Annual Report 2008
Celesio in transition

celesio

History

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

Key financial figures 2008

Revenue	21,828.6 million euros
Change in revenue	– 2.3 per cent (+ 1.3 per cent**)
EBITDA	657.3 million euros
Change in EBITDA	– 22.0 per cent (– 15.9 per cent**)
Profit before tax*	412.2 million euros
Change in profit before tax	– 32.3 per cent (– 26.7 per cent**)
Net profit*	268.5 million euros
Change in net profit	– 38.3 per cent (– 32.7 per cent**)
Earnings per share*	1.56 euros
Employees***	37,746
Wholesale branches***	120
Pharmacies***	2,337

* Adjusted for impairment of goodwill
** In local currency
*** As of 31 December 2008

Earnings, Financial and Assets Position

		2004	2005	2006	2007	2008
Earnings position						
Revenue	€ m	19,152.6	20,491.1	21,569.1	22,349.5	**21.828.6**
Change	%	3.2	7.0	5.3	3.6	**– 2.3**
EBITDA	€ m	683.8	745.9	803.7	842.5	**657.3**
in relation to revenue	%	3.57	3.64	3.73	3.77	**3.01**
EBIT	€ m	590.3	648.2	685.8	727.7	**256.2**
adjusted for impairment of goodwill	€ m	590.3	648.2	685.8	727.7	**543.2**
in relation to revenue	%	3.08	3.16	3.18	3.26	**2.49**
Profit before tax	€ m	495.1	554.5	590.1	608.8	**125.2**
adjusted for impairment of goodwill	€ m	495.1	554.5	590.1	608.8	**412.2**
in relation to revenue	%	2.59	2.71	2.74	2.72	**1.89**
Net profit	€ m	339.2	*386.0	425.6	435.4	**– 18.5**
adjusted for impairment of goodwill	€ m	339.2	*386.0	425.6	435.4	**268.5**
Earnings per share	€	1.97	*2.24	2.49	2.53	**– 0.12**
adjusted for impairment of goodwill	€	1.97	*2.24	2.49	2.53	**1.56**
Financial position						
Cash flow	€ m	433.3	*491.9	590.0	500.2	**455.6**
Free cash flow	€ m	189.9	– 142.1	287.5	– 485.9	**14.5**
Capital expenditure	€ m	178.4	579.5	357.1	692.3	**278.1**
of which investments in operating business	€ m	93.1	117.7	151.0	143.4	**127.9**
of which acquisitions and new openings	€ m	85.3	461.8	206.1	548.9	**150.2**
Assets position						
Non-current assets	€ m	2,713.1	3,225.1	3,446.8	3,866.9	**3,287.1**
Shareholders' equity	€ m	1,951.9	2,284.2	2,628.1	2,819.6	**2,269.6**
Long-term capital	€ m	2,990.4	4,359.7	4,535.2	5,059.4	**4,438.9**
Total assets	€ m	6,531.1	7,511.7	7,926.5	8,343.2	**7,523.3**
Share of total assets						
Non-current assets	%	41.5	42.9	43.5	46.3	**43.7**
Shareholders' equity	%	29.9	30.4	33.2	33.8	**30.2**
Long-term capital	%	45.9	58.0	57.2	60.6	**59.0**

* Adjusted to take account of trade tax refund totalling 38.9 million euros net (52.9 million euros gross)

Celesio is one of Europe’s leading trading companies and service providers for all aspects of pharmaceuticals. As of 31 December 2008, 37,746 people were employed by the group. Celesio is active in 14 countries. Its three divisions – Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions – cover the entire spectrum of pharmaceutical trade and pharmaceutical-related services. Celesio’s 2,337 own local pharmacies, as part of Patient and Consumer Solutions, serve over 550,000 customers in seven countries every day. 120 wholesale branches, which belong to Pharmacy Solutions, supply over 35,000 pharmacies in twelve European countries daily. In the Manufacturer Solutions division, Celesio offers pharmaceutical manufacturers logistics and distribution solutions and supports them in sales and marketing.

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Celesio in Transition

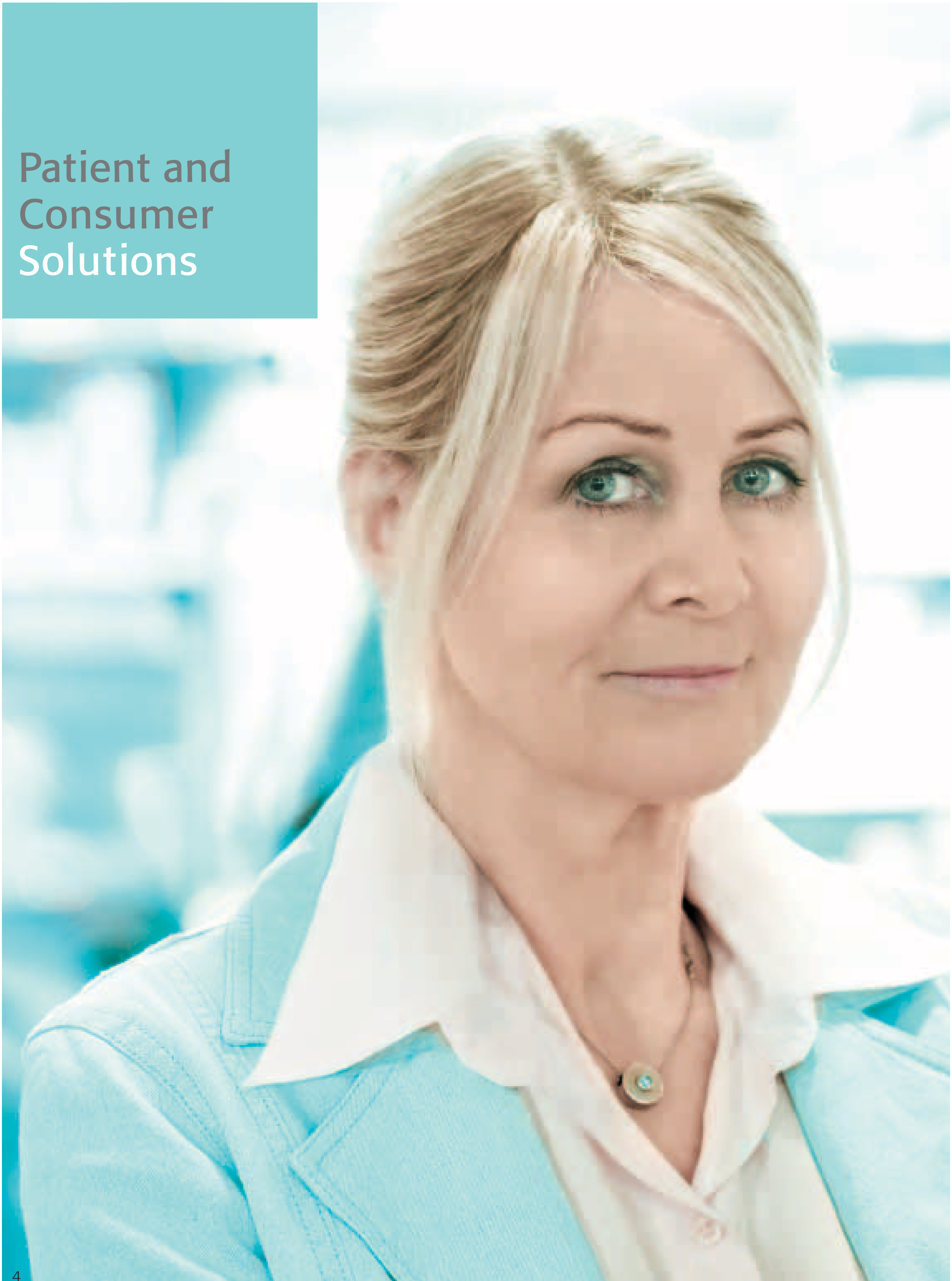
Celesio is confronting the changes in the pharmaceutical market and gearing its entire organisation towards its customers. It is becoming an even more integrated trading and services company. Innovative solutions and concepts which serve and benefit the customer are central to what Celesio offers. The company's activities are organised in such a way that customers find it straightforward to take advantage of Celesio's entire range of services.

Between mid-2007 and the end of 2008, Celesio worked intensively on the strategic and organisational reorientation of the company. Celesio (turnover in 2008: 21.8 billion euro, 37,746 employees) is taking on the challenges of a pharma and healthcare market in transition. With a clear focus on customers, the company is shaping up for further growth. Celesio aims to satisfy all requirements of its customer groups even more comprehensively, clearly and flexibly than before. This goal will be supported by an organisational structure which has been adapted to these requirements. The business divisions are no longer based on business models, but rather on customer groups.

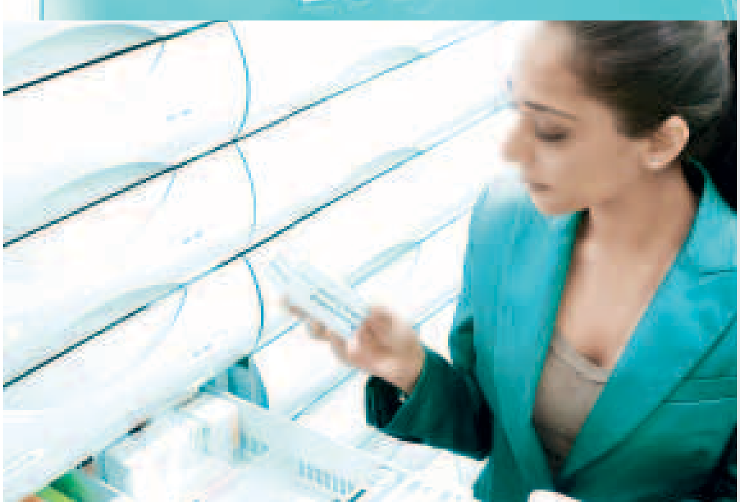
From now on, customers have a single contact for all their requirements. Patients and consumers speak to Patient and Consumer Solutions, pharmacists to Pharmacy Solutions and manufacturers speak to Manufacturer Solutions. Here they will receive a broad range of services and customised service packages. In order to be able to offer this, Celesio is in close contact with its customers: Celesio and its subsidiaries are organised accordingly at all levels – corporate, regional and national. The new organisational structure will ensure that all parts of the company cooperate smoothly. In order to enable additional customer groups to benefit from Celesio's integrated portfolio of products and services the company has introduced a new central department called Global Strategic Marketing and Business Innovation. Celesio is now positioned as a leading service provider in the pharmaceutical market for the future.


Manufacturer
Solutions
Patient and
Consumer
Solutions
Pharmacy
Solutions

Patient and Consumer Solutions



"My local Lloydspharmacy is the first place I go when it comes to the health of my family. I can always get in-depth advice there, as well as medicines and beauty products. My husband regularly goes to get his blood pressure and cholesterol level checked. For my mother, who has difficulty getting around and has to take medication regularly, the Lloydspharmacy mail-order service provides a convenient solution. A delivery service brings the medicines she needs straight to her home."



Customer group: Patients and consumers

Offer: Retail and mail-order pharmacies providing excellent advice, a broad range of services and fair prices

Many patients who go to the pharmacy want more than just to pick up a prescription. They expect to receive the best pharmaceutical advice and preventative healthcare services, without making an appointment and without having a long wait. Celesio is one of Europe's largest pharmacy operators and manages pharmacies in seven countries. More than half a million people receive advice and services in Celesio's pharmacies every day. The new Patient and Consumer Solutions division includes Celesio's local pharmacies, which ensure that patients and consumers can obtain medicines close to their home. This division also includes the mail-order pharmacies, such as Apotheke DocMorris in Germany and Lloydspharmacy in the UK. Both of these are pioneers in a rapidly growing market and occupy leading market positions. The concepts of the pharmacies – whether local or mail-order pharmacies – vary from country to country, but all 2,337 Celesio pharmacies have one thing in common: a focus on quality, advice and service.

Outstanding pharmacies offering top-quality advice

In order to meet its own high standards and those of its customers, Celesio continually invests in the professional development of its approximately 4,000 pharmacists and 17,000 pharmacy staff members. The awards regularly won by the pharmacy teams are proof of the value of this investment. In 2008 for example, Lloydspharmacy was named "OTC Retailer of the Year" for the second time running and won the "Pharmaceutical Care Award" for its cholesterol and heart tests.

Also in 2008, six of the ten best pharmacies in the Netherlands – which are determined each year in mystery consultations – were Celesio pharmacies, including the winner, LLOYDS Apotheek Someren.

From weight loss to blood sugar
Preventative healthcare in the pharmacy

"Please consult your doctor or pharmacist about any risks and side effects." This often quoted sentence goes to show what an important role pharmacies play in healthcare. The quality of the advice given is largely dependent on how well qualified the pharmacy staff are. Through systematic personnel management and comprehensive tailored training programmes, pharmacy chains can ensure that their employees have been trained to a high standard. In this way, pharmacy chains make a valuable contribution towards the safe and efficient provision of medicines. All Celesio pharmacy chains, for instance Lloydspharmacy in the UK, stand for this. Standardised health tests, developed in collaboration with doctors and pharmacists, have long since been tested and established. For example, since 2003, Lloydspharmacy in the UK has tested the risk of diabetes in more than 1.2 million people, nearly 60,000 of whom were advised to see a doctor. A risk test in the pharmacy is a simple means of protecting patients against the potential serious consequences of the disease, thus significantly reducing costs to the healthcare system. It is also an efficient method of strengthening the bond between the customer and the pharmacy.

Own label brands
Professional products at fair prices

In addition to numerous healthcare services, Celesio's pharmacies have another way of offering their customers extra value. In November 2008, Lloydspharmacy in the UK brought its own "Your Organics" skincare range onto the market, enabling the chain to offer top pharmacy quality at low prices. Especially when times are tough economically, a broad range of high-quality and affordable own label brands is appreciated by patients and consumers. Celesio pharmacies offer own label brands not only for cosmetics, but also for dietary supplements, electric diagnostic devices and medicines.

Thanks to group-wide cooperation, own branded products which sell well in one country can be quickly offered in other countries too. From March 2009, for example the "Your Organics" product range will also be available in Celesio's pharmacies in Ireland.

Well-known pharmacy brands give people a sense of security

Medicines are products which need to be explained and advised upon by professionals. The quality of this consultation can vary widely, however, from one pharmacy to another. Patients and consumers therefore base their choice of pharmacy on brands which they trust. Celesio's strong pharmacy brands reflect a comprehensive range of services, expert advice and fair prices. Customers know that they will receive expert advice here.

Celesio pharmacy employees are ambassadors of the group's quality strategy. Satisfied customers and the success of this quality strategy motivate pharmacists and pharmacy professionals. Celesio's numerous employer awards are testament to this. For instance, in 2008, Unicarepharmacy in Ireland was named best employer by the independent Great Place to Work® Institute, whilst Vitusapotek was the only retail company to be voted one of the 20 best employers in Norway.

"I need to take medicines regularly for my thyroid. I've been ordering them from the DocMorris mail-order pharmacy for eight years now. It's secure, good value and very convenient for me. If I have any questions, I call the DocMorris pharmacists on the advice line."

Europe's largest mail-order pharmacy – save and reliable delivery of medicines by mail

Medicines delivered to your door: what seemed unthinkable just ten years ago has now become normal practice in many European countries such as the UK, Switzerland, the Netherlands and Germany. In the latter, the world's third-largest pharmaceutical market, Apotheke DocMorris was and is the market leader in a growing market. Over 1.25 million customers appreciate having their medicines delivered conveniently and securely by mail-order. They choose Apotheke DocMorris because of the low prices and the good advice. The DocMorris' pharmacists systematically check every medicine order for undesirable counter effects. With the aid of the patient's medication history, which gives an overview of medical prescriptions and OTC medicines purchased, DocMorris pharmacists can offer the customer the best possible advice at any time. In 2008, patients were informed of undesirable counter effects in over 50,000 cases thanks to this systematic checking. Doctors particularly appreciate the way potential interaction of medicines is systematically checked at DocMorris. The private consultation takes place either by telephone or in writing. This is especially important when it comes to sensitive health issues.

Pharmacy Solutions

"Celesio Pharmacy Solutions is a reliable partner for me. Whether I'm looking for a location, pharmacy fittings, reliable delivery of medicines, marketing or partner programme, this is where I find customised solutions for my two pharmacies."

Customer group:	Pharmacies
Offer:	Everything that pharmacies need and that makes them successful

Whether a pharmacist is looking for a reliable pharmaceutical wholesaler offering the full range of approved medicines at good prices, or requires a location for a pharmacy, Celesio offers solutions to match every requirement. The new Pharmacy Solutions division concentrates on doing business with pharmacies. It incorporates the European wholesale business which is managed by subsidiaries such as OCP in France, AAH in the UK and GEHE Pharma Handel in Germany. Celesio wholesalers supply around 35,000 pharmacies in twelve European countries with the full range of pharmaceuticals for the country in question. However, Celesio offers pharmacies much more: business advice, product range configuration, category management, advanced training for pharmacy employees and marketing. These are services which will make the individual pharmacy stand out from the competition.

For 20 years, Celesio wholesale customers in France have received a wide range of purchasing benefits and effective marketing support from the Pharmactiv brand.

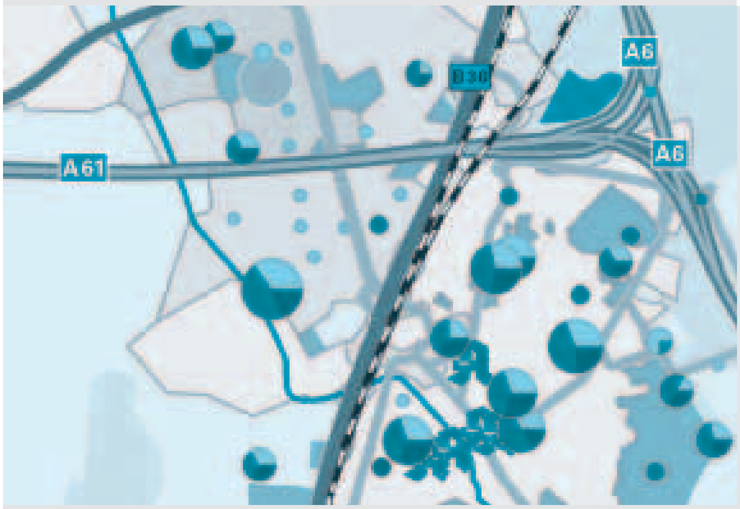
In Germany, GEHE Pharma Handel offers pharmacies a comprehensive range of services including high-quality own branded products through the "gesund leben" (live healthily) cooperation. This equips the cooperating pharmacies with a highly effective product range which sets them apart from the competition.

The transport box
Medicines delivered safely

In order to guarantee the secure transportation of medicines to pharmacies, Celesio's wholesalers deliver temperature-sensitive medicines in special refrigerated boxes. The lids of the boxes contain sensors and a transmitter which stores information about its location, temperature, air humidity and exposure to light. The transport data is analysed in a central database. When the customer opens the delivered box, light shines in and signals to the sender that the delivery has arrived safely. Manufacturers also benefit from this innovation, as the entire logistics process is made transparent and they can enquire about the delivery process via the central database.

Perfectly equipped pharmacies

In order to make pharmacy design perfect down to the last detail, Rudolf Spiegel Versand, a specialist mail-order company for interior fittings and laboratory supplies in pharmacies, offers a comprehensive product range – from fridges to bicycle stands to work wear. Rudolf Spiegel Versand extends its operations beyond Germany into Austria and Switzerland.



Pharmacies within easy reach
High customer frequency thanks to good locations

Choosing the right location is an essential factor in the success of a pharmacy. Pharmacies have to be close to patients and consumers as well as to doctors.

However, not only medical practices and healthcare centres but also food retailers, specialist retailers and hypermarkets are attractive locations with high customer frequencies.

The location experts of the Celesio subsidiary Inten have many years of experience and finely polished concepts for procuring advantageous and attractively situated locations for pharmacists. To conduct a full analysis, using a specialist valuation model to highlight potential pharmacy sites. This shows the current competition, the number of medicines prescribed locally and customer frequency.

Not only innovative healthcare services are expected of pharmacies; the overall appearance of the pharmacy also makes a significant impression on the customer and encourages sales.

Those looking to rent a pharmacy at Inten can decide on the layout and furnishings. Property specialists advise the pharmacists, taking into account the requirements of each specific location. For example, ease of mobility for shopping trolleys in a pharmacy located within a shopping centre.

Manufacturer Solutions

"The pharmaceutical industry is experiencing unprecedented competition with regards to innovation. That's why we have to concentrate on our core competencies – the research and development of pharmaceuticals. Celesio provides us with complete logistics, marketing and distribution solutions for our medicines."

Customer group: Pharmaceutical manufacturers

Offer: Innovative solutions right through the pharmaceutical supply chain

With the logistics specialist Movianto, the strategic cooperation with pharmexx and the newly founded UK subsidiary Evolution Homecare, Manufacturer Solutions offers logistics, marketing and distribution solutions which are tailor-made for pharmaceutical manufacturers.

Doing business with pharmaceutical manufacturers is complex in many ways, and poses many challenges. Celesio addresses this complexity and develops customised concepts which make medicine provision efficient and secure. Many different indication groups, various medicines, diverse legal regulations and the demands of doctors, patients and industry partners have to be accommodated in this process. With this degree of complexity, there is a need for specialist knowledge, many years of experience and a consistent desire to attain the highest standards. This is what an integrated group like Celesio can deliver.

In its efforts to improve on performance, pharmaceutical manufacturers are increasingly calling upon specialist service providers such as Celesio. To enable it to serve the industry with customised and specially balanced service packages, Celesio has built a bridge which connects it directly with the pharmaceutical companies – its newly established sales structure Celesio Manufacturer Solutions Sales. The key account management operates on a regional basis and in close coordination with Celesio's customers. Only in this way can demand and supply be optimally aligned and form a working partnership.

