paid as an advance on the performance-related remuneration. In addition to these short-term benefits, € 300,000 (2006: € 246,000) was added to the pension provisions. There is no share-based compensation programme in place at Celesio AG.

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

Total remuneration paid to the management board is based on an appropriate balance between the tasks and performance of the members of the management board and the economic situation of Celesio AG. Total remuneration of management board members comprises a fixed monthly salary and a performance-based variable component. Fixed remuneration consisting of the basic salary and instalments of performance-related remuneration are paid as a monthly salary. The benefits in kind are limited to the use of the company car and must be taxed by the members of the management board. The variable component is made up of a profit bonus and a strategy bonus. The members of the management board also received direct pension commitments. The amount of the commitment depends on the fixed salary and the possible period of service, and is thus not tied to the variable components of the remuneration. Benefits in the event of termination of service have not been promised to the members of the management board.

Other notes

Profit bonus
The profit bonus is measured on the cash flow of the Celesio Group and is calculated as a percentage of it.

Strategy bonus
The measurement base used for this bonus is the performance indicator, EVA (Economic Value Added*). The strategy bonus is therefore dependent on the development of any value added to the company in excess of the total cost of capital.

Former board members and their survivors received payments totalling € 280,000 in the year under review (2006: € 269,000). Celesio AG recognised pension provisions of € 3,740,000 for this group (2006: € 3,743,000).

In the 2007 fiscal year, Celesio AG neither granted credit to management board members, nor did it enter into any contingent liabilities in favour of these persons.

Total remuneration and remuneration structure of the supervisory board

The remuneration paid to the supervisory board is defined in Sec. 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. These payments are net of VAT which must be added as applicable. The chairman receives twice the standard amount paid to the other members of the supervisory board and the deputy chairman receives one and a half times the standard. Each member of a committee – with the exception of the committee founded to satisfy Sec. 27 (3) MitbestG [Mitbestimmungsgesetz: Co-determination Act] – receives € 2,000, with the chairman of a committee receiving € 4,000.

Total remuneration paid to the supervisory board in the 2007 fiscal year amounted to € 1,259,000 (2006: € 1,172,000). Of this amount, € 68,000 (2006: € 68,000) was attributable to fixed remuneration paid for membership of the supervisory board, € 1,177,000 (2006: € 1,090,000) for variable components pegged to dividend payouts for membership in the supervisory board plus € 14,000 (2006: € 14,000) for committee activities.

* Registered trademark of Stern Stewart & Co.

Prof. Zahn did not render any consulting services for GEHE Pharma Handel GmbH in the year under review. In the prior year he received a fee of € 2,000.

In the 2007 fiscal year, Celesio AG neither granted credit to supervisory board members nor did it enter into any contingencies in favour of these persons.

Share ownership and transactions subject to mandatory disclosure

The accumulated shareholding (including options and the like) of members of the management board and members of the supervisory board of Celesio AG remained below 1 % of the company's total outstanding shares throughout the 2007 reporting period.

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

Proposal from the management board for the appropriation of profits

The profit of Celesio AG available for distribution amounts to € 130,977,000.00 (2006: € 127,575,000.00).

The management board proposes distributing this amount of € 130,977,000.00 in full (2006: € 127,575,000.00) as a dividend for the 2007 fiscal year.

Based on this proposal for the appropriation of profits, the dividend per share amounts to € 0.77 (2006: ordinary dividend of € 0.75).

Stuttgart, 12 February 2008

The management board

Members of the management board

	Membership in other management boards and comparable bodies:	Membership in supervisory boards and comparable bodies:
Dr Fritz Oesterle Chairman and Chief Executive Officer	Management board, Franz Haniel & Cie. GmbH	– Herba Chemosan Apotheker-AG, Deputy Chairman – Untertürkheimer Volksbank e.G. – Healthcare Services Group plc, Member of the Board of Directors (until 19/02/2007) – Norsk Medisinaldepot AS, Member of the Board of Directors (until 15/08/2007)
Stefan Meister Deputy Chairman		
Wolfgang Mähr		– GEHE Pharma Handel GmbH, Chairman – OCP S.A., Chairman – Herba Chemosan Apotheker-AG
Dr Felix A. Zimmermann		– Herba Chemosan Apotheker-AG (until 10/05/2007) – Kemofarmacija d.d., Deputy Chairman (until 09/08/2007)