Safely stored
Professionally transported
Intelligently handled

Logistics and logistics-related services for pharmaceutical manufacturers are bundled under the brand Movianto. Movianto has warehouses in ten European countries with a total capacity of 175,000 pallet spaces. This is where medicines are stored safely and, when necessary, chilled. Be it vaccines, anaesthetics, biopharmaceuticals or simple headache tablets, Movianto is the specialist for pharmaceutical logistics. Whether tracking medicine delivery with the latest electronic systems, or monitoring temperature, air humidity and exposure to light during storage and transport using radio frequency identification (RFID) technology – whenever things get complicated, Movianto is on hand with made-to-measure concepts.

Packaging and labelling
Customised and adapted to the market

UK, France or Germany – Movianto offers manufacturers all over Europe one-stop customised logistics services. In addition to storage and transport, the company takes care of country-specific packaging and labelling. Movianto also packages the medicines for the relevant market. Pharmaceutical manufacturers can rely on an international partner and greatly reduce their storage and administration expenses. Even services such as order acceptance, invoice issuing and accounts receivable accounting are included in Movianto's service portfolio as part of its professional supply chain management.

Classic sales force
Professional key account management
Successful product marketing

Pharmaceutical manufacturers are increasingly focusing on the research of medicines and the development of innovative products, thus creating a growth market for services which pharmaceutical manufacturers no longer count as core competencies. This is where pharmexx, a strategic cooperation partner of Celesio, comes into play. Cost-efficient personnel management and marketing solutions have been pharmexx's strength for years. In collaboration with the other Celesio units, these strengths are consistently expanded. Integrated and multinational solutions are part of everyday business.

pharmexx takes on extensive Sales representatives management even for high-revenue medicines, for instance in the cardiovascular sector. It also markets recent product launches to specialists. Pharmacy sales force is another of pharmexx's services, as are call centers for patients and doctors. Around 5,000 employees in 26 countries are available for the pharmaceutical manufacturers around the clock.

"Evolution Homecare ensures that our highly complex and sensitive medicines are stored, transported and above all taken correctly by the patient. Patients used to have to remain in hospital for the duration of their treatment. Now they can be released sooner and cared for reliably and proficiently by qualified nurses and carers. This is a great benefit, both to the patient and to the National Health Service."

Evolution Homecare
The best care at home

At the end of 2008, Celesio moved into homecare in the UK – a market which is still in its infancy. This means that Celesio is available where professional healthcare services and the expertise of an integrated organisation are in demand. Evolution Homecare gives expert, professional advice and provides medicines to seriously ill patients at home, who would otherwise have to visit a hospital.

Three closely interrelated interests support the demand for homecare services. Firstly, cost pressure on healthcare systems means that outpatient care is being promoted. Secondly, pharmaceutical manufacturers have to ensure that these high-value and sometimes complex medicines are being administered correctly in outpatient care. And thirdly, patients greatly appreciate being cared for in their family environment, rather than in a hospital or nursing home. Evolution Homecare understands how to convert these requirements into care concepts with its experienced team of specialists from companies, amongst others such as Lloydspharmacy, Movianto and Celesio's UK wholesaler AAH. In this way, Celesio becomes the connecting link between patients, the pharmaceutical industry and health insurance companies.

Integrated, intelligent service packages

Celesio has concentrated its innovative power

Patient and Consumer Solutions

Pharmacy Solutions

Manufacturer Solutions

Celesio is a diverse group: it is established in the pharmaceutical market in 14 European countries. Ideas are developed and new services are offered at all locations.

In order to provide all existing customers and new customer groups with intelligent service packages, Celesio launched the Global Strategic Marketing & Business Innovation department – GSM&BI for short – at the end of 2008. This is Celesio's innovation engine. One of this unit's tasks is to develop new cross-divisional service packages through drawing upon existing knowledge and experience from within the company. In doing so, GSM&BI takes advantage of the enormous performance potential of Celesio's 37,746 employees. The second task for GSM&BI is to unlock new customer groups and business segments for the group. This is a matter of quickly recognising the basic trends in the rapidly growing healthcare market and consistently orienting Celesio towards these trends.

Only those who understand the growth in importance that healthcare is going to experience over the coming years will recognise Celesio's potential and benefit from it. This is the domain of a professional team which has been able to secure the extensive cooperation of specialists from diverse fields. GSM&BI will thus ensure that innovative concepts and services are developed by Celesio for new customer groups and introduced on an international basis. After all, good ideas know no boundaries.

Summary of Company Development in 2008

- 2008 was a difficult year for Celesio. The company had to absorb a decline in revenue of 2.3 per cent and a decline in EBITDA of 22.0 per cent.
- The massive price cuts in the UK from 1 October 2007 burdened Celesio Pharmacies throughout the year in review. An increase in the pharmacy dispensing fee from 1 October 2008 could only compensate for this to a small extent.
- Celesio Pharmacies acquired or opened 101 pharmacies and participated in twelve others. This took place mostly in the first half of the year, as the acquisition market came to a standstill in all countries relevant for Celesio Pharmacies towards the end of the year.
- Celesio adjusted its goodwill by 287.0 million euros to 2,264.5 million euros. This non-cash measure applied to the pharmacy business in Belgium, the Netherlands, Ireland and Italy, here including the corresponding wholesale business in Bologna.
- The worldwide recession and financial crisis burdened income from over-the-counter medicines at the end of the year under review.
- The massive loss in value of the pound Sterling put a considerable strain on the earnings reported in euros.
- Over the past fiscal year, Celesio has set up a new organisational structure which is even more closely oriented towards the requirements of Celesio's customers. In this way, Celesio is further developing its traditional trading business into a customer-specific services business. Celesio presents this new structure in the chapter "Celesio in Transition". From the 1st quarter of 2009, Celesio will report using the new structure.

Chairman's Letter to Shareholders

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

Ladies and Gentlemen,

As expected, 2008 was a challenging year for Celesio, and it will not be the last of such years.

For the first time after 21 years, we were not able to increase revenue and earnings in 2008, compared with the previous year. In contrast to the record results in 2007, we have had to absorb a decline in revenue of 2.3 per cent and a decline in operating profit, the earnings before interest, tax, depreciation and amortisation (EBITDA), of 22.0 per cent. We knew that 2008 was going to be challenging at the beginning of the year. Which is why we said so at our balance sheet press conference for the 2007 fiscal year. At the Annual General Meeting, we stressed that 2008 would require a few deep breaths. Yet it could not have been predicted that 2008 would be quite as difficult as it proved by the end of the fiscal year.

We have had to deal with many adverse external factors in the 2008 financial year. Some of these factors were not unexpected. However, their extent and sustained impact could not have been foreseen. The more significant of these factors were, firstly, the the full year effect of the drastic cuts in reimbursement prices for generic medicines in the UK, dating from October 2007. Secondly, the unprecedented weakness of the British pound, which meant that our disclosure of profits in euro made in the UK "plummeted". Thirdly, the fall in the share price of Andreae-Noris Zahn AG (ANZAG), which led to a loss in the market value of our ANZAG investment. Finally, the ruinous discount competition in the German wholesale sector did not abate as quickly as had been expected.

These external consequences were accompanied by a fundamental transition in the entire pharmaceutical market. Distribution models and channels are developing which bypass not only traditional pharmaceutical wholesale but also the traditional local pharmacy business. Additionally, the traditional pharmacy is developing from a pharmaceutical retail business into a patient-oriented service provider, where dispensing pharmaceutical products is only part of the business activities. As a consequence of this transition, our business is also increasingly shifting from a trading business to a customer-specific services business.

Chairman’s Letter to Shareholders

In the course of 2008 we have adapted our entire organisational structure to these market changes. Up until this point, our structure was based on business models, and for the most part on the pharmacy and pharmaceutical wholesale business models. Our future organisation will reflect the fact that the client is at the centre of our activities to an even greater extent, and that we understand and can address their needs in a comprehensive way. Our new organisational structure allows us to keep pace with the increasingly rapid change in requirements, and thus demands of our customers. From 2009 we will initially have three business divisions, which will be named after the customer groups they are intended to serve. Celesio Pharmacies will become part of Patient and Customer Solutions. This new division will focus on all the requirements of patients and end-consumers. It includes our established pharmacy chains as well as our mail-order pharmacy business. Celesio Wholesale will be part of Pharmacy Solutions. This division’s activities are tailored to the demands and requirements of pharmacies. Naturally they will include the traditional pharmaceutical wholesale business, but are not limited to this. Celesio Solutions will become Manufacturer Solutions. This division will concentrate on pharmaceutical manufacturers and the services they require. These are activities that the pharmaceutical manufacturers do not regard as part of their core business and are increasingly outsourcing to external partners.

An overview of the new corporate structure, valid from 2009, can be found on the cover of this report. Please note that the annual report is divided into Celesio Wholesale, Celesio Pharmacies and Celesio Solutions for the last time. The new corporate structure calls upon our business divisions not only to operate within established structures, but also to approach the changes in their market, with regard to their individual customer groups, in an entrepreneurial manner and with new business activities and models. In order to be able to implement this across the group, we have strengthened inter-divisional cooperation within the new organisational structure at a national and a corporate level.

With our new organisational structure we are well equipped to fulfill the business potential presented by the changing pharmaceutical market. However, our new structure only provides the right framework, and no more. It is now the task of our divisions to create value using this framework. This will not and cannot be achieved overnight.

Our operating success in 2008, which partially compensated for the considerable external strains on our business, was overshadowed in the second half of the year by the global economic crisis. Even though the pharmaceutical market is largely independent of economic business cycles, Celesio was not immune to the effects of either the financial crisis or the start of the economic downturn. The demand for luxury cosmetics, over-the-counter medicines and dietary supplements came under particular pressure towards the end of the year under review. The extent of the indirect effects of the emerging recession on the development of the pharmaceutical market – via the spending power of the healthcare systems – remains to be seen.

Against a background of structural changes in the pharmaceutical market, a worldwide recession, and thus new limits and financial restrictions on healthcare systems with the possibility of further external strains on our business, 2009 will also be a challenging year for Celesio. Increased macro-economic uncertainty, country-specific market conditions and the market for pharmacy transactions which has come to a standstill have led to the decision to adjust our goodwill in four foreign markets. In the pharmacy business in Belgium, the Netherlands, Ireland and Italy, here including the corresponding wholesale business in Bologna, an extraordinary goodwill adjustment of 287 million euros has been made. This has no effect on our liquidity. Moreover, the goodwill adjustment does not influence our forecast for 2009, as the fundamental growth drivers of the pharmaceutical market remain intact. With a multitude of operational initiatives and our new organisational structure, we are well positioned for further growth and are therefore proceeding into 2009 at full steam. Thanks to our solid financing, we will continue to be in the position to approach new market territories and expand in current locations, should this be economically attractive. Our strong financial position enables us to potentially take advantage of certain acquisition opportunities.

Chairman's Letter to Shareholders

Independent of this are the growth opportunities which could result through the liberalisation of certain pharmacy markets in Europe. It is anticipated that the European Court of Justice (ECJ) will announce its ruling on the restriction of the freedom of establishment in the German and Italian pharmacy markets in the first half of 2009. The Advocate General to the ECJ ascertained, in his final opinions released on the 16 December 2008, that the restrictions in place in Germany and Italy could be retained. It is of utmost importance for us to gain reliability and clarity of the regulatory frameworks in place for the pharmacy business in all regions, including Italy and Germany. At a European level a decision by the ECJ is required. What exactly the frameworks will be in the end is a secondary matter for us, for we are prepared for various scenarios. This is particularly true for Germany, the largest pharmaceutical market in Europe. We are in an excellent position to cope with all eventualities in Germany with the Apotheke DocMorris brand, the DocMorris mail-order pharmacies, the DocMorris brand partnership model, GEHE Pharma Handel and Movianto Deutschland. All we need to know is in which direction we should push forward, as quickly and, ideally, as conclusively as possible.

Celesio's success has only been and will be possible thanks to the deep commitment of all our employees. I would like to thank them at this point in particular on behalf of my fellow board members. Especially in the past year, we have seen that together we can overcome difficult periods. Working on the new organisational structure has brought our employees closer together across national borders and different business divisions. It also served to strengthen the feeling that together, we will be able to successfully master the challenges which lie ahead.

We would also like to thank our shareholders for their confidence in us, particularly in the difficult year of 2008, in which our share price did not perform to our satisfaction.

Celesio's management board and employees will put in every ounce of commitment for our company and its shareholders.

Stuttgart, March 2009

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

Dr Felix A. Zimmermann
Chief Financial Officer
(until 30 April 2008)

Committed to health

Stefan Meister
Deputy Chairman of the Management Board
Personnel Relations Officer
Group Managing Director
Patient and Consumer Solutions

Wolfgang Mähr
Group Managing Director
Pharmacy Solutions and
Manufacturer Solutions

Dr Christian Holzherr
Chief Financial Officer
(as of 1 May 2008)

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Ihno Goldenstein
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Klaus Borowicz

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Dr Hubertus Erlen

Dirk-Uwe Kerrmann

Jörg Lauenroth-Mago (until 30 April 2008)

Susan Naumann (as of 30 April 2008)

Ulrich Neumeister

Hans-Martin Poschmann (until 30 April 2008)

Dr Ihno Schneevoigt (until 30 April 2008)

Hanspeter Spek (as of 30 April 2008)

Professor Dr Klaus Trützschler

Professor Dr Erich Zahn

Regina Zimmerling (as of 30 April 2008)

Committees

Personnel committee
Dr Eckhard Cordes (Chairman)
Dr Hubertus Erlen (as of 30 April 2008)
Ihno Goldenstein (as of 30 April 2008)
Hans-Martin Poschmann (until 30 April 2008)
Dr Ihno Schneevoigt (until 30 April 2008)

Audit committee
Professor Dr Klaus Trützschler (Chairman)
Klaus Borowicz (as of 30 April 2008)
Jörg Lauenroth-Mago (until 30 April 2008)
Ulrich Neumeister
Professor Dr Erich Zahn

Nominations committee
Dr Eckhard Cordes (Chairman)
Dr Hubertus Erlen

Arbitration committee
Dr Eckhard Cordes (Chairman)
Ihno Goldenstein
Jörg Lauenroth-Mago (until 30 April 2008)
Susan Naumann (as of 30 April 2008)
Dr Ihno Schneevoigt (until 30 April 2008)
Professor Dr Erich Zahn (as of 30 April 2008)

Report from the Supervisory Board

Dr Eckhard Cordes
Chairman of the
Supervisory Board

Ladies and Gentlemen,

In the 2008 fiscal year, the supervisory board performed all duties it was charged with in accordance with the applicable laws and bylaws with great care, and reviewed in detail the economic and financial development of the company and its strategic orientation. It advised the management board on leading the company and supervised its direction of the company. It was involved from an early stage in all decisions that were of fundamental importance to the company. There were again no conflicts of interest amongst members of the supervisory board in the year under review.

A trustful cooperation with the management board

Once again in 2008 the supervisory board and management board worked together through an intensive dialogue in an open and trusting way. The supervisory board was regularly and fully informed on the position of the company by the management board, both in writing and orally. In addition to the business reviews of individual divisions, earnings and financial position and corporate planning, the focus was on the development of the market environment, corporate strategy including organisational structure, risk management and compliance. The supervisory board gave its full attention to the risk situation. Any deviations from the planned business performance were highlighted in detail by the management board and discussed by the supervisory board. The corporate strategic orientation was agreed upon by both the supervisory board and the management board. Pursuant to the applicable laws and bylaws, after the management board's submission, and after a process of close examination, the supervisory board cast its vote on all management board reports and proposed resolutions.

Report from the Supervisory Board

The supervisory board reviews and advises

The supervisory board met for a total of four ordinary meetings, one constituent meeting and one meeting on the subject of corporate strategy. The supervisory board received written reports and proposed resolutions from the management board to prepare for the meetings. Each member of the supervisory board attended at least half of the meetings. Even outside of meetings, the supervisory board and the management board were in close contact. There were continuous discussions on the liberalisation tendencies in important European pharmacy markets, the effects of new distribution models implemented by pharmaceutical manufacturers and growth opportunities for Celesio. The current developments in the financial market crisis and the anticipated effects on the group were also a topic of meetings from the second half of the year onwards. Furthermore, the supervisory board ensured that the requirements of corporate governance and compliance were met.

At the first meeting of the year on 10 March 2008, the 2007 annual financial statements for Celesio AG and the consolidated financial statements were approved by the supervisory board on the recommendation of the audit committee and after close examination and consultation, and with consideration of the auditor's reports. The agenda for the annual general meeting on 30 April 2008 was decided upon. The board also reviewed the industry environment and corporate planning for 2008. In addition, the supervisory board approved Dr Fritz Oesterle and Stefan Meister's positions as chairman of the management board and deputy chairman of the management board respectively. The board also appointed Dr Christian Holzherr as a member of the management board responsible for finance, as successor to Dr Felix A. Zimmermann, with effect from 1 May 2008.

During the ordinary meeting of 30 April 2008, business development in the 1st quarter was discussed. The supervisory board also dealt with the audit mandate for the 2008 Celesio AG financial statements and consolidated financial statements and the report for the first six months of 2008. In the constituent meeting on the same day the new members of the supervisory board were welcomed and Dr Eckhard Cordes and Ihno Goldenstein were once again elected chairman and deputy chairman of the supervisory board respectively.

In the strategy meeting on 7 May 2008, the supervisory board was informed in detail about the group's strategic orientation in the light of current and expected market changes. The management board gave a detailed account of possible courses of action for Celesio as well as the current state of preparations for various scenarios. It reported on the planned new organisational structure. The development of Apotheke DocMorris, including market and brand management, was also analysed. The members of the supervisory board discussed and approved the plan to enter into home medicine provision and to develop a new business unit in the UK called Evolution Homecare.

The meeting on 9 September 2008 focused on further responses in Celesio Wholesale to the changes in the pharmaceutical market and measures to safeguard profits in the face of massive government intervention. In addition, on the advice of the personnel committee, the supervisory board approved the new remuneration system for the management board and the main contract items. Information of remuneration of the management board can be found in the corporate governance report (pages 36 to 41).

In the final meeting of the year on 19 December 2008, the supervisory board reviewed the opportunities and risks for business growth in 2009. There were detailed discussions on the possible developments in individual European pharmacy markets. The expansion plan presented on the issue was approved. The completed efficiency audit identified no significant need for change in the work of the supervisory board.

Report from the Supervisory Board

Efficiency through committee work

In order to be able to carry out its duties efficiently, the supervisory board has established four committees. It is their task to make decisions and where necessary to prepare meetings and decisions for the plenary supervisory board sessions. These are the audit committee, personnel committee, arbitration committee and nominations committee. An overview of the members of the committees can be found on page 28. With the exception of the audit committee, all committees are chaired by the chairman of the supervisory board. The chairman of the audit committee is Professor Klaus Trützschler. The supervisory board is given a regular detailed report of the committees' activities.

The audit committee met five times in the year under review. On 9 March 2008 the Celesio AG financial statements and consolidated financial statements for the 2007 fiscal year, the management report, the auditor's reports on the Celesio AG financial statements and on the consolidated financial statements, and the proposal for the appropriation of profits were examined. In addition, the board dealt with the current situation regarding accounting, risk management and compliance. After a selection procedure, the committee members decided on a recommendation for the appointment of a new auditor. On 29 April 2008 the audit committee adopted the recommendations for main audit areas for the 2008 fiscal year and for the scope of the auditor's mandate. The 2008 1st quarter interim report and the auditor's report on the inspection of the interim report were main topics of the meeting on 9 May 2008. On 7 August 2008 the major focus was the report for the first six months and the auditor's inspection. Topics in the meeting of 10 November 2008 were the interim report for the 1st to the 3rd quarters in 2008 including the auditor's inspection and the effects on Celesio of the financial market crisis.

The personnel committee met three times in the year under review. On 10 March 2008 it reviewed the renewal of the appointments of Dr Fritz Oesterle and Stefan Meister as chairman and deputy chairman of the management board respectively, as well as the appointment of Dr Christian Holzherr as member of the management board responsible for finance. In the meeting on 9 September 2008, the new remuneration system and the revised management board contracts were adopted. The focus of the meeting on 19 December 2008 was on determining the structure of the long-term incentive scheme to be applied in 2009.

The arbitration committee, which is required by the terms of the Mitbestimmungsgesetz [Co-determination Act], did not have to be assembled in the year under review.

In the meeting on 13 December 2007, the nominations committee discussed and decided upon the next steps in selecting candidates to be recommended to the supervisory board as proposed candidates. Over several discussions the nominations committee reviewed in detail the candidates for shareholder representative in the supervisory board and submitted a recommendation on 7 March 2008.

Corporate governance

The supervisory board regularly reviews the application and enhancement of corporate governance rules. Once again in 2008, Celesio observed the code recommendations with the exception of only two cases. In line with recommendation 4.2.2 of the code, the appropriateness of management board remuneration was discussed and the remuneration system was adopted. The management board and supervisory board's joint report on corporate governance can be found on pages 36 to 41. The updated declaration of compliance as approved by the management board was passed in the supervisory board meeting on 19 December 2008 and published soon after on the company website. The supervisory board also carried out the regular efficiency audit of its activities in this meeting. It was not necessary to establish any means to increase efficiency.

Report from the Supervisory Board

Financial statements for Celesio AG and consolidated financial statements

The Celesio AG financial statements and consolidated financial statements and the joint management report as of 31 December 2008 were examined by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Germany, and each was awarded an unqualified auditor's report. In line with the recommendation of the audit committee of the supervisory board, and the decision of the annual general meeting of 30 April 2008, the supervisory board issued the audit mandate.

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 25 March 2009, 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 confirmed. 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 2008, the management board submitted to the supervisory board the report concerning the relationship with affiliated companies for the 2008 fiscal year pursuant to § 312 Aktiengesetz [German Stock Corporation Act], together with the auditor's report pertaining to this point as produced by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 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 the auditing report pertaining to it. The supervisory board raises no objections to the final declaration made by the management board contained in this document.

Changes in the supervisory board and the management board

Following the annual general meeting on 30 April 2008, Jörg Lauenroth-Mago, Hans-Martin Poschmann and Dr Ihno Schneevoigt resigned from the supervisory board. The supervisory board thanks them for their constructive and trusted work. Susan Naumann, Regina Zimmerling and Hanspeter Spek were elected as new members of the board. After almost four years of service as Celesio AG's chief financial officer, Dr Felix A. Zimmermann resigned from the management board. His successor, Dr Christian Holzherr, was appointed to the management board. The appointments of Dr Fritz Oesterle as chairman of the management board, and Stefan Meister as deputy chairman of the management board and personnel relations officer were extended by a further five years. The supervisory board would like to express its thanks to Dr Felix A. Zimmermann for his great dedication over the past years.

The supervisory board would like to thank the management board and all employees and acknowledge their great commitment, exceptional achievements and strong loyalty over the past year. The supervisory board believes that Celesio is well positioned to achieve profitable long-term growth, even in an environment marked by the uncertainties regarding the financial crisis and by government interventions in the healthcare market.

Stuttgart, March 2009
On behalf of the supervisory board

Dr Eckhard Cordes
Chairman of the Supervisory Board

Corporate Governance

Corporate governance is the responsible and transparent management and control of a business and is geared to long-term value creation. These principles have always been of great importance to Celesio. They serve to strengthen the confidence of our investors, customers, employees and the public in the group. Celesio has met most requirements of the German Corporate Governance Code for some time already.

Corporate governance is not limited to the management board and supervisory board. In order to ensure a high standard throughout the company, Celesio involves all of its employees in 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.

Celesio's auditors are also committed to the principles of good corporate governance. One of their many duties is to inform the supervisory board of any findings and events pertaining to the audit which might effect 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 independence.

Declaration of conformity 2008

In 2008, the management board and supervisory board continued to work intensively on the terms of the code. On 19 December 2008, the management board and supervisory board published the following approved declaration of compliance pursuant to § 161 Aktiengesetz [German Stock Corporation Act]:

Celesio AG has complied with the recommendations of the government commission German Corporate Governance Code [DCGK] in the version of 6 June 2008 with the following exceptions:

– The remuneration of the members of the management board is shown in the Annex to the group's Consolidated Financial Statements and in the Remuneration Report, which is part of the Corporate Governance Report, divided into fixed sum, performance-related and long-term incentive components. It was decided at the Annual General Meeting of Celesio AG on 27 April 2006 that the compensation will not be individually disclosed for each member of the management board (sections 4.2.4, 4.2.5 DCGK).

– In the Annex to the Group's Consolidated Financial Statements and in the Remuneration Report, which is part of the Corporate Governance Report, the remuneration of the members of the supervisory board is not individually disclosed for each member but as a total amount (section 5.4.6, subsection 3 DCGK).

Since issuing the declaration last year pursuant to the § 161 Aktiengesetz [German Stock Corporation Act], Celesio AG has complied with the recommendations of the government commission German Corporate Governance Code in the current version applicable since 6 June 2008 with the following exceptions:

– The remuneration of the members of the management board is shown in the Annex to the group's Consolidated Financial Statements and in the Remuneration Report, which is part of the Corporate Governance Report, divided into fixed sum, performance-related and long-term incentive components. The compensation was not individually disclosed for each member (sections 4.2.4, 4.2.5 DCGK).

– In the Annex to the group's Consolidated Financial Statements and in the Remuneration Report, which is part of the Corporate Governance Report, the remuneration of the members of the supervisory board was not individually disclosed for each member but as a total amount (section 5.4.6, subsection 3 DCGK).

Shareholders and 2008 annual general meeting

Instead of casting a vote in person at the annual general meeting, Celesio shareholders also have the option of authorising a Celesio proxy who is bound by instruction, or a third party, to cast their vote online. Each individual Celesio AG share entitles one vote.

More than 900 shareholders attended the annual general meeting on 30 April 2008 in Stuttgart. This represented more than 80 per cent of the share capital. As usual, Celesio offered a comprehensive annual general meeting online service. Shareholders were able to register for the annual general meeting and order entrance tickets on Celesio's homepage. Proxies and instructions could also be issued via the site. Shareholders who were unable to participate in person had the opportunity to follow the chairman of the management board's speech live on the Internet at www.celesio.com.

Corporate Governance

In addition to the agenda items required by law, the 2008 annual general meeting voted on the authorisation for the acquisition and appropriation of own shares as defined in § 71 Para. 1 No. 8 Aktiengesetz [German Stock Corporation Act], on the authorisation for the issuing of convertible bonds or bonds with warrants attached and creating contingent capital. The shareholders also elected the shareholder representatives to the supervisory board. The advice of the supervisory board on this matter was followed.

Transparency through comprehensive, up-to-date information

The prompt communication of comprehensive and transparent information to all shareholders, employees and the public is an integral part of good corporate management and communication at Celesio. Up-to-date information on developments and events is provided at www.celesio.com. Celesio publishes ad-hoc announcements, background reports and events and publication dates on the website. As well as the annual general meeting and the annual report, interim reports give detailed coverage of developments within the company and in the market throughout the year. Members of the Investor Relations department are on hand to deal with shareholders' queries personally by telephone, e-mail and at information events. Current press releases and further information are available on request via e-mail. Celesio also offers a free SMS service which provides information on closing share prices, with the option of daily or weekly reports.

Duties of the Celesio management board

The Celesio management board consists of four members, details of whom are given on pages 26 to 27. Its duties include the strategic orientation and the independent management of the company. It is responsible for compliance, corporate governance and efficient risk management. It is charged with increasing the value of the company on a long-term and sustainable basis.

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 activities of the supervisory board and its committees can be found on pages 30 to 33. The list of members of the supervisory board and the committees is displayed on page 28.

Supervisory board efficiency audit

The supervisory board regularly carries out an efficiency audit of its activities in accordance with the German Corporate Governance Code (section 5.6). An efficiency audit was carried out in 2008. According to the audit, the work of the supervisory board is of a high standard and there is no need for measures to improve efficiency.

Cooperation between the management board and the supervisory board

A trustful and close cooperation between the management board and supervisory board is a prerequisite for successful corporate management, as is discussed on page 29.

Corporate Governance

Share ownership and transactions subject to mandatory disclosure

The accumulated permanent shareholding of the management board and supervisory board members in the 2008 fiscal year remained considerably below 1 per cent of the shares issued by the company.

Any persons 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 euros. Celesio AG processed relevant reports pursuant to § 15a Wertpapierhandelsgesetz [Securities Trading Act] and published them on the Celesio website.

Remuneration report

The complete report on the remuneration of management board and supervisory board members is published in the group management report, starting on page 87.

Risk management

Risks and dealing with risks are part of the day-to-day business of Celesio. Responsible risk management is an integral part of good corporate governance. Details of Celesio's risk management are provided on pages 100 to 109.

Corporate compliance

The observance of all legal and contractual obligations is of top priority for Celesio as part of good corporate management. The same is also true for the company's internal guidelines. An effective compliance management including efficient analytical and testing mechanisms has been established and is developed and tailored to new challenges on a continual basis.

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, and approved on 31 December 2008 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

The pharmaceutical market is a sustainable growth market.

Key financial figures*		2004	2005	2006	2007	**2008**
Earnings per share	€	1.97	*** 2.24	2.49	2.53	**** 1.56**
Dividend per share	€	0.60	**** 0.70	0.75	0.77	**0.48**
EBITDA per share	€	4.02	4.38	4.72	4.95	**3.86**
EBIT per share	€	3.47	3.81	4.03	4.28	**** 3.19**
Cash flow per share	€	2.55	*** 2.89	3.47	2.94	**2.68**
Shareholders' equity per share	€	11.48	13.43	15.45	16.58	**** 15.03**
Share price (last trading day)	€	29.92	36.33	40.64	42.50	**19.40**
Number of shares outstanding (last trading day)	m	170.1	170.1	170.1	170.1	**170.1**
Market capitalisation (last trading day)	€ m	5,089.4	6,179.7	6,912.9	7,229.3	**3,299.9**

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

Key figures on the shares

Number of shares	170,100,000
Securities ID code	CLS100
ISIN code	DE000CLS1001
Ticker code	CLS1
Reuters code	CLSGn
Bloomberg code	CLS1 GR

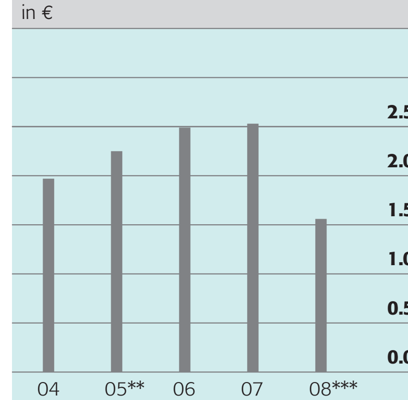
Celesio Shares

2008 was one of the most turbulent years for the stock exchange of the post-war period. Signs of pressure on the financial markets due to the US real estate crisis appeared at the beginning of the reporting year. Added to this were weak economic prospects and increasing energy and raw material costs. The worldwide financial crisis, the recession which occurred in the second half of the year, and the uncertainty regarding further business development, meant shares were no longer seen as a reliable type of investment. Celesio shares, which were already marked by the considerable effects of government intervention measures on business development, were also caught up in this. Celesio shares saw considerable falls in value amidst extraordinarily high volatility. Yet, now more than ever Celesio is able to offer long-term investors opportunities with favourable prospects in the growing pharmaceutical market and a solid financing structure.

Financial market crisis casts a shadow over the 2008 stock market

After four years of predominantly rising market prices, share indices worldwide collapsed in 2008. This was due to the effects of the US mortgage crisis on the entire banking industry and the resulting severe lack of investor confidence. Insolvencies and near insolvencies of banks created a vacuum that even affected industries outside of the financial sector. As a consequence, all major share indices closed at the end of 2008 with considerable declines. The downward trend was marked by high volatility and accelerated in the second half of the year. Compared to the start of the year, the German leading index DAX lost 40.4 per cent by 31 December 2008. It closed at 4,810.2 points. The MDAX, the index for midsize companies such as Celesio, recorded a decline of 43.2 per cent to 5,601.9 points.

Earnings per share*
in €



* Adjusted for share split 1 : 2
** Adjusted for trade tax refund
*** Adjusted for impairment of goodwill

A difficult year for Celesio shares

Celesio shares could not escape the effects of the negative market trend in the year under review. In the first half of the year, uncertainties over the effects of government measures on business development led to a decline in the price of Celesio shares. At the end of July the shares reached a new low for the year of 20.99 euros. With the publication of the half-yearly figures Celesio revised the profit forecast for 2008. One reason for this was the drastic cuts in reimbursement prices for generic medicines in the UK in October 2007. In addition, the lingering ruinous discount competition in the German wholesale market, the value of the pound and the fall in the market

Celesio Shares

value of the investment in Andreae-Noris Zahn AG had a negative effect on Celesio's profits. After the publication of the half-year figures the shares recovered significantly until mid-September and reached a share price of over 30 euros. The intensifying financial crisis and the increasing fears of recession it brought led to renewed decline in the Celesio share price in the following weeks. Celesio shares dropped to a record low for the year of 17.01 euros on 17 December after the Advocate General of the ECJ gave his final opinion. On 16 December, the Advocate General voiced objections, including one to changes in the German regulations on the third-party ownership ban. Celesio shares closed at 19.40 euros at the year's end.

Performance of Celesio shares
in €

The high volatility in the capital markets in 2008 was also reflected in the trading volume of Celesio shares: a total of around 186 million units were traded from January to December. This represents an increase of 52 per cent compared to the previous year (2007: 122 million). The average trading volume per day rose to 733,755 shares (2007: 485,665 shares).

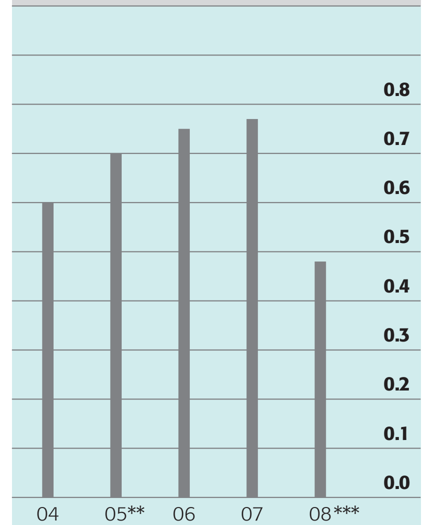
Dividend recommendation of 0.48 euro per share

Celesio has paid out approximately 30 per cent of the ordinary net profit for many years. The management board and the supervisory board will suggest at the annual general meeting on 8 May 2009 to pay out a dividend of 0.48 euro per share (2007: 0.77 euro).

Celesio ranks 4th in the MDAX

Celesio shares have been listed in the MDAX since this index was formed in 1994. According to the market capitalisation of the free float, it ranked 4th place in the MDAX with 1,583 million euros at the end of the year under review (2007: 8th place). The weighting in the MDAX was 3.62 per cent. Of all publicly listed companies in Germany, Celesio ranked 33rd, which placed it in the Morgan Stanley International Germany Index (MSCI Germany Index), which includes the 51 largest German companies by market capitalisation.

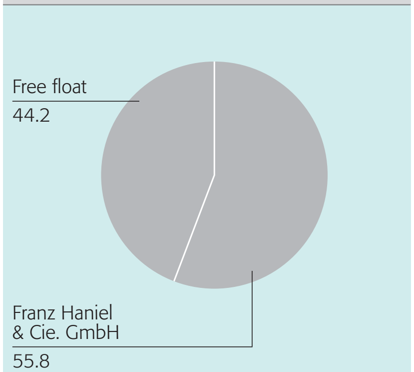
Dividend per share*
in €



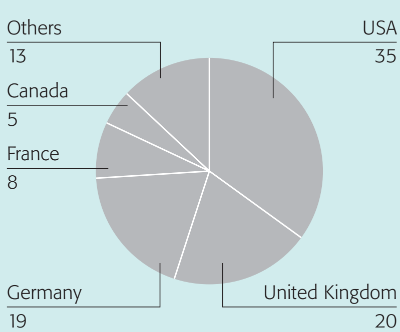
* Adjusted for share split 1:2
** Including special dividend due to trade tax refund
*** Adjusted for impairment of goodwill

Celesio Shares

Shareholder structure
in %



Distribution of the free float by country
in %



Source: Thomson Onebanker and Deutsche Bank, December 2008

Stable shareholder structure

Franz Haniel & Cie. GmbH was the major shareholder in 2008 with a holding of 55.8 per cent. The free float at the end of the year under review totalled 44.2 per cent of Celesio shares. The majority of the capital was held by institutional investors from North America and the UK. The holdings of private investors at the end of the year amounted to approximately 9.8 per cent of the free float.

Comprehensive Investor Relations work, despite difficult times

Close contact with analysts and with institutional and private investors is important for Celesio, particularly in times of turbulence and macroeconomic uncertainty. For this reason, in the year under review the management board and employees from the Investor Relations (IR) department sought to increase personal contact with analysts, shareholders and potential investors. An integral part of IR work is the Analysts' and Investors' Conference following the publication of the annual report, as well as the regular telephone conferences on the publication of the quarterly figures. Additionally, the management board and IR staff members presented information on current developments in the industry and within the company at twelve conferences and nine roadshows in eight countries. They also explained how Celesio will take advantage of opportunities in the pharmaceutical market and how the company will overcome possible challenges. Some of the main topics were the explanation of government intervention measures and Celesio's reaction to them, as well as the latest developments concerning the possible liberalisation of European pharmacy markets. Celesio's positioning and potential regarding alternative distribution models for pharmaceutical manufacturers were presented, too. Furthermore, there was great interest in the development of Apotheke DocMorris, its growth strategy and in particular new business activities and business models. As a consequence of the financial crisis, Celesio's financing structure also became a major theme for IR work in the second half of 2008.

Contact with private investors has long been very important to Celesio. In addition to the comprehensive information on the Celesio website, IR staff members also regularly provide information on Celesio in person. There were five organised events with banks and shareholder associations for private investors in Germany alone in 2008.

Keeping up to date with the Internet and SMS

A company's website is the basis for good IR services. Investors and interested parties can find all information on Celesio and its shares on the website: www.celesio.com. News, reports, presentations and speeches can be read and downloaded from the site. There is also the option of registering for an e-mail service to receive company news directly. Shareholders can register quickly and easily for the annual general meeting or issue proxy voting power to third parties. There is also a free SMS service, which provides those interested in Celesio's closing share prices with daily or weekly reports to their mobile telephones.

Celesio followed by 30 analysts

Celesio is being regularly and actively observed by an increasing number of international capital market participants. This has been documented by the large number of analysts who regularly report on the company. At the end of 2008, there were 30 analysts, two more than in the previous year.

At Celesio, 37,746 employees work for the health of others.

2008 Management Report Celesio Group and Celesio AG

Business and Business Environment

Celesio's market environment was marked by a pronounced dynamic in 2008. On the one hand, the financial crisis combined with the economic downturn led to a global economic crisis. On the other hand, the pharmaceutical market continued to go through a state of fundamental transition which had begun in 2007. Pharmaceutical distribution is increasingly evolving from a classic trading business into a customer-specific services business. These factors have influenced Celesio's activities in 2008, and they will continue to do so in 2009.

Macroeconomic conditions

Macroeconomic development in 2008 was marked worldwide by two phases: the first months continued to show solid economic growth, coupled with rapidly increasing raw material and energy prices and relatively high inflation. However, the mortgage crisis which had emerged in the USA in 2007 gradually escalated into a global financial crisis which began to have an increasing impact on the real economy. Growth in the industrial nations rapidly levelled off in the second half of 2008. It was only thanks to a good first six months and relatively stable development in the emerging markets that global economic growth of 3.4 per cent could be attained in 2008, as reported by the International Monetary Fund (IMF). For purposes of comparison, IMF data shows that global GDP growth stood at 5.2 per cent in 2007.

In the euro zone, too, growth levelled off significantly in the course of 2008. According to the European Commission, economic growth in the 15 member states fell from 2.7 per cent in 2007 to 0.9 per cent in 2008. The UK and France also had to bear a slump in economic growth to 0.9 per cent. Data from the German Federal Statistical Office reveals that growth in Germany stood at 1.3 per cent in 2008.

Economic crisis reaches consumers in Europe

After the banks and insurance companies, the automotive and mechanical engineering industries were particularly hard hit by the consequences of the financial crisis and the economic downturn at the end of the year. The falling demand for consumer goods and capital goods led to revised revenue and profit forecasts, in many cases accompanied by the announcement that production, and thus the number of employees, would have to be adjusted to the lower demand. This led to wider uncertainty among people all over Europe, and thus consumer spending started to decline. Based on the estimates of most research institutes, this downward spiral is set to continue in 2009.

Uncertainty over the future development of the economy, rising government deficits and higher unemployment have an effect – albeit less pronounced and certainly less direct than in other industries – on the healthcare and pharmaceutical market. Consumer restraint has a direct impact on sales in the so-called peripheral product range of pharmacies. This includes items such as high-quality cosmetics and perfumes, medical equipment and dietary supplements.

The financial and economic crisis can also indirectly affect the business of dispensing prescription medicines in the medium term. Experience shows that perceived job insecurity influences people's willingness to visit the doctor. The number of prescriptions made out alters accordingly. Similarly, rising government deficits and declining income from social insurance contributions can lead to further government cost-cutting measures in healthcare.

Market organisation and legal environment

Within the European Union, healthcare systems remain the business of the individual member states. There is no standard European healthcare system. In keeping with this, the legal frameworks for healthcare are also very different from one European member state to another. The European Commission has been endeavouring for some time to enforce basic freedoms throughout Europe, in particular the freedom of establishment – at least with regard to national restrictions on the ownership, opening and operation of public pharmacies. In particular, the European Commission regards the ban on third-party ownership as an infringement of European regulations. This forbids non-pharmacists and legal entities from owning and operating pharmacies. Therefore, up to the end of 2008, the European Commission has objected to the national restrictions on pharmacy ownership in Germany, Italy, France, Austria, Spain, Portugal and Bulgaria in so-called infringement procedure.

Due to the infringement procedure against Italy and the preliminary ruling procedure of a German court, restrictions in pharmacy ownership in Italy and Germany are already pending before the European Court of Justice. The oral hearings for both these proceedings were held on 3 September 2008. The final opinion of the Advocate General at the ECJ was published on 16 December 2008. In the view of the Advocate General, the opposed restrictions on pharmacy ownership do constitute an infringement of freedom of establishment within the European Community. However, the restriction of freedom of establishment within the community is justified, he concluded, because it serves the superior goal of securing the provision of healthcare. The ECJ is not bound to follow the opinion of the Advocate General. A ruling from the ECJ is expected in the first half of 2009.

Business and Business Environment

Regulatory Environment

State measures have always influenced Celesio's market environment and the options available to the company. They are a routine reaction to either greater spending by the healthcare system or a decrease in its income. Greater spending is driven by demographic development, innovations and the availability of new treatments. Regulatory intervention which is known about or anticipated is taken into account in company planning and compensated for over time by increasing operational efficiency. For instance, improvements are made to operating processes, the product range and purchasing conditions in order to reduce costs. Furthermore, Celesio invests in new services for its customer groups, i.e. pharmaceutical manufacturers, pharmacists and patients. The aim in doing so is to become active in more business segments which are based on the fundamental growth drivers of the pharmaceutical market, but are not directly subject to governmental regulation.