Members of the supervisory board

		Membership in supervisory boards and comparable bodies:
Dr Eckhard Cordes Chairman	Chairman of the Management Board Franz Haniel & Cie. GmbH Chairman of the Management Board METRO AG (since 01/11/2007)	– Kaufhof Warenhaus AG, Chairman (since 01/11/2007) – Air Berlin PLC, Non-Executive Director of the Board of Directors – SKF Aktiebolaget, Member of the Board of Directors – TAKKT AG – METRO AG, Chairman (until 31/10/2007) – Rheinmetall AG (until 31/12/2007)
Ihno Goldenstein Deputy Chairman	Employee, Goods-In Department GEHE Pharma Handel GmbH	
Klaus Borowicz	Head of Branch Office GEHE Pharma Handel GmbH	
Prof. med. Julius Michael Curtius	Cardiologist	
Dr Hubertus Erlen	Deputy Chairman of the Supervisory Board Bayer Schering Pharma AG	– Bayer Schering Pharma AG Deputy Chairman of the Supervisory Board – Invest in Germany GmbH (since 12/12/2007) – Curatorium of the Bertelsmann Foundation
Dirk-Uwe Kerrmann	Commercial employee GEHE Pharma Handel GmbH	
Jörg Lauenroth-Mago	Trade union secretary responsible for the trade division for Saxony, Saxony-Anhalt, Thuringia at ver.di – Vereinte Dienstleistungs-gewerkschaft e.V.	– GEHE Pharma Handel GmbH
Ulrich Neumeister	Logistics employee GEHE Pharma Handel GmbH	
Hans-Martin Poschmann	Trade union secretary at ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	
Dr Ihno Schneevoigt	Member of the Management Board (retired) Allianz Versicherungs-AG Allianz Lebensversicherungs-AG	– Korn/Ferry International Corp., Board of Directors – Ströer Out-of-Home Media AG
Dr Klaus Trützschler	Member of the Management Board Franz Haniel & Cie. GmbH	– TAKKT AG, Chairman (until 31/12/2007), member (since 01/01/2008) – Allianz Versicherungs-AG – Bilfinger Berger AG – CEMEX Deutschland AG (until 22/05/2007)
Prof. Erich Zahn	Professor of Business Studies University of Stuttgart	– Board of Trustees of the Fraunhofer Institute for Production Technology and Automation (IPA)

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting 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 for the remaining months of the financial year.

Stuttgart, 12 February 2008

The management board

Dr Fritz Oesterle

Stefan Meister

Wolfgang Mähr

Dr Felix A. Zimmermann

Auditor's report

We have audited the consolidated financial statements prepared by the Celesio AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the Celesio AG for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 12 February 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Franz Wagner)	(Dieter Wißfeld)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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Websites