The task of wholesale and pharmacies is to ensure the provision of high quality medicines to the public. They are remunerated in various manners from country to country for doing this. In principle, pharmaceutical wholesalers buy the medicines from manufacturers and sell them to pharmacies – normally with a government-regulated surcharge on the manufacturer's selling price, which is also regulated in most cases. Pharmacies dispense medicines to their customers, and in return receive the pharmacy markup, which is a margin on the pharmacy purchase price or wholesale price. Another form of pharmacy remuneration is the pharmacy dispensing fee, which is a fixed fee, also prescribed by the state, which pharmacies receive every time they dispense a medicine or perform another service. If manufacturers or government offices reduce the price of medicines or health authorities reduce the remuneration of wholesalers and pharmacies, Celesio's turnover and profit is directly affected.

Following are brief details of the most important regulatory interventions during the period under review:

UK

The British government significantly cut spending on the provision of medicines in October 2007 by drastically reducing both reimbursement prices paid by the National Health Service for generics and the pharmacy dispensing fee. Consequently, all British pharmacies were subject to severe economic strain in 2008. On 1 October 2008, reimbursement prices for generics were cut again. At the same time, fees for pharmacy services were increased. The net positive effect resulting from these two measures stands at around 150 million pounds Sterling for the English market for the period of October 2008 to September 2009.

The increase in fees for pharmacy services is the result of a policy document, published by the British Department of Health in March 2008, which stresses and describes in detail the increasingly important role of pharmacies as healthcare service providers. However, there remain question marks over how the government will remunerate these additional services and how the recommendations in the policy document should be implemented.

The prices for branded medicines also started to come under pressure in the year under review. The British Department of Health terminated the Pharmaceutical Pricing Regulatory Scheme (PPRS) prematurely as of 31 December 2008. In accordance with the new PPRS, the prices for branded medicines are being reduced by an average of 3.9 per cent from 1 February 2009, and probably by a further 1.9 per cent from 1 January 2010. This will have an impact on revenue and profit from 2009, particularly of wholesale in the UK.

Business and Business Environment

France

The state remuneration system for pharmaceutical wholesale was altered on 1 March 2008. The wholesale margin was cut, and at the same time the absolute margin was capped.

Norway

In 2008, the Norwegian government made another adjustment to the step price model which had been in effect since 2005. This envisages a continuous reduction of the reimbursement prices for certain generic active ingredients.

Ireland

In March 2008, the Irish Department of Health reduced the reimbursement prices for prescription medicines. However, this measure was successfully opposed in courts by the Irish pharmacies, resulting in a return to the former reimbursement prices as of 1 October 2008. Whether and to what extent compensation will be paid in arrears for the period of 1 March to 30 September 2008 has yet to be decided by the courts.

Netherlands

In the Netherlands, prices for generics were reduced, as expected, by an average of 10 per cent from the start of 2008. Furthermore, in June 2008, the Dutch health insurance funds expanded their tenders for generic medicines, similar to the discount contracts in Germany. This so-called preference policy resulted in the Dutch pharmacies losing, in the majority of cases, the purchase margin they had previously earned when procuring generic medicines. Further uncertainty was brought about by a legal battle over the pharmacies' payments to the health insurance funds, the so-called clawback. The clawback was increased in December 2007 from 6.82 per cent to 11.30 per cent of the total amount billed for pharmaceuticals by the health insurance companies, but then cut to zero from 1 July 2008 following a court ruling. At the start of December 2008, the Dutch government decided to reintroduce the clawback at a rate of 6.82 per cent. In 2009 and 2010, the clawback will be increased by another 1.71 percentage points each year, but at the same time the pharmacy dispensing fee will be raised from 6.10 euros to 7.27 euros per medicine dispensed.

Portugal

In Portugal, the reimbursement prices for generic medicines were reduced by 30 per cent from 1 October 2008.

Austria

In the year under review, the Austrian social insurance system agreed a contract for a voluntary additional payment with the pharmaceutical wholesalers, the pharmaceutical industry and the pharmacies. This will provide the social insurance system with additional funds totalling approximately 206 million euros up to 2011. In accordance with this agreement, all Austrian wholesalers will pay an annual special payment of 2.6 million euros from 2009 to 2011. In return, the Austrian government will refrain from taking further cost-cutting measures which would burden the aforementioned contract parties up to 2011.

Business and Business Environment

Demographic development drives demand for medicines

Demographic development is and will remain a basis for an increasing demand for medicines. The reason for this is simple: as life expectancy rises, the proportion of older people in the total population increases, not just relatively, but also in absolute terms. Thus the European statistics office Eurostat expects that the number of people over the age of 80 living in the European Union will almost triple between now and 2060. Older people require considerably more medicines and healthcare services than younger people. Those over 60 in Germany spend three times as much on medicines as those under 60. In Europe, almost 50 per cent of all medicines are dispensed to those over 60.

In Eastern Europe and the BRIC countries (Brazil, Russia, India, China), life expectancy, per capita consumption of medicines and the average cost per medicinal product are at a fraction of the corresponding figures in the Western industrial nations. A considerable rise in life expectancy and thus a much greater number of older people is also anticipated in these countries. Demographic development, along with the need to bring the level of medicine provision into line with that of Western industrial nations, will make for disproportionately high growth in the pharmaceutical markets of Eastern Europe and the BRIC countries. But demographic trends, pharmaceutical innovations and people's desire to remain as healthy as possible into their old age will also mean that the pharmaceutical markets in the Western industrial nations will remain growth markets. The growth rates in these countries, however, will be in the low single-digit percentile range. The research institute IMS Health anticipates an average growth of around 4 per cent in the Western European pharmaceutical markets between 2009 and 2012.

Pharmaceutical market in transition

The classic supply chain of the pharmaceutical market remained stable for many years, and had a similar structure in most European countries, with only few exceptions. In this supply chain, manufacturers sold their medicines to pharmaceutical wholesalers. As full-line distributors, pharmaceutical wholesalers stocked medicines which had been approved for the relevant country and thus ensured a quick, reliable and efficient supply to the pharmacies. The pharmacies, for their part, had a monopoly on the dispensing of medicines. For a few years, developments on all levels of the pharmaceutical market have been causing this classic supply chain to change and evolve.

Product-driven changes

Changes in the product mix also influence the pharmaceutical market. For instance, the market shares of generic medicines (on a volume basis) and of biopharmaceuticals (on a value basis) is increasing. Generic medicines are replica products of medicines which have lost their patent protection. They are offered at a considerably lower price than the original medicines and are therefore very attractive to the payors in healthcare. When payors and generic medicine manufacturers negotiate sales directly and sign discount contracts, as they have done in Germany and the Netherlands, huge pressure is placed on the prices of generic medicines, sometimes resulting in cutthroat competition.

The manufacturers of biopharmaceuticals are increasingly requesting alternative forms of distribution to classic wholesale. These particularly sensitive medicines, which are extremely complex to manufacture, store and transport, are normally only dispensed in small quantities and at very high unit prices. Many products have to be stored and transported at low temperatures, for example. In addition, the manufacturers of these medicines require a large degree of control and transparency over the entire supply chain. These demands are met by specialist logistics companies, which ensure that the medicines are kept at the right temperature and are securely packed, either when in stock or when on the way to pharmacies, wholesalers, hospitals or directly to the doctor or patient. Special positioning systems and security labels are often necessary in such cases.

Business and Business Environment

Cost-driven changes in pharmaceutical distribution

The increasing pressure of competition from generic medicine suppliers, and the expiry of patents on numerous high-revenue medicines (so-called blockbusters) are leading to pressure on the normally stable profits of the research-based pharmaceutical manufacturers. Many major manufacturers see themselves forced to cut their costs and concentrate on their core competences – a phenomenon also due to the decreasing number of new blockbuster medicines being developed. The manufacturers regard their core competences as researching and developing innovative medicines. Business areas such as marketing, sales and logistics are being scrutinised, and activities in these areas are increasingly being outsourced.

Different distribution requirements

Not only new product specifications but also distribution requirements are placing different demands on logistics and distribution. For instance, pharmaceutical manufacturers would like more transparency and control over the path their medicines take through the supply chain. This is why new distribution models have become established in the UK which may also find their way into other European countries in a similar form, namely DTP (direct-to-pharmacy) models and variations on the wholesale model. In the case of wholesale variations, the pharmaceutical manufacturer delivers to a reduced number of wholesalers, normally two or three. The advantage for the manufacturer lies in the reduced complexity and costs. Whereas the selected partners retain their trade function in the wholesale variations, they are stripped of it in the DTP model. In the latter case, the distributor becomes a logistics service provider and does not gain ownership of the medicines. Instead, the distributor delivers the products to the customers, such as pharmacies, on behalf of the pharmaceutical manufacturer in return for a fixed fee agreed with the manufacturer.

Different distribution requirements can lead to considerable pressure on the European wholesale markets to consolidate, as fewer and fewer wholesalers will be able to supply all the medicines available on the market in the future. Innovative suppliers which have a wide basis and ensure nationwide coverage would profit from consolidation.

Such consolidation became noticeable in the German pharmaceutical wholesale market in the second half of 2008. The two cooperative wholesalers, which had previously only operated on a regional basis, each bought up other regional pharmaceutical wholesalers in order to gain a nationwide presence. This may not have marked the end of the German wholesale market's consolidation.

System-driven changes

Hospital inpatient care is increasingly being reserved for cases where it is medically necessary. Therefore, when it is a matter of carrying out medicinal treatment, a stay in the hospital is often being replaced by a form of homecare. This is leading to rapid growth in the market for medical care to the home. The demand is already being met by specialised companies known as homecare providers or specialty pharmacy providers. New, independent markets for these services have already emerged in the UK and the Netherlands. In other countries, this development is still in its infancy. However, the trend towards shorter stays in hospital is present in all healthcare systems.

Business and Business Environment

Mail-order pharmacies as an efficient distribution channel for chronically ill patients

More ways of obtaining medicines have developed in recent years for patients too. As well as using classic retail pharmacies, in some European countries they can also order medicines from authorised mail-order pharmacies. Such pharmacies are already established in Germany, the UK, Switzerland and the Netherlands, and they are just as tightly regulated as the retail pharmacies. Mail-order pharmacies, like any other pharmacy, source their products from pharmaceutical manufacturers and pharmaceutical wholesalers. Mail-order pharmacies provide a cost-effective, reliable and secure alternative, particularly for chronically ill patients with a constant need for medicines. As such, mail-order pharmacies reduce the healthcare system financially and make a sensible addition to the retail pharmacies, which, thanks to their accessibility, remain the first point of call for the medicinal needs of the majority of patients. The market share of mail-order pharmacies in Germany is currently in the low single-digit percentile range. Experts regard a mail-order market share of up to eight per cent in the pharmacy market in Germany as realistic in the medium term.

Pharmacy market in transition

Owing to pressure from Brussels, the traditionally highly regulated pharmacy market is in transition all over Europe (see page 53). The infringement procedure of the European Commission and the proceedings pending before the ECJ have led to performance competition intensifying in the pharmacy markets concerned. The classic wholesale business is adapting to these market changes. It is offering cooperations with independent pharmacies which strengthen their position amongst the competition. A study by the Institute for Commerce and International Marketing (H.I.Ma.) at the University of Saarland shows the appeal of brand cooperation for established pharmacies. In Germany, around 60 per cent of the independent pharmacies have affiliated themselves with one or several cooperation models, which exist in various forms. Several franchise-like systems have also established themselves on the market in the meantime. However, only a few of these cooperation models currently offer patients and consumers the same advantages which are regularly offered in pharmacy chains:
low prices in the non-price-bound segment and additional standardised prevention and diagnosis services. When these kinds of services are offered in pharmacies, the benefit to consumers is manifold. They do not have to make an extra trip to the doctor for health tests, and the test procedure and results analysis has in most cases been defined according to the latest scientific developments in the relevant field. These kinds of services are also in the direct interest of the payor, as easily accessible tests which are carried out in large numbers can particularly aid the early diagnosis of chronic diseases, such as diabetes. The sooner chronic diseases are treated, the more likely it is that the costs for treating secondary diseases can be limited.

Business and Business Environment

Corporate Strategy

Celesio's strategic orientation has one goal: to create long-term, sustainable value in a complex and rapidly changing environment on the basis of the pharmaceutical market's fundamental growth drivers. To achieve this, Celesio adapts to the needs of its customer groups. Based on customer requirements, Celesio has expanded its existing trade business step by step over recent years by offering additional services. This has allowed Celesio to become one of Europe's leading trading companies and service providers for all aspects of pharmaceuticals. From the start of 2009, Celesio's new organisational structure, which is oriented towards the various customer groups, has provided a framework in which it can work together with its customers to take advantage of the opportunities presented by a rapidly changing pharmaceutical market.

Growing in line with the market

The market for pharmaceutical services remains a growth market. However, traditional business models, such as full-line pharmaceutical wholesaling or classic retail pharmacies, no longer fully reflect the growth in the pharmaceutical markets. The path of medicines from the manufacturer to the patient was, for many decades, almost exclusively dominated by pharmaceutical wholesaling and classic retail pharmacies. Today, entirely new distributors and distribution forms help make up this chain. As well as the manufacturers' direct distribution models and mail-order pharmacies, the provision of medicines to the home is gaining in significance. This is why, as of 2004, Celesio has been building up the logistics services business Movianto, which provides solutions to match the new distribution requirements of the pharmaceutical manufacturers. In order to have a share in the growing mail-order pharmacy market, Celesio bought up Europe's largest mail-order pharmacy DocMorris in 2007. Since 2008, Celesio has been building up a business in the UK, Evolution Homecare, which provides patients with medicines and medicinal advice at home.

Just as the requirements for the distribution of medicines change, so does the demand profile of traditional Celesio customers. In the past, all that pharmacies expected from pharmaceutical wholesalers was for medicines to be delivered promptly, frequently, and at low cost. Today, pharmacies request numerous additional services, from marketing support and purchasing cooperations right through to own brands.

The expectations patients and consumers have of their pharmacies have also changed drastically. On the one hand, they no longer use the retail pharmacy for all their pharmaceutical needs, but are increasingly order medicines from mail-order pharmacies. On the other hand, patients and consumers expect a wider range of services from their pharmacy than the dispensary of usually prescription medicines. These might include preventive services such as diabetes and blood pressure tests, or specialist healthcare advice.

This differentiated demand structure of pharmaceutical market participants offers Celesio new opportunities for profitable growth, above all in non government-regulated segments.

Business and Business Environment

New organisational structure follows corporate strategy

Up to now, Celesio has operated in three business divisions: Wholesale, Pharmacies and Solutions. These business divisions followed a classic business model logic: Wholesale as a business model on the supply chain between manufacturers and pharmacies, Pharmacies as a form of distribution to end customers, and Solutions as a service provider for pharmaceutical manufacturers.

In a dynamic environment, marked by rapidly diverging requirements of the market participants, this structure is no longer ideally suited to serve Celesio's corporate strategy. Whilst oriented towards business models, Celesio was no longer able to systematically unlock the growth drivers of the market. This is why a new organisational structure was developed over the course of 2008, which was implemented throughout the group from 1 January 2009. This new organisational structure is oriented towards Celesio's customer groups; it replaces the previous structure based on business models.

Throughout the group, each individual business division will have the same name as the customer group which that division looks after: Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions. In accordance with this model, Celesio Wholesale will become part of Pharmacy Solutions, Celesio Pharmacies part of Patient and Consumer Solutions and Celesio Solutions will become Manufacturer Solutions. This customer-oriented structure is incorporated at all levels of the group – corporate, regional and national.

Of course, pharmaceutical wholesaling and the operation of retail pharmacies still remain by far the largest activities of their respective divisions, Pharmacy Solutions and Patient and Consumer Solutions. Therefore, the business activities which exist or are being introduced beside them have relatively modest business volumes for the time being, despite being fundamental elements of Celesio's growth.

Corporate structure

Divisions

Patient and Consumer Solutions	Pharmacy Solutions	Manufacturer Solutions
Business areas		
Retail Pharmacies	Wholesale	Movianto
Mail-order Pharmacies	Mail-order Pharmacy Equipment	pharmexx
Franchise Systems		Homecare
...	...	...

The new structure provides clear points of contact for each of the customer groups. New business segments and activities can be added according to a clear model and integrated into the individual business divisions. The new structure makes it clear to the outside observer that Celesio has more to offer to its individual customer groups than the traditional business models of wholesale and retail pharmacies.

Alongside the orientation of the business divisions to customer groups, new cross-sectional functions have also been created at group level, taking effect from 1 January 2009. These aim to support the systematic development of new services at every stage of the supply chain; and to ensure that the divisions can cooperate effectively, capitalise on potential for synergies, and develop and integrate new business areas.

With this structure, Celesio is prepared for the future and able to respond very flexibly, quickly, and above all actively to changes and trends in the pharmaceutical market.

Business and Business Environment

Growth opportunities
All of Celesio's business divisions will grow organically, geographically, and by entering new business areas.

By far the largest business areas of **Patient and Consumer Solutions** is that of retail pharmacies. 2,337 pharmacies in seven European countries belong to this areas. This makes Celesio one of the largest operators of retail pharmacies in Europe. The concepts of the retail pharmacies differ according to the various customer requirements and business environments of the countries. High quality, professional advice and a comprehensive range of services elevate the Celesio pharmacies from the competition wherever they are located.

The retail pharmacies have good opportunities for organic growth, even in the mature pharmaceutical markets. They are able to respond to the demand of their customers with new products and stand out from the competition thanks to their wide range of services. This organic growth potential is, however, curtailed time and again by government interventions. Nevertheless, burdens resulting from such government measures do not fundamentally change the medium to long-term growth potential of the existing retail pharmacy business.

Aside from organic growth opportunities, Patient and Consumer Solutions can expand the local pharmacy business by making acquisitions, founding new branches in existing markets, and entering new geographic markets. Experts anticipate that an increasing number of European governments will authorise third-party and multiple ownership of pharmacies in the future.

The mail-order pharmacy area constitutes a second pillar of Patient and Consumer Solutions. This includes Europe's largest mail-order pharmacy Apotheke DocMorris. The mail-order pharmacies business is also being built up in the UK. Celesio expects that the European mail-order pharmacy market will continue to grow over the next few years, and that it will do so more rapidly than the corresponding retail pharmacy markets. Experts anticipate that mail-order pharmaceutical sales in Germany will reach a share of around eight per cent of the entire pharmaceutical market. The organic growth opportunities which result from this for Apotheke DocMorris are obvious.

The new business division **Pharmacy Solutions** concentrates on the needs and requirements of pharmacies all over Europe. The core business area of Pharmacy Solutions is, and will remain, full-line pharmaceutical wholesaling. Smaller units already exist alongside this which, over the coming years, will be continuously expanded.

As a result of new distribution requirements, new sales models and pharmacological innovations with particular distribution requirements, the proportion of medicines which are distributed via traditional pharmaceutical wholesaling in the entire market will decrease. Growth opportunities in the pharmaceutical wholesale area therefore primarily result from further market consolidation.

The wholesale markets in Eastern Europe, and above all in the BRIC countries (Brazil, Russia, India, China), differ from those in Western Europe. These are regarded as pharmaceutical markets with considerable room for development. This applies to the range of pharmaceuticals, which is very narrow in some cases; to the underdeveloped demand for pharmaceuticals; and to the market structures. The forecast for these countries is therefore strong medium to long-term growth in the pharmaceutical wholesale markets. This is why geographic expansion of pharmaceutical wholesale in such growth markets is a top priority for Pharmacy Solutions. However, acquisitions in this segment cannot be planned with certainty. This was demonstrated in the case of the negotiations between Celesio and a Russian wholesale company which were announced at the end of 2007. It was not possible to realise the intended cooperation in 2008. Celesio is observing all the markets relevant to an expansion of the pharmaceutical wholesale segment very thoroughly and precisely.

Pharmacy Solutions is connected to over 35,000 pharmacies in Europe via its pharmaceutical wholesale activities. Based on this strong presence, and thus the excellent knowledge of the needs of pharmacies, Pharmacy Solutions will develop more services and product portfolio and offer them to pharmacies. This will strengthen the competitive position of the customers – whether independent pharmacies or pharmacy chains – and it presents the Pharmacy Solutions division with growth opportunities outside of its established wholesale business. Just one example of additional products and services being offered to pharmacies is the still relatively small segment of mail-order pharmacy fittings. Rudolf Spiegel Versand belongs to this segment and deals in pharmacy fittings and supplies. The product range includes everything from special pharmacy fridges and advertising materials right through to staff clothing. Over the past few years, Rudolf Spiegel Versand has expanded its original German business into the Swiss and Austrian markets. Entry into new geographic markets is currently being planned. Rudolf Spiegel Versand has belonged to Celesio since 2006, and was previously part of its German pharmaceutical wholesale business.

Celesio has bundled its entire range of services for pharmaceutical manufacturers in the **Manufacturer Solutions** division. Manufacturer Solutions operates, with its business areas Movianto, pharmexx and Homecare, in markets which are not subject to any direct government regulation. These markets have a lower regulatory risk profile than the pharmaceutical wholesale business, retail pharmacies and mail-order pharmacies, for example.

The business areas of Manufacturer Solutions have basically been set up in such a way that they can offer cross-border solutions to manufacturers which operate internationally. For instance, the business area Movianto takes on the tasks of manufacturer-specific logistics and manufacturer-contracted medicine distribution under a single European brand in as many as ten European countries. Movianto performs customer-specific storage, labelling, kitting, picking, packaging and transportation services – adapted to the requirements of the product and the market – on behalf of pharmaceutical manufacturers. Through its strategic investment in pharmexx, Manufacturer Solutions offers pharmaceutical manufacturers in 26 countries worldwide a sales and marketing specialist with its own contract sales force. In the UK, Manufacturer Solutions has founded Evolution Homecare, a company which provides patients with medicines and medicinal advice at home. The development of Evolution Homecare is based upon contracts, customer relations and competences from all Celesio's business units in the UK. The markets in which Manufacturer Solutions operates are at various stages of development, but none of them is fully developed at present. This means that all previously established business areas still have high organic growth potential. Thanks to the international orientation of these business areas, there is also considerable potential for expansion into new geographic markets, whether by making acquisitions or establishing new companies.

In addition to these growth opportunities, Manufacturer Solutions also has the potential to grow by expanding its range of services for pharmaceutical manufacturers. In order to offer pharmaceutical manufacturers the entire range of services from a single source, with a designated contact person, Celesio Manufacturer Solutions Sales has been set up as an inter-divisional key account sales organisation. In this way, a central contact person can offer pharmaceutical manufacturers entire packages of services, which may also include cross-divisional services from the Pharmacy Solutions and Patient and Consumer Solutions divisions. It is thus becoming easier for pharmaceutical manufacturers to take advantage of Celesio's comprehensive range of services.

With its customer-oriented structure, Celesio is also banking on **growth into new geographic markets**. This applies, on the one hand, to countries where Celesio is active in individual business areas but has not yet tapped the full market potential. On the other hand, it applies to countries where Celesio is yet to establish any business activities at all. Celesio sets strategic targets for expansion into new geographic markets in cases which allow it to:

- strengthen its position worldwide in the pharmaceutical growth markets
- reduce portfolio risks due to government measures in individual countries
- provide a comprehensive service to customers in all business divisions.

Expansion into new geographic pharmaceutical markets where strong growth opportunities can be expected will be carried out primarily by the classic pharmaceutical wholesale business. The operational structures of pharmaceutical wholesale and of its value drivers are very similar in most pharmaceutical markets. Furthermore, existing knowledge is easiest to transfer to new geographic markets in the pharmaceutical wholesale sector. The risks inherent to the business model when expanding into new, relatively immature markets are therefore relatively low in pharmaceutical wholesaling. Nevertheless, the fastest-growing pharmaceutical markets worldwide also carry a significantly higher economic, social and political risk profile than Western industrial nations. This must be taken into account when evaluating any programme of expansion into a growth market.

Thanks to the solid financial structure it has in place, Celesio is in a position to execute strategically important and economically attractive expansion steps, even in a difficult financial environment.

Business Review

Looking back, 2008 was a remarkably difficult year for Celesio. Revenue fell by 2.3 per cent compared with the previous year, and EBITDA by 22.0 per cent. The net profit/loss fell to – 18.5 million euros as a result of impairment of goodwill. The reasons for the sharp decline in the EBITDA were, in particular, the consequences of the drastic governmental measures in 2007, the considerable loss in value of the pound Sterling, the low market value of the investment in ANZAG and significantly lower non-recurring gains from portfolio actions. Given this environment, it was not possible for Celesio to even get close to its level of the previous year. As a result of greater economic uncertainty and the increased volatility of the regulatory environment, Celesio impaired its goodwill by 287 million euros in the pharmacy markets of Belgium, the Netherlands, Ireland and Italy, including the corresponding wholesale business in Bologna.

Over the course of 2008, the situation for the Celesio Group gradually improved in line with the forecast. The reasons for this included the emerging effects of measures to compensate for government intervention in the UK and the increase in the pharmacy dispensing fee for UK pharmacies from 1 October 2008. In the French wholesale business, the restructuring of the branch network contributed to an improvement in profits, as did the recovery of market share and the gradual reduction of discounts in the German wholesale. Despite the emerging financial and economic crisis in the second half of the year, it was possible to increase the company's profit from one quarter to the next, resulting in an EBITDA increase of 7.1 per cent from the 3rd to the 4th quarter.

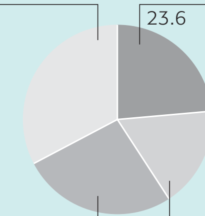
Earnings position

Revenue stood at 21,828.6 million euros in the 2008 fiscal year. The decline of 2.3 per cent compared to 2007 can be largely attributed to negative currency effects. In local currency, the revenue increased by 1.3 per cent. Adjusted for currency effects, acquisitions and divestments, revenue saw a slight increase of 0.3 per cent from the previous year.

In Celesio Wholesale, the revenue was 2.9 per cent below the level of the previous year (– 0.4 per cent in local currency). The decline can be attributed in part to the sale of subsidiaries in Croatia and Romania in the 4th quarter of 2007. This effect was compensated for in particular by the recovery of market share lost in Germany in the previous year by GEHE Pharma Handel. In Celesio Pharmacies, the revenue was 1.8 per cent below the level of the previous year, but revealed an increase of 8.0 per cent when adjusted for currency effects.

With a proportion of 82.8 per cent (2007: 83.6 per cent), Celesio again generated the majority of its revenue outside of Germany in 2008. The largest share of this, 32.7 per cent, was made in France (2007: 32.3 per cent). The second largest share of foreign business, with 23.6 per cent, was in the UK (2007: 26.4 per cent).

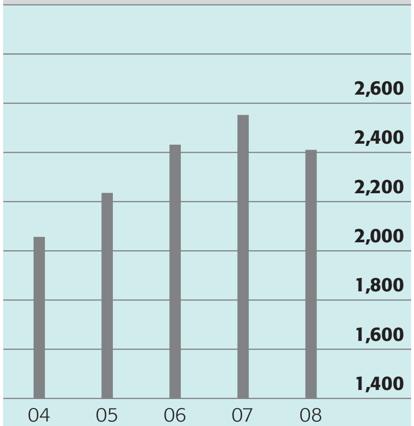
Revenue by country Celesio Group
in %



Celesio Group	2007		**2008**		Change on a euro basis	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	22,349.5	100.00	**21,828.6**	**100.00**	– 2.3	1.3
Gross profit	2,523.7	11.29	**2,410.5**	**11.04**	– 4.5	2.1
EBITDA	842.5	3.77	**657.3**	**3.01**	– 22.0	– 15.9
EBIT	727.7	3.26	**256.2**	**1.17**	– 64.8	– 58.7
Adjusted for impairment of goodwill	727.7	3.26	**543.2**	**2.49**	– 25.4	– 19.3
Profit before tax	608.8	2.72	**125.2**	**0.57**	– 79.4	– 73.8
Adjusted for impairment of goodwill	608.8	2.72	**412.2**	**1.89**	– 32.3	– 26.7
Net profit	435.4	1.95	**– 18.5**	**–**	– 104.3	– 98.6
Adjusted for impairment of goodwill	435.4	1.95	**268.5**	**1.23**	– 38.3	– 32.7

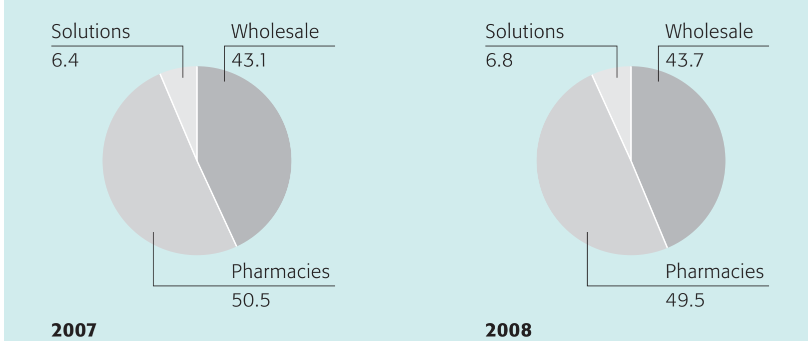
Business Review

Gross profit
Celesio Group
in € m



Currency effects, the consequences of drastic price-reductions measures by the UK government in 2007, and the irresponsible discount competition in Germany which persisted at the start of 2008 have had the most negative influence on profit development. **Gross profit** declined from 2,523.7 million euros the previous year by 4.5 per cent to 2,410.5 million euros (growth of 2.1 per cent when adjusted for currency effects). For Celesio Wholesale, gross profit decreased by 3.2 per cent, and for Celesio Pharmacies it fell by 6.4 per cent. Celesio Solutions increased its gross profit by 1.1 per cent. Compared with 2007, the group's gross profit margin fell 25 basis points to 11.04 per cent.

Proportion of group gross profit by division*
in %



* Without Other segment

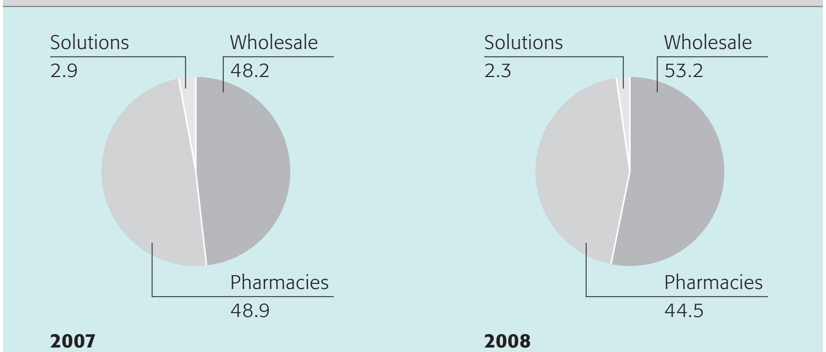
Other expenses saw a slight rise from 708.1 million euros to 712.6 million euros. This is essentially attributed to significantly higher transport costs, which, despite declining fuel prices in the last months of the year, were up 10.5 per cent on the previous year. Overall, the expenses development was cushioned by currency effects. **Other income** fell noticeably by 48.0 million euros to 181.2 million euros. The reason for this lies in the considerably lower result from the disposal of non-current assets through portfolio actions compared to the previous year.

Due to the weakness of the pound Sterling, in particular, **personnel expenses** decreased slightly from last year's total of 1,219.3 million euros to 1,208.6 million euros. Adjusted for currency effects, however, personnel expenses rose by 5.7 per cent. The main reasons for this, alongside the inclusion of Apotheke DocMorris in the consolidated financial statements for the entire year for the first time, were the greater number of pharmacies and general wage increases. The personnel expense ratio remained constant at 5.5 per cent.

Income from investments in 2008 stood at – 13.2 million euros. This was significantly burdened by the market value of the investment in ANZAG. The negative development of this company's stock market price resulted in a market value 24.5 million euros lower than at the start of the year, although some relief was provided by dividend income received.

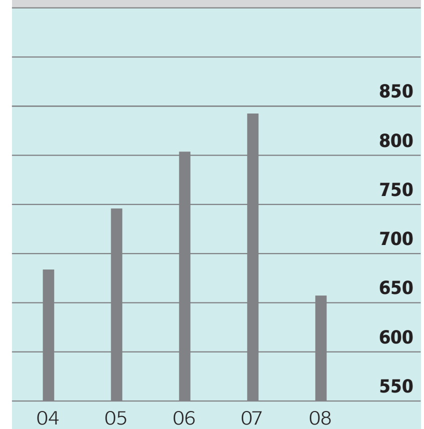
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), fell 22.0 per cent from 842.5 million euros to 657.3 million euros – in local currency the decrease stood at 15.9 per cent. Government interventions dragged down EBITDA by roughly 135 million euros from the previous year. Currency effects caused a drop in EBITDA from the previous year of 51.4 million euros, and the significantly lower income from investments dragged it down by 30.2 million euros. Based on EBITDA, return on sales fell 76 basis points from the previous year to 3.01 per cent.

Proportion of group EBITDA by division*
in %

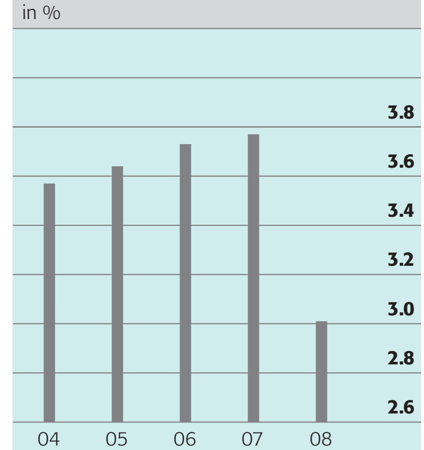


* Without Other segment

EBITDA
Celesio Group
in € m

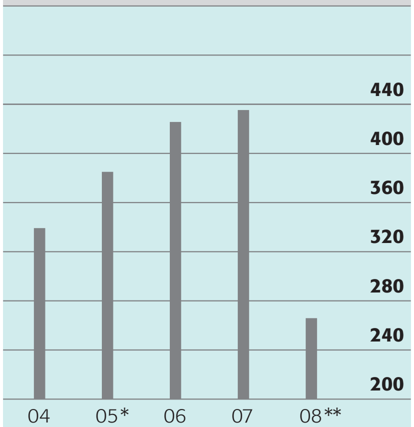


Return on sales*
Celesio Group
in %



* In relation to EBITDA

Net profit/loss
Celesio Group
in € m



* Adjusted for trade tax refund
** Adjusted for impairment of goodwill

Depreciation remained at the previous year's level of 114.1 million euros. Investments in new pharmacies and the inclusion of Apotheke DocMorris for the entire year for the first time led to an increase after adjusting for currency effects. Celesio also impaired goodwill in its pharmacy business in Belgium, the Netherlands, Ireland and Italy, including the accompanying wholesale in Bologna totalling 287.0 million euros.

EBIT (Earnings Before Interest and Taxes) stood at 256.2 million euros (2007: 727.7 million euros). Adjusted for goodwill writedowns, EBIT fell by 25.4 per cent from the previous year to 543.2 million euros. Adjusted for currency effects and without impairment of goodwill, the decrease stood at 19.3 per cent.

The **financial result** decreased from – 118.9 million euros to – 131.0 million euros. The increase in interest expense is largely due to the financing of the Apotheke DocMorris acquisition.

The **interest coverage ratio** decreased from 6.1 to 4.2. This figure represents the financial result in relation to EBIT (adjusted for impairment of goodwill) and indicates how often the interest can be paid mathematically with earnings before interest and taxes.

Profit before tax was 125.2 million euros. Adjusted for impairment of goodwill, it stood at 412.2 million euros, compared with 608.8 million euros the previous year. This represents an adjusted decline of 32.3 per cent, or of 26.7 per cent in local currency.

Tax expense fell 17.1 per cent to 143.7 million euros. The decrease of 29.7 million euros is a result of the lower profit before taxes. Due to this year's higher proportion of earnings from subsidiaries with a higher nominal tax rate, the tax ratio rose from 28.5 per cent in 2007 to 34.9 per cent, based on earnings before taxes when adjusted for impairment of goodwill.

The **net profit/loss** was – 18.5 million euros (2007: 435.4 million euros). Adjusted for impairment of goodwill, it stood at 268.5 million euros and thus 38.3 per cent under the previous year's value of 435.4 million euros. In local currency, this decrease before impairment of goodwill works out at 32.7 per cent. Earnings per share decreased from 2.53 euros to – 0.12 euro, or 1.56 euros before impairment of goodwill.

Financial position

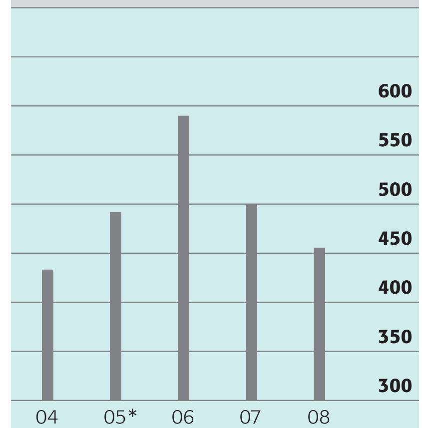
Celesio's financial position remained solid in 2008, despite all the operational, regulatory and extraordinary burdens. The capital requirement of the group, including the dividend payments, was almost completely covered by the operating cash flow. Liquidity risks were successfully kept to a minimum thanks to Celesio's risk management. More detailed information on this can be found on page 108.

Cash flow stood at 455.6 million euros in the 2008 fiscal year, which is 44.6 million less than the previous year's value. As such, the decline in cash flow was considerably lower than the decrease in the annual result. This is due to the greater proportion of non-cash expenses such as the impairment of goodwill and the loss from the market valuation of the investment in ANZAG. The proportion of non-operating income, for instance from the sale of non-current assets, also declined.

Cash flow from operating activities, which is the cash flow less the change in the net working capital, saw a considerable increase of 242.0 million euros to 412.7 million euros. Cash flow from change in net working capital stood at 43.0 million euros and thus declined from the equivalent period by 286.4 million euros. This was particularly due to a considerable reduction of inventories and a increase in trade payables.

Free cash flow, which is the balance of changes in cash and cash equivalents from operating activities and from investment activities minus the paid dividends, improved considerably from the previous year, rising by 500.4 million euros to 14.5 million euros. Lower payments for company acquisitions were the decisive factor here. The previous year saw the acquisition of Apotheke DocMorris and of a larger number of pharmacies.

Cash flow
Celesio Group
in € m



* Adjusted for trade tax refund

Business Review

The following diagram shows the investments, according to the internal reporting, divided into acquisitions and new openings. The investments shown correspond with the additions to non-current assets. Non-cash investments are reported under Other.

Cash flow development	2007 € m	**2008 € m**
Net profit/loss	435.4	**– 18.5**
Depreciation and amortisation/write-up of property, plant and equipment, and intangible assets	109.7	**401.0**
Net result from the disposal of non-current assets	– 65.5	**– 13.2**
Non-cash changes in net working capital	49.8	**76.8**
Other non-cash income and expenses	– 29.2	**9.5**
Cash flow	**500.2**	**455.6**
Dividend payments*	– 128.7	**– 133.0**
Cash flow after dividend payments	**371.5**	**322.6**
Proceeds from the disposal of non-current assets	46.9	**14.1**
Investment in the operating business	– 143.4	**– 127.9**
Free cash flow before acquisitions and change in net working capital	**275.0**	**208.8**
Change in net working capital	– 329.4	**– 43.0**
Acquisitions and new openings	– 548.9	**– 150.2**
Proceeds from disposal of subsidiaries	34.8	**7.3**
Other**	82.6	**– 8.4**
Free cash flow	**– 485.9**	**14.5**

* The dividend payments include payments to minority shareholders of 2.1 million euros (2007: 1.1 million euros)

** Essentially applies to those acquisitions which are non-cash items at the balance sheet date and the reversal of corresponding effects from the previous year

The **change in net working capital** is derived from the balance as follows:

Net working capital	31/12/2007 € m	**31/12/2008 € m**	**Change € m**
Inventories	1,640.8	1,453.2	– 187.6
Trade receivables	2,503.9	2,487.1	– 16.8
Trade payables	2,124.9	2,135.9	11.0
	2,019.8	**1,804.4**	**– 215.4**
Other operating assets	362.8	290.1	– 72.7
Other operating liabilities	1,004.2	831.8	– 172.4
Net working capital	**1,378.4**	**1,262.7**	**– 115.7**
Adjustment for non-cash items			
Exchange rate effects			110.9
Change in scope of consolidation			– 15.1
Other non-cash items			62.9
Net cash flow from change in net working capital			**43.0**

Business Review

Investments and acquisitions

Celesio continued to invest heavily in the 2008 financial year, although not as intensively as in the previous year. In total, 278.1 million euros were invested in the 2008 financial year. The decline of 414.2 million euros compared with the previous year is essentially due to the acquisitions of Apotheke DocMorris and of a large number of local pharmacies in 2007. Investment activities and the new openings of pharmacies and the development of health centres were significantly reduced in the year under review due to general uncertainty over the development of the economy. Aside from this, towards the end of 2008 the market for pharmacy acquisitions came to almost a complete standstill. The level of investment in the Celesio Pharmacies division fell significantly from 627.9 million euros to 185.9 million euros. The amount invested in the Celesio Wholesale division came to 64.7 million euros (2007: 44.8 million euros). In the Celesio Solutions division, 11.2 million euros were invested in the year under review (2007: 5.1 million euros).

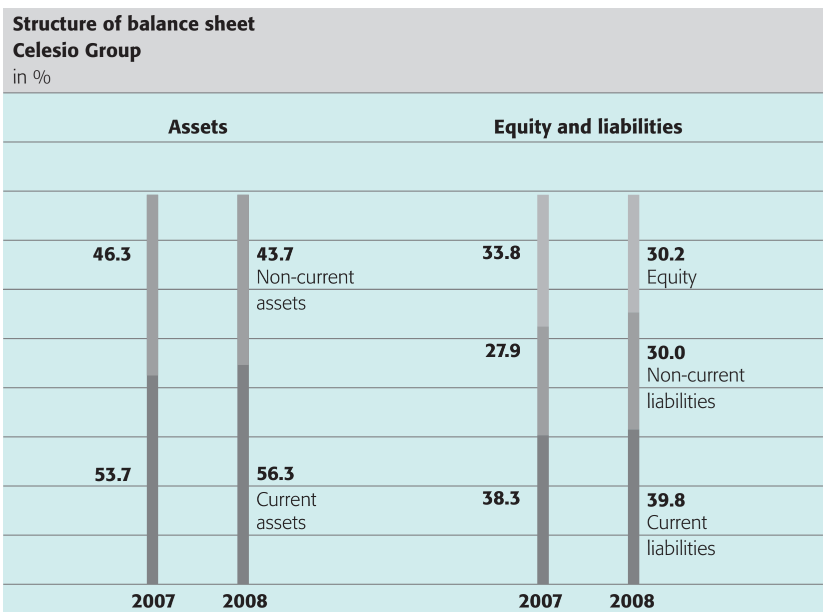
Investments	2007 € m	**2008 € m**
Celesio Wholesale	44.8	**64.7**
Celesio Pharmacies	627.9	**185.9**
Celesio Solutions	5.1	**11.2**
Other	14.5	**16.3**
Total	**692.3**	**278.1**

Of the total investments made, 46 per cent, or 127.9 million euros (2007: 143.4 million euros), were in the operating business. These investments were focused on redesigning or relocating pharmacies, improving the wholesale branch network, and modernising and standardising software systems in all business divisions.