Celesio AG and companies in the Celesio Group

	www.celesio.com

Celesio Wholesale

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

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

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

Celesio Pharmacies

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

Celesio Solutions

Movianto	www.movianto.com
pharmexx	www.pharmexx.com

Glossary

Cash flow	Cash flow is an indicator of the financial health and earnings power of a company. At Celesio, the cash flow is calculated from the net income for the year plus depreciation and amortisation and after eliminating certain items of non-cash and non operational income and expenses.
Consolidated group	Those subsidiaries within a group that are included in the consolidated financial statements.
Corporate governance	The term corporate governance stands for responsible management and control of a company. The corporate governance standards were developed to enable comparison of the management structures of internationally operating companies. For German companies, these standards are collated in the German Corporate Governance Codex. There is a legal obligation for all publicly listed German companies to make an annual declaration on the extent to which they have complied with the recommendations.
Derivative financial instruments	Certificate or contract that is not an asset in its own right but relates to another – generally tradeable – asset. These financial instruments are also generally themselves tradeable. Examples are interest swaps, forward exchange contracts or currency options.
Earnings per share	Pursuant to IAS 33, earnings per share are calculated by dividing the net profit allocable to the shareholders of Celesio AG by the weighted average number of shares outstanding during the fiscal year.
EBIT	Earnings Before Interest and Taxes.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation.
Economic Value Added (EVA)*	The operating result is related to the total cost of capital, i.e. the costs of debt and equity. Value is added if the company returns a profit that is in excess of the cost of capital.
Employees	Number of employees including trainees, those doing military and community service, and those on maternity leave.
Equity method	Method used to consolidate associated companies in the consolidated financial statements. The investment is initially valued at acquisition cost and thereafter adjusted to reflect the development of equity at the associated company.
EURIBOR	Euro Interbank Offered Rate is the reference rate for forward securities in euros in interbank business, fixed each working day at 11.00 hrs (Brussels time).
Fair values	The measurement of a balance sheet item on balance sheet date at a value which can be realised on an active market, e.g. an exchange.
Finance leases	A lease by which the lessor primarily assumes the role of providing finance. Economic title passes to the lessee.
Gearing	A financial indicator for displaying the debt-equity ratio. It is calculated by dividing the net financial debt by equity.
GIRP	Groupement International de la Répartition Pharmaceutique Européenne. European Association of Pharmaceutical Full-line Wholesalers.
Hedging	Hedging interest, currency, and exchange rate risks by use for example of derivative financial instruments which limit the risk of the underlying transaction.
Interest cap	A guaranteed upper interest rate acquired for a premium. If market interest rates rise above the guaranteed upper limit, the buyer of an interest cap receives the difference from the seller of the cap.

* Registered trademark of Stern Stewart & Co.

International Financial Reporting Standard (IFRS)	International Financial Reporting Standards (IFRS) – formerly International Accounting Standards (IAS) – are issued by the International Accounting Standards Board (IASB) with the aim of harmonising international financial reporting and improving the comparability of financial statements.
Interest rate swap	An agreement between two parties to exchange interest payments on the basis of different interest rates. In this way, variable interest rates can be swapped with fixed interest rates.
LIBOR	London Interbank Offered Rate is the reference rate for forward securities in euros in interbank business, fixed each working day at 11.00 hrs (London time).
Market capitalisation	Market capitalisation reflects the current market value of a company. It is calculated by multiplying the share price by the number of shares. Market capitalisation, measured by the free float, is calculated on the basis of the shares in free float. The trading volume and market liquidity of a share frequently rise when market capitalisation is high and particular when the free float is high.
Net working capital	Financial indicator to measure the solvency structure of a company. Calculated as the difference between current operating assets (inventories, trade receivables and other assets) and current operating liabilities (trade payables, provisions and other liabilities).
Operating leases	A lease under which the lessor retains economic title to the leased asset.
Price/Earnings ratio	The share price of a company divided by earnings per share.
Risk management	Systematic procedure for identifying potential risks for the company, quantifying them and selecting and realising measures to mitigate the risk or reduce its possible negative impact.
Transaction risk	Exchange rate risk associated with the translation of currency, existing for balance sheet items in foreign currencies from creation until payment due to uncertainty regarding future exchange rate development.
Translation risk	Exchange rate risk associated with the valuation of balance sheet items, resulting from the valuation and accounting principles applied to the translation of items stated in foreign currencies.

General information

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

The financial statements and management report of Celesio AG for the 2007 fiscal year are published in the electronic Bundesanzeiger [German Federal Gazette]. The operator of the electronic German Federal Gazette transmits the documents to the Business Register; there the financial statements and management report are then available online to all free of charge.

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

Information on Celesio shares

ISIN code	DE000CLS1001
Securities ID code	CLS100
German stock exchange code	CLS1
Reuters code	CLSGn
Bloomberg code	CLS1 GR

Financial calendar

Balance Sheet Press Conference, Stuttgart	12 March 2008
Celesio Analysts' and Investors' Conference, Stuttgart	13 March 2008
International Bankers Day, Stuttgart	17 March 2008
Annual General Meeting 2008, Stuttgart	30 April 2008
Interim Report, 1st Quarter 2008	13 May 2008
Interim Report, 1st Half-Year 2008	12 August 2008
Interim Report, 1st – 3rd Quarter 2008	13 November 2008

Subject to amendment

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

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the healthcare group

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