150.2 million euros were spent on acquisitions and new openings in the 2008 fiscal year (2007: 548.9 million euros). The number of pharmacies acquired fell from the previous year from 149 to 85 pharmacies. 16 new pharmacies were opened (2007: 41).

Assets position

The development of the balance sheet is marked above all by the significant decrease in the exchange rate of the pound Sterling compared with 31 December 2007, and by the impairment of goodwill. Total assets decreased by 819.8 million euros, or 9.8 per cent, to 7,523.3 million euros.



Non-current assets declined considerably up to 31 December 2008, falling 579.8 million euros to 3,287.1 million euros (2007: 3,866.9 million euros). The decisive factors here were the decline in the exchange rate of the pound Sterling and the impairment of goodwill of 287.0 million euros.

Business Review

Current assets stood at 4,236.2 million euros as at 31 December 2008, which was also under the previous year's level as a consequence of declining exchange rates (2007: 4,476.2 million euros). Due to currency effects, trade receivables only fell slightly, to 2,487.1 million euros. The increase of approximately 160 million euros, when adjusted for currency effects, largely applied to Celesio Wholesale in Germany and Celesio Wholesale and Celesio Pharmacies in the UK. The reduction in inventories of 187.6 million euros to 1,453.2 million euros can be attributed to the exchange rate development and improved asset management. Adjusted for exchange rate effects, the decrease works out at approximately 30 million euros. The remaining receivables and other assets were at the same level as last year without adjusting for currency effects. Net current assets saw a slight improvement in the year under review.

Shareholders' equity stood at 2,269.6 million euros at the end of the year under review, which is 550.0 million euros under the level at the end of 2007. This decline is essentially due to changes in shareholders' equity without effect on income. These are the reduction of translation reserves of approximately 340 million euros, primarily through the exchange rate development of the pound Sterling, and the dividend payment for 2007 of 131.0 million euros. Shareholders' equity also fell as a result of the loss of the year of 18.5 million euros. Minority interests were reduced, in particular through the acquisition of additional shares in the Danish wholesaler K.V. Tjellesen. As at 31 December 2008, Celesio had an equity capital ratio of 30.2 per cent (2007: 33.8 per cent). Adjusted for the impairment of goodwill, the equity capital ratio stands at 32.7 per cent.

As at 31 December, **non-current financial liabilities** stood at 1,982.6 million euros (2007: 2,049.3 million euros), and were thus 66.7 million euros under the previous year's value. As part of further diversification and optimisation of the financing structure, Celesio placed promissory notes with a total value of 105.5 million euros and 60.0 million pounds Sterling with an average maturity of five years. This debt funding is used for general corporate financing. Promissory notes with a value of 111.4 million euros and maturity of less than one year were reclassified to current liabilities over the course of the year.

Provisions for pensions and **other non-current provisions** remained almost unchanged at the end of the year at 169.1 million euros (2007: 171.5 million euros). With a proportion of 1.8 per cent of the total assets (2007: 1.6 per cent), provisions for pensions are still of secondary significance. The market value of the plan assets, which had declined as at the balance sheet date as a result of the financial crisis, is not directly reflected in higher provisions for pensions due to the application of the so-called corridor method (see notes to the consolidated financial statements, pages 199 to 202).

Current liabilities decreased from the previous year by 202.3 million euros, or 6.3 per cent, to 2,996.2 million euros. Current financial liabilities fell by 78.6 million euros, but only declined slightly when adjusted for currency effects. Trade payables remained roughly at the same level as the previous year. Adjusted for currency effects, however, an increase of approximately 200 million euros was recorded. In the previous year, prepayments, particularly in France and the UK, had resulted in a relatively low level of trade payables. The balance of income tax liabilities and receivables, in keeping with the development of earnings before taxes, reduced considerably. Other current provisions and other liabilities remained around the level of the previous year after adjusting for currency effects.

Business Review

Financing strategy

Celesio's financing strategy is based on a consistent financial management which pursues three goals:

– Securing long-term liquidity
– Ensuring entrepreneurial flexibility
– Minimising financing costs

In order to achieve these goals, Celesio places great emphasis on a balanced diversification of financial instruments and a broad base of investors and banks. In order to avoid financing gaps, particular attention is paid to maturity-matching when refinancing the funding requirements.

Long-term liquidity is assured through bilateral, long-term credit lines provided by selected banks with maturities of up to five years and promissory notes with maturities of up to seven years. The credit lines are annually revolving, multi-currency loan commitments. Furthermore, Celesio regularly issues promissory notes as private placements. Celesio's finance company, Celesio Finance B.V., 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 committed, undrawn credit lines with a value in the mid-hundreds of millions. Furthermore, Celesio has access to additional financing facilities of 600 million euros via to an undrawn syndicated loan which matures in 2013.

Particularly important 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 debt capital investors. These form the basis for a long-term relationship and the trust which must accompany it. 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 actively controlling liquid assets in currency cash pools and limiting market price risks by using derivative financial instruments. Thanks to these internal rules, Celesio is regarded as a company with sound creditworthiness, even without an external rating. As such, the company is able to agree fixed, long-term and competitive conditions with its lenders.

Celesio covers its **financing requirements** with cash flow. Large investments and acquisitions are financed via loans or the issuance of promissory notes. Celesio was able to slightly expand its promissory note portfolio in 2008, despite the financial market crisis.

Six tranches of promissory notes were issued in 2008, both in pounds Sterling and in euros, each with a maturity of five years. It was even possible to place four tranches at good conditions in December 2008. This is evidence to the trust that creditors have in Celesio. With these promissory notes, Celesio has improved the maturity structure of its loan portfolio and expanded its circle of investors. As at the balance sheet date, Celesio had promissory notes with an equivalent value of approximately 790 million euros and an average outstanding maturity of 3.77 years. Of these, 38.1 per cent were in pounds Sterling.

At 31 December 2008, Celesio AG and its group companies had fulfilled the loan obligations and commitments from all their loan agreements.

Details on the financial liabilities for the year 2008 can be found in the notes to the consolidated financial statements on page 204.

Celesio AG Financial Statements

The financial statements of Celesio AG reflect its activity as a managing holding company. As a managing holding company, Celesio holds stakes in the major operating companies and holding companies of each country. Furthermore, the operating companies are essentially financed via Celesio.

At 31 December 2008 total assets had recorded a slight increase of 28.6 million euros to 2,669.2 million euros. Non-current assets fell by 44.7 million euros, essentially due to impairment on shares in affiliated companies totalling 111.2 million euros. Capital increases of subsidiaries had the reverse effect. Receivables from affiliated companies rose due to the increased operating funds requirement of the subsidiaries at the balance sheet date. Equity capital fell, as the dividend for the 2007 financial year of 131.0 million euros clearly exceeded the net profit in 2008. The equity capital ratio fell correspondingly to 58.8 per cent (2007: 63.4 per cent). The increase in liabilities to banks essentially served to finance the operating funds requirement of the affiliated companies.

The net profit of Celesio AG fell from 85.8 million euros in 2007 to 24.9 million euros in 2008. Net profit is essentially made up of income from investments, the interest result and the costs of the holding company. Income from investments is made up of the profit transfer of domestic subsidiaries, dividend payments of foreign subsidiaries and impairment of financial assets. They increased by 15.0 million euros from the previous year to 92.0 million euros. Impairment of financial assets amounting to 112.2 million euros are included in income from investments. They relate to impairment of investments in affiliate in Belgium, the Netherlands, Ireland and Italy. Due to the lower average debt level, the interest result improved. Other income declined, as in 2007 this figure included income totalling 67.2 million euros from the sale of a stake in an affiliated company and from the sale of a minority shareholding. The costs of the holding are essentially made up of personnel expenses and other expenses. Personnel expenses rose by 3.8 million euros due to the increase in the number of employees as a yearly average and due to an adjustment of the company pension plan agreements.

The net profit and a withdrawal from revenue reserves resulted in retained earnings of 81.6 million euros, which will be proposed at the annual general meeting as a dividend and paid out to shareholders.

Remuneration report

The remuneration report contains the declarations which are to be made in accordance with the requirements of the German Commercial Code (HGB: Handelsgesetzbuch), the German Financial Reporting Standards (DRS: Deutsche Rechnungslegungsstandards) and the International Financial Reporting Standards (IFRS).

By decision of the annual general meeting on 27 April 2006, the management board was freed from the obligation to declare the individual remunerations of its members. Celesio therefore discloses the remuneration of the management board as a total sum, but divided into the individual remuneration components.

The total remuneration of the management board members is made up of non performance-related and performance-related components. The remuneration of the Celesio management board members is determined based on the size of the company, its economic and financial situation, and the level and structure of the management board remuneration of comparable companies. The structure of the remuneration system and the appropriateness of the remuneration amounts for the management board are regularly assessed by the supervisory board upon the suggestion of the personnel committee. In 2008, certain parts of the remuneration system were amended, with effect from 1 January 2008. The essential changes can be found in the following notes.

Non performance-related remuneration components

The non performance-related components are made up of a fixed basic remuneration, fringe benefits and a pension contribution.

Celesio pays the fixed basic remuneration to the management board members as a monthly salary.

The fringe benefits which the management board receives comprise company car use and accident insurance, foreign health insurance, D&O liability and legal costs insurance. The individual management board members pay the tax on any company cars they use as part of their remuneration.

Business Review

The management board members receive a defined contributions pension commitment. Each year, a contribution of 16 per cent of the sum of the basic remuneration and the indicatory bonus is added to an individual retirement account. The granting of this contribution is linked to the period of appointment to the management board. The indicatory bonus is equal to 100 per cent attainment of targets. A minimum interest rate is granted for the contributions added. The previous pension commitments have been replaced by the defined contributions pension commitment. Retirement benefits may be claimed from the moment of retirement, but not before the end of the 60th year of age. In case of disability or death, the individual retirement account is increased by the value of the contributions which would have been added up to the end of the 63rd year of age and paid out.

Performance-related remuneration components

The performance-related components are made up of a profit-sharing bonus, which is paid out each year if the relevant performance is attained, and a rolling remuneration component which works as a long-term incentive. This component currently takes the form of the Performance Cash Plan. The profit-sharing bonus was revised with effect from 1 January 2008, essentially altering the assessment basis. It replaces the previous profit bonus. The Performance Cash Plan was launched for the first time on 1 January 2008 for the period of 2008 to 2010; it replaces the strategy bonus which was paid in previous years. The second Performance Cash Plan was launched on 1 January 2009 for the period of 2009 to 2011.

The EBITDA provides the assessment basis for the profit-sharing bonus of the Celesio Group. The size of the profit-sharing bonus is determined by a percentage of EBITDA generated in the fiscal year plus an additional payment in case EBITDA growth from the previous year exceeds a predefined threshold. There is a cap on the amount which can be paid out in the profit-sharing bonus.

The supervisory board has the right, in accordance with its mandatory discretion, to decide on special benefits, including a special remuneration in case of extraordinary services or successes of the management board member. This also applies in case of a termination of contract by mutual agreement.

The Performance Cash Plans are each paid out in cash, if the targets are attained, after a retainment period of three years. The size of the cash payment for the 2008 to 2010 plan depends on the target value specified for each management board member and on the attainment of two performance targets: share price increase in relation to a specified reference share price, and cumulative Celesio Value Added over the relevant period.

The share price-based component is classified as a cash-settled share-based payment transaction as defined by IFRS 2, and is assessed using a binomial option pricing model. The costs of the benefits received or of a liability to pay these benefits are recorded over the expected vesting period. The liabilities are reassessed at each balance sheet date and at the settlement date. Changes to the fair value are recorded in the income. Celesio Value Added is a figure which is used in value-oriented corporate governance. It involves putting earnings before interest and taxes (EBIT) into relation with the net assets invested and comparing this to the weighted total cost of capital. As such, the remuneration is based on the sustainable addition of value to the company. There is also a cap on the amount which can be paid out in the Performance Cash Plans.

Entitlement to a Performance Cash Plan payout only exists if the employment contract is in place for the performance period. If the management board member reaches the age of retirement or steps down from the management board, a payment is made on a pro rata basis.

Remuneration amounts
Total remuneration paid to the management board in 2008 in accordance with DRS 17 amounted to 6,286,000 euros (2007: 7,201,000 euros).

Of this total, 2,202,000 euros was attributable to the basic annual remuneration including fringe benefits (2007: 1,567,000 euros), 3,620,000 euros to the profit-sharing bonus (for comparison: a profit bonus of 4,633,000 euros was granted in 2007), and 464,000 euros to the value of the Performance Cash Plan at the allowance date (for comparison: a strategy bonus of 1,001,000 euros was granted in 2007). Of the profit-sharing bonus, 656,000 euros was guaranteed.

Additional declarations in accordance with IAS 24 ("related parties")
The costs as defined by IAS 24.16 a) for short-term benefits amounted to 5,822,000 euros in 2008 (2007: 7,201,000 euros).

In 2008, service costs of 3,372,000 euros were incurred for staff pensions as defined by IAS 24.16 b) (2007: 300,000 euros). This amount contains a one-off special contribution from the replacement of the previous pension commitments.

For share-based payments as defined by IAS 24.16 e) there were expenses, based on an assessment of the Performance Cash Plan as at the balance sheet date, of 12,000 euros. The provision for the Performance Cash Plan also amounts to 12,000 euros.

Business Review

Former management board members

Former management board members and their surviving dependents received remuneration totalling 286,000 euros in the 2008 fiscal year (2007: 280,000 euros). Celesio AG recognised pension provisions of 2,857,000 euros (2007: 3,740,000 euros) for this group of people.

Total remuneration of the supervisory board

Total remuneration of the supervisory board in 2008 was 794,000 euros (2007: 1,259,000 euros). Of this total, 68,000 euros (2007: 68,000 euros) was fixed remuneration for the membership of the supervisory board. The variable, dividend-dependent remuneration for the membership of the supervisory board amounted to 702,000 euros (2007: 1,177,000 euros). The remuneration for committee activities amounted to 24,000 euros (2007: 14,000 euros). The remuneration structure of the supervisory board is explained on page 225.

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.

Dividend

In keeping with the previous dividend policy, Celesio's management board and supervisory board are to propose a dividend of 30 per cent of the net profit/loss after adjusting for impairment of goodwill at this year's annual general meeting. This represents a dividend of 0.48 euro per share for all 170.1 million full dividend-bearing no par value shares. A dividend of 0.77 euro per share was paid out the previous year on the basis of better earnings. In total, 81.6 million euros are to be paid out to the shareholders.

Supplementary Report

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

Employees

From pharmacist to controller, warehouse clerk to nurse – there is a great diversity of careers at Celesio. Qualified and motivated employees are the capital of every company. This is why Celesio pays serious attention to the level of qualification and the motivation of its staff. The group offers an international environment, diverse career opportunities, interesting training courses and challenging roles. This makes Celesio an attractive employer with an open corporate culture, free of prejudice.

Number of employees

On 31 December 2008, a total of 37,746 people in 14 countries were employed by Celesio. This marks a slight increase of 230 employees (+ 0.6 per cent) from the previous year. Whilst the number of employees in the Celesio Wholesale division saw a slight decrease compared to the previous year of 3.0 per cent to 13,132, Celesio Pharmacies recorded an increase of 2.3 per cent to 22,673 employees due to acquisitions. In the Celesio Solutions division, too, the number of employees saw a moderate rise of 7.8 per cent to 1,692 employees. At the balance sheet date, 34,799 employees, or 92.2 per cent of the workforce, were employed outside of Germany.

Personnel development with a focus on customers

In 2008, Celesio developed a competence model which it will introduce throughout the group in 2009. This forms a binding framework for the most important processes of personnel management – from recruitment and employee assessment through to further training and career development of the employees. A fundamental part of the competence model is its focus on customers. In this way, it complements the new, customer-oriented organisational structure (see pages 66 to 67). The competence model, therefore, also constitutes a building block for Celesio's future success in changing markets.

Setting targets, linking remuneration to performance

An attractive, performance-related remuneration structure has always played an important role at Celesio. Employees are rewarded handsomely for showing outstanding commitment, willingness to innovate and for attaining demanding targets. In 2008, the variable remuneration system for management personnel was revised. The implementation of the new organisational structure and cross-divisional cooperation are now part of personal performance targets.

Celesio signs the German Diversity Charter

Celesio has placed emphasis on diversity in its human resources work for years. In order to reinforce this philosophy, the company signed the German Diversity Charter on 30 May 2008. By doing so, Celesio has committed to having a working environment free of prejudice and an open corporate culture. This means that all employees are assessed independently of factors such as age, gender or nationality. Since the end of 2006, approximately 450 firms in Germany have signed the Diversity Charter, the patron of which is German Chancellor Angela Merkel.

At Celesio, diversity is embraced. At the company headquarters in Stuttgart alone, there are employees from 20 countries. Celesio consciously utilises the diverse experience of its employees in order to meet the challenges of markets featuring very varied structures. The systematic assessments of both junior and senior staff at Celesio also take intercultural skills into account. Celesio promotes these skills with intensive language and training courses.

Developing skills, filling positions from within the company

Naturally, great value is placed on personnel development at Celesio. The aim is to fill management positions which become available from within the ranks of the company. In this way, the knowledge and experience of the company grow, and the potential of the individual employees is fully utilised and further enhanced. The process of replacing employees in key roles in the group is analysed and managed in annual planning sessions.

Employees

The annual staff appraisal forms the basis for individual development. Here, potential ways of developing are discussed, and targets are agreed upon for the coming year. The results of the appraisals are stored in a group-wide personnel information system. This facilitates the task of finding suitable candidates for open positions at home and abroad.

Celesio employees also benefit from an extensive range of innovative training courses. The company offers tailor-made training programmes for up-and-coming managers. This is the only way to create long-term bonds between the company and the potential top performers of the future.

The UK wholesale subsidiary AAH introduced study groups as a development tool in 2008. With these groups, the company aims to encourage the employees to tackle problems arising in their area of responsibility independently. The employees discuss specialist topics and aspects of their own personality development with other colleagues. The management also discuss questions of personnel leadership. At GEHE Pharma Handel, the German wholesaler, a particular focus was placed on employee qualifications in the sales department. The company set up a programme in order to develop the skills of the sales personnel in the areas of communication, personality development, market expertise and strategy.

Giving professional advice is a top priority in Celesio pharmacies. Pharmacists and pharmaceutical technicians in all countries therefore receive very intensive further training and education. These courses focus primarily on pharmacy topics. They also deal with the areas of customer advice, communication skills and workplace organisation. Pharmaceutical technicians have the opportunity to gain a higher qualification via recognised further training programmes. In Norway, for instance, they can complete a part-time pharmacy qualification whilst they work.

Finding and training qualified employees

Classic recruitment via job adverts, employment agencies and job fairs is complemented at Celesio by a growing emphasis on its own training courses. In 2008, for example, a graduate trainee programme was started which aims to make career entrants fit for a job in the company's finance departments within 18 months. Components of the programme include placements in various finance-related departments, at least one placement abroad, and accompanying training seminars.

Particular attention is paid to the recruitment of qualified pharmacy personnel – as these employees are scarce in almost all the markets in which Celesio operates. Qualified employees are found in the individual countries thanks to creative thinking and effective recruitment concepts. In Belgium, for example, a marketing programme with talks, advertising campaigns and a dedicated website attracted the interest of pharmacy students. Meanwhile, at selected universities in the Czech Republic and the Netherlands, workshops were organised on specific topics.

Corporate Social Responsibility

Celesio not only takes responsibility for its employees, customers and shareholders; it also makes a commitment to society and the environment. For Celesio, acting responsibly means operating with a long-term perspective, which also includes working to achieve goals which lie beyond the scope of the corporate balance sheet. Company founder Franz Ludwig Gehe already committed to a sustainable and responsible way of doing business as early as 1835.

The term Corporate Social Responsibility (CSR) covers a company's responsibility for its social, economic and ecological environment. The company's fundamental goal which was envisioned by Franz Ludwig Gehe in 1835 when the company was set up – to ensure good supply of medicines to as many people as possible and thus to improve people's health – remains visible in the socio-political and social commitments of the Celesio Group to this day.

Both in the European countries in which Celesio is active and in developing countries, the aim is to allow people to benefit from the expertise, experience and the success of Celesio. Celesio's code of conduct and environmental guidelines anchor the group's voluntary obligations in its day-to-day work. In March 2008, a special central office was set up to deal with all areas of Corporate Social Responsibility. It coordinates and manages CSR projects. In October 2008, Celesio introduced a series of CSR events. These promote discussion about responsibility in the context of corporate activities. The events feature participants from industry, politics, science and the public.

Improved healthcare provision in developing countries

In addition to numerous national, regional and local commitments, in 2008, Celesio also continued its cooperation with the aid organisation Doctors for Developing Countries ("Ärzte für die Dritte Welt") which began in 2004. In October 2007, the partnership agreement was extended for a further three years. In this partnership, Celesio supports the outstanding work of doctors, who work to ensure basic medical provision in the world's poorest countries and to treat common diseases. The Doctors for Developing Countries operate medical clinics and carry out programmes of immunisation and HIV and tuberculosis treatment. Since the organisation was founded in 1983, more than 2,300 doctors have been on over 4,600 voluntary missions in developing countries. Celesio not only supports Doctors for Developing Countries financially, but also with specialist expertise and the personal commitment of Celesio employees. Celesio pharmacists also support the doctors locally.

In 2007, the Pushpa Celesio Children's Tuberculosis Clinic was inaugurated in India. Children living in the poorest conditions have virtually no hope of getting a bed in a public hospital: their families can neither afford a visit to the doctor nor a stay in a hospital. The Celesio clinic is essential for these children's survival, and has correspondingly been at full capacity since it opened. During their treatment, which lasts up to six months, the young patients are also given school lessons at the hospital. Celesio funds the staffing of the hospital in order to ensure its long-term operation.

Apotheke DocMorris also supports Doctors for Developing Countries. In the Mathare Valley slum in Nairobi, Kenya, the Celesio subsidiary helps to treat children with rickets. To this end, Apotheke DocMorris is supplying the vital medicine Vigantol free of charge from June 2008 to June 2009. It was thus able to help 210 children suffering from rickets by the end of 2008. Aside from Doctors for Developing Countries, Apotheke DocMorris is also involved in the project Insulin for Life ("Insulin zum Leben") run by the German Diabetes Union. With the help of its customers, Apotheke DocMorris made a donation worth 60,000 euros in money and supplies in 2008.

Corporate Social Responsibility

Dedication for reliable provision of medicines

As well as donating money and supplies, Celesio is also active in self-help development. Since 2004, 23 Celesio pharmacists from five different countries have supported 31 projects by Doctors for Developing Countries with their specialist knowledge. During the period under review, projects were carried out in Calcutta and Nairobi. The pharmacists work locally to try to ensure a reliable supply of medicines. In developing countries in particular, counterfeit medicines represent a major health risk. According to data from the World Health Organisation (WHO), up to ten per cent of all medicines in developing countries are counterfeit. In the best case, these medicines have no effect; in the worst case, they lead to drug resistance and endanger the life of the patient. In order to help identify counterfeit medicines early on, Celesio provides mini-laboratories where regular pharmaceutical tests can be carried out. Celesio pharmacists test medicines for their effectiveness on site, train the personnel in how to use the mini-laboratories, and advise the Doctors for Developing Countries on how to choose reliable manufacturers and suppliers. This commitment is showing results: whilst the first tests in 2004 showed a counterfeit ratio of 31 per cent, this ratio fell into the single percentile range in the following years. At the end of the year under review, a counterfeit ratio of zero per cent was recorded in Nairobi for the first time.

Contrary to the situation in developing countries, in Europe, the strict regulations continue to ensure comprehensive drug safety. Together with the pharmaceutical industry, Celesio aims to eliminate any remaining risks.

Actively protecting the climate and the environment

For one year, the Celesio Group headquarters and GEHE Pharma Handel in Stuttgart participated in ECOfit, the environmental programme of the state of Baden-Württemberg. For the duration of the programme, data on energy, water and paper usage was gathered, analysed and translated into environmentally sustainable target values for Celesio. The improved planning of wholesale routes all over Europe and the reduction of delivery frequency per pharmacy in France and Austria not only cuts fuel costs, but more importantly they significantly reduce CO_2 emissions.

The range of opportunities to reduce the burden placed on the environment is broad, even in the operational business. It encompasses everything from recyclable transport boxes in wholesale to campaigns by wholesalers or pharmacies to collect and properly dispose of thermometers containing mercury.

Environment-related projects and initiatives are to be expanded throughout the group in the next few years.

Opportunity and Risk Report

An entrepreneurial spirit of taking calculated risks opens up opportunities and unlocks potential for profit. The implementation of Celesio's corporate strategy on an international level requires opportunities and risks to be weighed up constantly. The goal of group-wide opportunity and risk management is to increase the value of the company in a sustainable manner.

Opportunity management at Celesio

Identifying and exploiting opportunities at an early stage is a basic entrepreneurial task and one which ensures 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 with its clear customer orientation. Celesio's flat organisational structure and strong emphasis on sharing internal knowledge between countries and divisions make it possible to take purposeful measures in line with the corporate strategy. Information on how Celesio capitalises on opportunities can be found in the Business and Business Environment/Corporate Strategy chapter on pages 64 to 71. The Outlook chapter from page 110 describes the opportunities and risks which, from a current standpoint, are likely to influence profit development in 2009 and beyond.

Risk management at Celesio

Celesio sees risk management as the responsibility of the entire group, not the task of individual, isolated departments. In order to identify and evaluate possible risks promptly and deal with them effectively, the group uses a risk management system which is incorporated into all divisions, business areas and business units. Group-wide standards for risk management are defined in a risk management manual. As such, risks are recorded and assessed according to a standardised methodical approach.

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. This involves collecting all perceived risks in a single inventory and assessing them in terms of the probability of their occurrence and the extent of the damage they might cause. 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 to the Management Board. Risk management also belongs to the set of regular planning and control instruments which help the company to always keep abreast of newly emerging risks and the most important events in the market environment.

Opportunity and Risk Report

Risk environments

Macroeconomic risks

The Celesio Group concentrates on providing people with medicines and healthcare products reliably and efficiently. The way healthcare requirements are met develops largely independently of macroeconomic cycles. Celesio is therefore only to a relatively small extent directly dependent on these general economic cycles. If the recession were to continue and grow more severe, causing low consumer spending and state measures due to tighter healthcare budgets, this could directly and indirectly hinder Celesio's market success.

Specific market risks

Pharmaceutical markets have always been subject to government intervention. These affect both the remuneration systems and the organisation of the markets. The ageing population and the associated increased demand for medicines lead to rising healthcare costs. Governments therefore strive to reduce costs in the healthcare segment by introducing state measures. Such measures may affect Celesio's business development and profitability. On the one hand, Celesio counters this inherent risk of the business by compensating for burdens through constant cost management. On the other hand, it reduces risks arising from government intervention by expanding geographically and diversifying into new business segments. In this context, Celesio's strategy of internationalisation and its broad range of products for end customers, pharmacies and pharmaceutical manufacturers are not only intended to unlock potential for new and less regulation-prone profits, but also to harness portfolio effects and thus lessen the company's dependence on state measures in individual countries.

Government intervention can also affect the organisation of the markets in which Celesio operates. In this respect, the group is particularly influenced by the development of national legal frameworks concerning the ownership and operation of pharmacies and the dispensing of medicines. This is the context in which the European Court of Justice is currently examining the compatibility of current third-party and multiple ownership restrictions in Germany and Italy with applicable European law. Viewed from this perspective, opportunity and risk management means positioning the company so as to enable it – regardless of the outcome of this case and other liberalisation measures – to continue to capitalise on future growth and profit potential.

Risks from operational business

Reliability and quality of medicine provision take top priority at Celesio. Specifically, this means focusing on the stability of operational processes, the battle against counterfeit drugs and the quality of pharmaceutical advice given. Plans were developed for large sections of the company in order to ensure that operations continue and medicines are supplied even in unforeseeable circumstances. For instance, should a wholesale branch become temporarily non-operational, deliveries to customers can be guaranteed via other branches, even at short notice. Naturally, these plans are also accompanied by insurance policies to cover interruptions to operations. Aside from 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.

One risk which exists for Celesio pharmacies is the scarcity of pharmacists which is noticeable almost all over Europe. This is why Celesio invests heavily in its human resources activities and counters this risk by carrying out very successful recruitment programmes at universities and consistently positioning itself as an attractive employer.

Opportunity and Risk Report

Acquisition risks

Acquisitions are an important element of Celesio's internationalisation, diversification and growth strategy. All acquisition and investment projects are checked for their compatibility with the Celesio strategy and analysed in full with regard to return and risk factors. In the due diligence process, which includes legal, taxation, financial and operational issues, the market conditions and Celesio's own investment assumptions are analysed and carefully checked. Large, complex acquisition projects are prepared by the Corporate Mergers & Acquisitions department in close consultation with the specialist departments. Generally, the Management Board and, if necessary, the Supervisory Board make a decision on the projects. However, there are also clearly defined assessment criteria for smaller investments and acquisitions, for instance the takeover of individual pharmacies. Such acquisitions can then be performed locally using local knowledge of the market and competition.

By combining its appraisal and approval procedure with local knowledge, Celesio remains flexible whilst guaranteeing the professional execution of acquisitions. When the acquisition is concluded, it is integrated into the group using a firmly established schedule and clearly defined responsibilities as a basis. Despite the strict appraisal and approval procedure, changes to market or environmental conditions can lead to the goals which were originally set only being partially met, or not at all. This can lead to goodwill writedowns in impairment tests.

Information technology risks
Almost all operational processes are linked to information technology. Celesio continually invests in developing IT content and standardising IT throughout the group in order to be able to react quickly to changing market requirements. The company carries out regular IT updates and security tests. Celesio therefore believes that the information technology risk is low.

Legal risks
To the best of the company's knowledge, there are no legal proceedings which might have any substantial effect on the company's earnings, financial and assets position.

Financial risks
The uncertainty of the global financial markets will continue for the time being, and entails a range of risks which will be discussed in more detail below.

Valuation risks: Celesio has a stake in the listed company Andreae-Noris Zahn AG (ANZAG). Fluctuations in its share price are reflected in income from investments. Celesio would like to expressly point out that the valuation fluctuations represent changes in carrying amount only, and that – so long as Celesio still holds the stake – they have no effect on Celesio's liquidity, whether positive or negative.

Opportunity and Risk Report

The turbulence on the international financial and capital markets also leaves its mark on the valuation of capital assets held in order to cover pension commitments. Celesio sees the risk of an unplanned increase in personnel costs of single figure millions used on the current available information. Exchange risks: Celesio systematically minimises exchange risks, which it divides into the categories of transaction exposure and translation exposure.

Transaction exposure from changes in the value of future foreign currency cash flows due to exchange rate fluctuations presents a very small risk for Celesio, as its subsidiaries outside the euro zone conduct their business predominantly in closed currency systems. To the extent that transaction exposure results from cross-border delivery relations, Celesio fully hedges against it, for instance by means of cash or forward transactions.

Translation exposure describes the risk of a translation accounting loss due to exchange rate fluctuations. As a matter of principle, Celesio does not hedge against this risk by using derivative instruments, as it is not possible to do so in an economically viable manner. Celesio reduces its translation exposure by matching the currencies of source and application of funds as far as possible. Due to the importance of Celesio's UK business, the greatest currency risk lies in the pound Sterling.

Counterparty risks from derivative instruments: The use of hedging contracts is subject to group-wide standardised guidelines. Part of this is the functional separation of trading, settlement and accounting. Furthermore, only a few, qualified employees are authorised to deal in financial instruments. The observance of these guidelines is constantly monitored, primarily by the Corporate Audit and Consulting Services department. Celesio enters into derivative instruments exclusively for hedging purposes. The fact that only lending banks are selected as trading partners minimises the counterparty risk.

Interest rate risks: Celesio divides interest rate risks into loss of assets from a change in market interest rates and increased interest expense due to changes in interest rate or margin. Interest rate hedging measures are based on established rules defined by Celesio. These are reviewed at least once a year and adjusted if necessary.

In its management of interest rate risks, Celesio focuses on reducing the fluctuation margin of interest payments expected in the future. To achieve this, it currently uses long-term fixed interest rate agreements as well as interest rate swaps, collars and interest caps. Thanks to these measures, in the major currencies, more than half of the volume of financial liabilities is protected against an increase in the interest rate expense over a certain defined level. Furthermore, the use of interest caps gives Celesio the opportunity to profit from falling market interest rates.

Celesio hedges against the increased interest expense resulting from changes in margin through loan arrangements which are fixed for a number of years in standard agreements.

Opportunity and Risk Report

Default risks: These are relatively small for Celesio due to the structure of its customer base, as the payors of the various healthcare systems have enjoyed a very good credit standing in the past. 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. Nevertheless, the financial market crisis could, in isolated cases, have a negative impact on the financial situation of the pharmacies Celesio delivers to or the healthcare systems which reimburse Celesio. As such, there is a risk that the receivables balance could show an upward tendency and that the customers' previously very good credit rating could deteriorate.

Liquidity and financing risks: Celesio has a solid liquidity position, with confirmed, long-term, unused bilateral credit lines from a large number of banks in Europe. The careful selection of credit institutions in Celesio's bank portfolio has proved its worth during the global financial crisis. None of the creditor banks have defaulted. Liquidity risks are minimised by means of systematic liquidity management with monthly rolling liquidity planning. Celesio manages the payment dates in its debt obligation portfolio in such a way as to avoid a high repayment volume in any particular year.

The overall risk of Celesio is manageable

The overall risk of Celesio did not remain unaffected by the financial market crisis and the slowing of the economy. The core operational business – providing the population with medicines reliably and efficiently – remains largely independent from economic cycles. Celesio has solid financing, and enjoys some additional financial leeway for external growth which will add to its value.

According to Celesio's estimations, based on the information which is currently available, there are no risks present which might threaten the existence of Celesio.

Outlook

The macroeconomic environment was already in upheaval when the interim report for the 1st to 3rd quarter of 2008 was being compiled. The consequences of the financial crisis came into view; the economic downturn began. Celesio therefore curtailed its originally optimistic outlook for 2009 to "relative optimism". The full extent of the financial crisis is now becoming clearer; the global economy is heading into a deep recession. These two effects – the financial crisis and the recession – reinforce one another and cause great uncertainty with regard to the actual impact they will have on the company's profit situation in 2009 and beyond. Celesio must also take into account the uncertainty over the future development of the economic environment in its forecasts. Nevertheless, pharmaceutical services remain a business with growth drivers that are still intact.

Celesio remains relatively optimistic for 2009 and would like to describe clearly to its shareholders the influences which, from a current standpoint, will mark the company's business development in 2009 and beyond.

Economic situation

With the majority of its business activities, Celesio concentrates on providing people with medicines and healthcare products reliably and efficiently. The sales volume of these products develops largely independently of economic cycles. On a group level, Celesio generates approximately 80 per cent of its gross profit from reimbursable medicines. The remaining 20 per cent is split fairly evenly between OTC medicines and the typical peripheral product range of pharmacies.

In this part of its business, Celesio anticipates burdens on revenue and profit as a result of declining household income or general low consumer spending. Periods of economic weakness have two more indirect effects on the healthcare markets. On the one hand, government economic stimulus packages cause higher deficits which increase pressure on government healthcare systems and can lead to additional cost-cutting measures in these systems. On the other hand, job insecurity and falling employment rates tend to result in lower rates of illness being reported and lower social security contributions. These direct and indirect consequences of economic cycles on Celesio's business cannot be quantified from the current standpoint.

Government measures

Regardless of economic cycles, the reimbursement prices for generic medicines are subject to constant pressure from government intervention. Formally announced measures are set to burden profits in the UK, Ireland, Italy, Norway and Portugal in 2009. This also applies to the Netherlands, where tenders from the health insurance funds, like the discount contracts in Germany, lead to pressure on the prices of generic medicines (preference policies). In addition, the discount paid to health insurance funds ("claw-back") by pharmacies, which was temporarily suspended, will be reintroduced from 1 January 2009.

In the UK, the Pharmaceutical Price Regulation Scheme (PPRS), which regulates the reimbursement of branded medicines, was terminated prematurely last autumn by the Department of Health. It is not yet possible to conclusively determine the direct consequences of this measure. Changes also lead to indirect effects on Celesio's international sourcing activities.

Overall, Celesio anticipates that government measures will cause a burden in the high tens of millions in 2009, which would be a smaller burden than in 2008.

Changes in the ANZAG share price

Changes in the market value of Celesio's stake in Andreae-Noris Zahn AG (ANZAG) have an influence on Celesio's profit. At the end of the year, this stake was valued at 20.15 euros per share, having lost roughly 25 million euros of its value in 2008. For every one euro rise or fall in the share price, Celesio's income from other investments changes by 1.3 million euros. It is not possible to predict how the share price will develop.

Balancing investments and portfolio actions

As described in the report for the 3rd quarter of 2008, due to the general uncertainty over the development of the economy, and in order to preserve its financial resources for larger company acquisitions, Celesio reduced its acquisitions and new development of individual pharmacies and health centres as of the 3rd quarter of 2008. This step was also taken in anticipation of falling prices in a market where the number of transactions is rapidly decreasing. Profit growth from balancing the existing pharmacy portfolio is therefore currently expected to be lower in 2009 than in previous years. This also applies to revenue from the sale of newly developed health centres.

Outlook

External growth

Celesio also wants to grow by making acquisitions. It aims to complete value-enhancing transactions in its core business which:

– lead to significant improvements in market positions, for instance through synergies in those countries where Celesio only currently holds a small market share
– unlock significant market share in new countries, normally in the two-figure percentile range, and thus also serve to diversify Celesio's portfolio as a whole
– generate growth, particularly in the Manufacturer Solutions division, and thus reduce the company's dependence on government measures

In the current economic environment, in particular, transactions which fulfil these criteria can hold considerable opportunities if entry costs can be kept low.

Changes in exchange rates

With its companies in Denmark, the UK, Norway and the Czech Republic, Celesio does business in four countries with foreign currencies. Both the pound Sterling and the Norwegian kroner fell significantly in value, particularly at the beginning and the end of the year under review, leading to direct translation losses of around 50 million euros. Changes in exchange rates also led indirectly to changes in the price relationships which drive the success of Celesio's international sourcing activities. As such, they have an indirect influence on the operating business.

It is not possible to forecast the future development of the foreign currencies named above. If these currencies were to retain their levels as at the end of 2008 on average over 2009, this would entail direct year-on-year translation accounting losses in the mid tens of millions in 2009.

Transport costs
Celesio's transport fleet is partially outsourced. Changes in transport expenses lead to indirect additional expenses in the case of outside fleets, and to direct additional expenses in the case of Celesio's own vehicles. Following the enormous increase in the crude oil price in mid-2008, the current outlook based on today's crude oil price suggests that this burden will decrease.

Covering pension commitments
The turbulence on the international financial and capital markets has also left its mark on the valuation of capital assets held in order to cover pension commitments. Based on the information currently available, Celesio estimates that the risk of an unplanned increase in personnel expenses lies in the range of one to nine million euros.

Impairment review
As reported on page 72 and pages 182 to 183, Celesio has adjusted its goodwill by 287.0 million euros to 2,264.5 million euros. This non-cash measure applied to the pharmacy markets of Belgium, the Netherlands, Ireland and Italy, including the corresponding wholesale business in Bologna. This represents around 20 per cent of the business volume in the retail pharmacies business area. The goodwill relating to the remaining 80 per cent of the business volume clearly covered the book value as at the balance sheet date. In light of this, Celesio does not anticipate further burdens in 2009, so long as the legal framework for the pharmacy business in the individual countries does not change.

Changes to the legal framework and market liberalisation
Up to mid-December, the Celesio share price benefitted from the expectation that more European pharmacy markets would be liberalised. This expectation took a blow from the opinion of the Advocate General of the European Court of Justice on third-party and multiple ownership on 16 December 2008. The Celesio share price fell by around 16 per cent on the day the opinion was announced, even though the final decision on this matter is yet to be taken by the ECJ. Depending on its decision, additional growth potential through acquisitions and the opening of new pharmacies could open up for Celesio – including in markets where Celesio is not yet active. Conversely, changes in the national legal frameworks relevant to Celesio's activities could lead to burdens. Based on the current level of knowledge, Celesio does not anticipate such burdens.

Outlook

Changes to the remuneration systems for pharmacies

Celesio follows a clear strategic direction with its pharmacies: the community pharmacies position themselves as all-round healthcare service providers for their patients. The change to the pharmacy remuneration system in the UK observed in recent months confirms this orientation and, viewed in isolation, is leading to higher profits. This change shows the intention of the NHS to strengthen the role of the pharmacy as an integral part of the healthcare system in the UK.

Increasing distribution requirements of pharmaceutical manufacturers

Increasing requirements of pharmaceutical manufacturers regarding the distribution of their products are changing the classic pharmaceutical wholesale business. Thanks to Celesio's leading market position in Europe and its many years of experience, this is giving rise to opportunities for Celesio as a service provider for the pharmaceutical industry. Celesio will realise the resulting growth opportunities through Movianto, through its stake in pharmexx, and particularly through new services such as Evolution Homecare. In the Manufacturer Solutions division, Celesio will intensively develop new services for manufacturers in 2009, and will introduce these onto the market in order to unlock potential profits.

Corporate structure and management

The corporate structure described from page 66 replaces the system of thinking in terms of business models. It directs the energy of the company towards the search for new business, which means "solutions" for Celesio's customers. In addition, the new organisational structure encourages the co-operation and unlocking of potential new business activities beyond the scope of the divisions. In order to realise this goal, the members of the company's top management meet every month. In doing so, as well as performing a line function, they take on responsibility more often for cross-divisional projects which promote integration within the group.

Organic growth and cost-cutting measures

In light of the experience gained in 2008, Celesio has systemised and intensified its activities aimed at improving its organic growth and its efficiency. Centrally coordinated initiatives have been started on a European basis. For instance, the planned European outsourcing of IT infrastructure, a programme to optimise the net assets and the merging of cross-sectional functions ("Shared Services") are expected to reduce costs. Organic growth and increased efficiency compensated for approximately half of the burdens resulting from government measures in 2008. The company aims to increase this ability to compensate.

Relative optimism despite financial and economic crisis

Overall, therefore, the question regarding the profit forecast for 2009 is a question of the net effect of the opportunities and risks specified above. Since certain key opportunities and risks cannot be reliably quantified, Celesio is not in a position to make a concrete forecast at the present time. In view of the uncertainties in the economic, legal and regulatory environment, the outlook remains relatively optimistic, which stems from the conviction that Celesio is customer and growth oriented in a sustainable growth market.

Dependence Report

The major shareholder of Celesio AG is Franz Haniel & Cie. GmbH, Duisburg, Germany. Celesio has 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 euros and is divided into 170,100,000 individual registered shares (non-par shares). The proportionate nominal value per share is 1.28 euros.

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 55.8 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 directly exercise their control rights 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, the court must, in urgent cases, appoint a member at the request of one of the parties involved if the absent Management Board member is required for a representation or managerial measure.

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 is 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. (a) 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 euros (authorised capital). In this respect, the shareholders shall be granted a subscription right; the Management Board is, however, authorised to exempt fractional amounts from the subscription right of the shareholders with the consent of the Supervisory Board. In accordance with § 186, 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.

(b) By decision of the annual general meeting on 30 April 2008, the Management Board was also authorised, up to 29 April 2013, to take the following measures with the agreement of the Supervisory Board:

– to issue, on one or more occasions, registered option bonds or convertible bonds (together: bonds) with a total par value of up to 500,000,000.00 euros and to grant the bond holders, in strict compliance with the option bond and convertible bond conditions, option rights or conversion rights for registered shares in the company amounting to a maximum proportionate amount of 12,672,000.00 euros of the share capital. In accordance with § 3 No. 3 of the articles of association of Celesio AG, the share capital of Celesio AG is conditionally increased by the corresponding amount (Conditional Capital 2008).

– to exclude the shareholders' subscription rights (1) for fractional amounts occurring as a result of the subscription ratio; (2) to the extent necessary to enable the holders of previously issued bonds with option or conversion rights or bonds with subscription or conversion obligations to exercise such rights to the extent they would have such rights as shareholders after exercising the option or conversion rights or fulfilling the subscription or conversion obligation; (3) for bonds with option or conversion rights or bonds with subscription or conversion obligations which are issued against cash payment to the extent that the Management Board concludes after due consideration that the issue price of the bonds is not materially lower than their hypothetical market value calculated on the basis of acknowledged, particularly financial mathematical models. This authorisation to exclude subscription rights applies to bonds issued with option and/or conversion rights and/or subscription or conversion obligations and which include an option and/or conversion right or a subscription and/or conversion obligation for shares representing a proportionate amount of the share capital which in the aggregate must not exceed 10 per cent of the share capital at the time the authorisation takes effect or the time it is exercised, whichever value is lower.

– to stipulate further details of the execution of the conditional capital increase.

Mandatory Information Pertaining to the Capital and Shareholder Structure

(c) 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].

(d) 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.

(e) Furthermore, the Management Board is authorised up until 29 October 2009 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, amounting to a maximum proportionate amount of 10 per cent of the share capital represented at the time the resolution was passed.

(f) The entitlement of the shareholders to securitise their shares is excluded. The Management Board is entitled to issue share certificates for several shares (multiple share certificates); the form and content of the share certificates as well as the dividend and renewal certificates shall be determined by the Management Board, with the agreement of the Supervisory Board.

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.

Celesio wholesalers supply pharmacies in Europe over 100,000 times a day.

Countries	Revenue 2007 € m	**Revenue 2008 € m**	Revenue change on a euro basis %	Revenue change in local currency %	Number of branches 2008	Number of employees 2008
France	7,165.7	**7,084.4**	– 1.1	– 1.1	47	4,102
Germany	3,506.9	**3,505.7**	– 0.0	– 0.0	20	2,467
United Kingdom	3,311.3	**2,859.8**	– 13.6	0.3	19	3,760
Austria	952.4	**981.9**	3.1	3.1	7	763
Portugal	497.6	**527.1**	5.9	5.9	7	286
Norway	479.9	**452.1**	– 5.8	– 3.6	3	384
Denmark	399.9	**392.0**	– 2.0	– 1.9	4	283
Belgium	384.2	**385.1**	0.2	0.2	5	280
Ireland	323.8	**320.6**	– 1.0	– 1.0	3	225
Czech Republic	238.1	**283.1**	18.9	6.8	3	258
Slovenia	335.1	***276.4**	– 17.5	– 17.5	1	158
Italy	135.5	**145.4**	7.4	7.4	1	166
Total	**17,730.4**	**17,213.6**	**– 2.9**	**– 0.4**	**120**	**13,132**

* Not including subsidiaries in Croatia and Romania (deconsolidated in December 2007)

Celesio Wholesale is much more than a pharmaceutical supplier. Secure and quick delivery to all areas goes hand in hand with innovative services for pharmacies.

Celesio Wholesale

Whether headache tablets or cancer medicines, plasters or vitamin supplements – Celesio Wholesale supplies pharmacies in twelve European countries with the full range of pharmaceuticals as well as health and beauty products. It makes secure, reliable deliveries to all areas, if necessary several times a day. Furthermore, Celesio Wholesale is a strong partner for pharmacies when it comes to healthcare services for patients and consumers, training of pharmacy professionals and marketing and purchasing support. The division's consistent orientation to the requirements of its customers creates added value for the company.

Wholesale plays an important role in the pharmaceutical supply chain. It is the link between the pharmaceutical industry and the pharmacies. Celesio wholesalers stock medicines approved for the country in question for delivery to pharmacies there. They make sure that pharmacies in all areas receive all the supplies they need without delay thanks to an efficient storage and delivery system. This is essential for the comprehensive supply of medicines to the public. In Germany, for example, there are over 100,000 different approved medicines and around 21,500 pharmacies. To have every manufacturer deliver to every pharmacy individually would be neither economically viable nor logistically feasible.

Celesio positions itself as a problem-solving service provider to pharmacies. The Celesio wholesalers have efficient logistics concepts and offer attractive supply conditions. In addition, pharmacies are interested in a diverse range of extra services in order to successfully position and differentiate themselves and their business amongst competitors.

Celesio Wholesale

Dependable partner for pharmacies

Approximately 35,000 pharmacies all over Europe take advantage of the services Celesio offers. The scope of these services extends from simple supply to additional services such as own brands, training programmes for pharmacy staff as well as comprehensive cooperation models. In Germany, Celesio offers independent pharmacists the "gesund leben" (live healthily) cooperation and the brand partnership with Apotheke DocMorris. In France, OCP cooperates with pharmacies under the brand Pharmactiv. In Ireland the cooperation model for pharmacies is called Connect. The services Celesio offers are adapted to the country-specific requirements of the pharmacies. The partner pharmacies excel thanks to high-quality pharmaceutical advice. They offer their customers additional pharmacy-specific services and products, and Celesio Wholesale supports in this endeavour. This orientation to pharmacies which do not only consider themselves medicine dispensing centres is a forward-looking strategy. It directly enhances the role of pharmacies in the healthcare market.

In 2008, Celesio introduced new programmes and initiatives for pharmacies. In Austria, Herba Chemosan has introduced the customer loyalty campaign "Frag' nach in deiner Apotheke" ["Ask your pharmacy"]. The product lines associated with this campaign are available in almost half of Austrian pharmacies. In France, OCP supports pharmacies which advise and guide patients through certain complex treatment with its programme "Club des Spécialistes". For instance, OCP offers specially compiled expert pharmacological information for pharmacists on subjects such as HIV and oncology.

Wholesale continues to evolve

Changed distribution requirements from the manufacturers in addition to government measures have made a significant imprint on Celesio Wholesale over the past financial year, and the market is still in a state of transition.
In the UK, more than half of the branded ethicals sales are now delivered through new distribution models, whereby product deliveries are limited to a number of wholesalers, or whereby products are delivered by the logistics company directly to the pharmacy on behalf of the manufacturer. In these so-called DTP (DTP = Direct to Pharmacy) models, the wholesalers lose their trade function. More detailed information on this can be found in the Business and Business Environment chapter on pages 60 to 61. Celesio, via its UK subsidiaries, is a preferred partner of the pharmaceutical industry for the introduction of such innovative distribution models. Celesio is ideally positioned for innovative distribution solutions not only in the UK, but all over Europe, with its strong wholesale businesses and with Movianto as one of the leading logistics service providers for pharmaceutical manufacturers.

Alongside the economic consequences of fuel price increases, the ecological effects of CO_2 emissions from vehicles are becoming a central concern. In partnership with their customers, the pharmacies, the Celesio wholesalers Herba Chemosan and OCP in Austria and France have been able to make a positive contribution to CO_2 reduction by cutting the number of standard deliveries to two per day.

Celesio Wholesale drives down costs by improving branch network structures and operating procedures. This is a process of continuous improvement. For example, the restructuring of Celesio's French wholesaler OCP continued in 2008. Through mergers and closures, the number of branches was reduced from 50 to 47. In addition, operating procedures in the warehouses were further tightened. In the UK, AAH completely modernised an existing warehouse and installed new storage facilities. In the Czech Republic a warehouse was closed and replaced with a modern one with higher capacity.

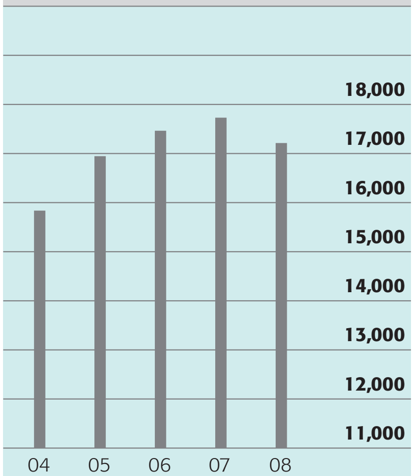
Leading the way in European pharmaceutical wholesale

Celesio is the market leader in France, Austria, Norway and the UK. In all other countries except Italy, where Celesio Wholesale only has a regional presence, Celesio wholesalers are amongst the market leaders. Although discount competition amongst German wholesalers abated, albeit more slowly than expected, GEHE Pharma Handel was able to regain lost market share in the second half of 2008 and improve its profitability at the same time. Celesio Wholesale further strengthened its position as the leading partner for pharmacies by providing an even broader service portfolio and made-to-measure service offers.

At the end of 2008, a total of 120 branches were supplying around 35,000 pharmacies in twelve European countries.

Celesio Wholesale

Revenue
Celesio Wholesale
in € m



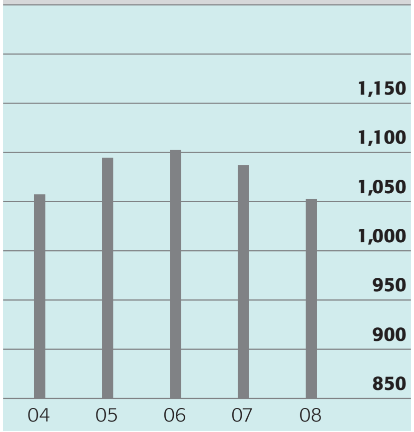
Revenue and profit development

Revenues of Celesio Wholesale decreased by 2.9 per cent from 17,730.4 million euros in 2007 to 17,213.6 million euros in the year under review. Adjusted for currency effects, the decrease amounted to just 0.4 per cent. One factor in this development was the change in distribution models of certain manufacturers in the UK. In such cases of logistics services rendered on behalf of manufacturers in their direct delivery businesses, there are no trade revenues but service fees. This is equal to gross profit. In addition, the 2008 figures excluded the revenues of Unipharm in Croatia and PharmaFarm in Romania, which were sold in the 4th quarter of 2007.

Celesio's business development saw a great deal of regional variation. In France, government measures led to a decrease in revenue. Wholesale in Germany developed well in the second half of 2008. Here it was possible to continuously regain revenues which were lost following the Apotheke DocMorris acquisition, primarily due to boycott appeals by the pharmacy associations. Despite the change by several pharmaceutical manufacturers to DTP models which led to trade volumes not being achieved, the British Celesio Wholesale was able to maintain its exchange rate adjusted turnover compared to last year's level, mainly as a result of winning new customers. Celesio wholesalers in Austria and Portugal increased their turnover by 3.1 per cent and 5.9 per cent respectively.

Gross profit of the Wholesale business fell from 1,087.0 million euros to 1,052.7 million euros in 2008, a 3.2 per cent decrease from the previous year. This is primarily attributable to the unfavourable development of the pound Sterling. In local currency, gross profit decreased by 0.1 per cent and was thus almost in line with the previous year's level. Despite the slow decline of discount competition in Germany and the decrease in the wholesale margin in France, the gross profit margin only fell by one basis point to 6.12 compared with 2007. This shows the importance of the European-wide presence of Celesio Wholesale, also from a risk diversification perspective.

Gross profit Celesio Wholesale
in € m

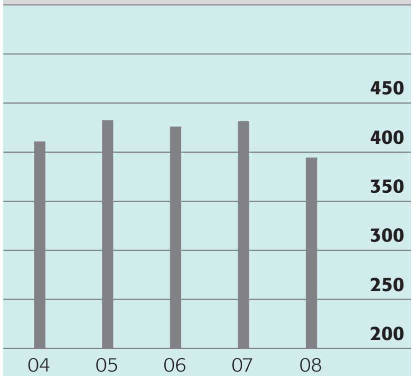


There was a decrease in **other income** because the previous year's figures included income from the deconsolidation of subsidiaries in Croatia and Romania. **Other expenses** were burdened by higher transport costs due to rising energy prices in the first half of the year, and delivery to approximately 900 new customers in the UK. Celesio countered the effect by revising its route planning. In the second half of the year, transport costs increased only slightly as a result of falling raw material prices.

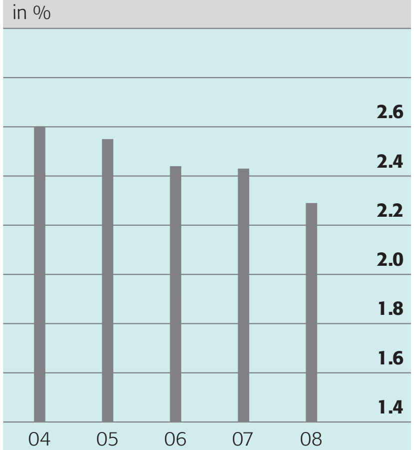
Personnel expenses were slightly lower than last year, showing a decrease of 4.0 per cent. This was aided by the weakness of the pound Sterling. Adjusted for currency effects, the decrease stood at just 0.8 per cent. Improvements in operational efficiency, particularly in France and Germany, made it possible to compensate almost entirely for the relatively high wage and salary increases throughout Europe.

Celesio Wholesale

EBITDA
Celesio Wholesale
in € m



Return on sales*
Celesio Wholesale
in %



* In relation to EBITDA

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) amounted to 394.5 million euros at the end of the year under review (2007: 431.5 million euros), which represents an 8.6 per cent decrease from the previous year (– 5.3 per cent in local currency). Return on sales, which represents the relationship between EBITDA and revenue, fell by 14 basis points compared with the previous year. The development over the course of the year was positive.

Depreciation and amortisation decreased by 10.6 per cent compared with the previous year (8.5 per cent when adjusted for currency effects). Due to extensive capital expenditure over recent years, no large-scale capital expenditure was necessary in 2008. In addition, Celesio made an impairment of goodwill for the wholesale business in Bologna (Italy), and revised the valuation by 8.8 million euros.

EBIT (Earnings Before Interest and Taxes) fell by 8.3 per cent from 377.0 million euros in 2007 to 345.7 million euros. This equates to a minus of 4.8 per cent in local currency (corrected by goodwill impairment). The development of EBIT over the course of the year – like that of EBITDA – was positive.

Celesio Wholesale	2007		**2008**		Change on a euro basis	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	17,730.4	100.00	**17,213.6**	**100.00**	−2.9	−0.4
Gross profit	1,087.0	6.13	**1,052.7**	**6.12**	−3.2	−0.1
EBITDA	431.5	2.43	**394.5**	**2.29**	−8.6	−5.3
EBIT	377.0	2.13	***345.7**	**2.01**	−8.3	−4.8

* Adjusted for impairment of goodwill

Celesio pharmacies
serve and advise over
550,000 customers daily.

Countries	Revenue 2007 € m	**Revenue 2008 € m**	Revenue change on a euro basis %	Revenue change in local currency %	Number of pharmacies 2008	Number of employees 2008
United Kingdom	2,403.6	**2,150.5**	– 10.5	3.9	1,715	17,046
Norway	433.7	**473.7**	9.2	11.7	165	1,598
Netherlands*	291.0	**392.9**	35.0	35.0	66	1,433
Italy	207.5	**203.6**	– 1.9	– 1.9	162	793
Ireland	131.4	**154.5**	17.6	17.6	72	858
Belgium	111.6	**130.4**	16.9	16.9	110	544
Czech Republic	39.9	**49.3**	23.5	11.0	47	401
Total	**3,618.7**	**3,554.9**	**– 1.8**	**8.0**	**2,337**	**22,673**

* Including Apotheke DocMorris

21,000 pharmacists and pharmaceutical technicians in 2,337 Celesio pharmacies provide patients with medicines, give personal pharmaceutical advice and offer individual healthcare services.

Celesio Pharmacies

With 2,337 pharmacies in seven countries, Celesio is one of Europe's largest pharmacy operators. More than 550,000 people are served and advised in Celesio pharmacies every day. The concepts of the pharmacies vary from country to country – they are tailored to the market situation, the structure of the population and the national legal framework. The requirements of patients in the various countries are, however, similar: when patients go to their pharmacist, they expect to get the medicine they need, the best pharmaceutical advice, and healthcare services which they can take advantage of without making an appointment or having a long wait. This is why the 2,337 Celesio pharmacies excel not only through the wide availability of medicines, but also through high-quality consultations and a broad range of services.

After a very successful year in 2007, government measures had a strong impact on the Celesio Pharmacies division in the 2008 fiscal year. In the UK, the drastic cut in reimbursement prices for generic medicine in the 4th quarter of 2007 affected the total reporting period. A pleasing development was the British government's decision to raise the pharmacy fee for each prescribed medicine dispensed as of 1 October 2008. This increase, however, provided very little compensation for the drastic cut in generic medicine reimbursement prices in 2007, particularly as the reimbursement prices for generic medicines were further cut as of 1 October 2008. In Norway, too, reimbursement prices for generic medicines were significantly reduced as part of the step price model. Manufacturers of original products in Italy cut their prices. In the Netherlands the health insurance funds issued discount contracts for generic medicines. Further uncertainty was brought about here by a legal battle over higher payments by the pharmacies to the health insurance funds, the so-called Claw-Back. In Ireland, reduced reimbursement prices for prescription medicines along with lower prices for generic medicines placed a burden on Celesio's business. However, the fee reductions were overturned in court as of 1 October 2008. Detailed information on government measures can be found on pages 55 to 57.

Celesio Pharmacies

In total, government measures led to additional costs of around 110 million euros at EBITDA level for Celesio pharmacies in 2008, compared to last year. In addition, results were burdened by exchange rate losses of 36.4 million euros. Aside from these two negative external influences, Celesio Pharmacies continued to develop well in 2008. Its business volume increased again, with the number of prescription medicine packages dispensed rising from 183.1 million in 2007 to 198.5 million. In addition, Celesio bought or opened, particularly at the beginning of the reporting year, 101 pharmacies and invested in a further twelve. In Ireland, the Netherlands and Belgium a total of 18 pharmacies were bought. The market for acquisitions died down almost completely towards the end of the year.

As a result of the increased macroeconomic uncertainty and the increased volatility of the regulatory environment, Celesio made goodwill impairment in the pharmacy business worth a total of 287.0 million euros in Belgium, the Netherlands, Ireland and Italy. The impairment loss of 8.8 million euros on the wholesale business in Bologna, which is part of the Italian pharmacy business, is included in this charge.

In 2008, Celesio continued to prepare for the possible liberalisation of pharmacy ownership regulations in the European pharmaceutical markets. In 2009, the European Court of Justice will make decisions on the preliminary ruling regarding Germany and the breach of contract proceedings against Italy. Both cases concern the ban on third-party ownership of pharmacies. In addition, the European Commission has begun breach of contract proceedings against Austria, Spain, France, Portugal, Bulgaria and Germany due to pharmacy ownership restrictions. Whatever the outcome of all these cases will be, Celesio is well positioned. In order to have planning reliability, it is important, that clear, binding and comprehensive rulings are made as soon as possible regarding what is allowed in the individual markets and what is not.

In Sweden, the government is planning to open up the pharmacy market in 2009 and to reduce the state monopoly on pharmacies. The conditions by which this should happen are not yet completely clear. More information on the liberalisation of European pharmacy markets can be found on pages 53 to 54. The following diagram gives an overview of the situation in Europe.

Liberalisation trends in European pharmacy markets

Focus on quality, advice and service

Celesio Pharmacies will continue to follow the strategy it shaped several years ago: being the first point of contact for all questions related to healthcare and pharmaceuticals. Celesio will expand its already diversified range of consultation and other services for patients and end consumers in all countries. The need for pharmacies to provide products and services for the early recognition of chronic illnesses is growing in all countries. It is also an area which highlights the advantages of professionally-managed pharmacy chains. With precautionary tests, pharmaceutical consultations and other healthcare services, all of which meet the highest standards of the healthcare profession, pharmacy chains guarantee patients and cost bearers a reliable, low-cost range of services all under a single healthcare brand.

Celesio Pharmacies

As a consequence, the UK Department of Health produced a policy document in March 2008 which outlines the future significance of pharmacies. The document envisages considerably extending the range of services offered in pharmacies. Customers at Lloydspharmacy are already able to take advantage of healthcare services such as blood pressure, blood sugar and cholesterol level tests at any time. These and many other healthcare services are developed for Lloydspharmacy by doctors and pharmacists working together, and they set new performance and quality standards in the market. Over 1.2 million people have already been tested for their risk of diabetes at a Lloydspharmacy since 2003. As a result, nearly 60,000 patients were advised to consult a doctor. In this way, the people were warned of a risk to their health early on and were able to take immediate action by having relevant medical treatment and opting for a healthier lifestyle. This also reduces the burden on the NHS, the British health service. Early recognition of illnesses and timely medical treatment mean that the high costs associated with secondary diseases are avoided or reduced.

As well as numerous healthcare services, Celesio Pharmacies offers consumers attractive own brands. For instance, in October 2008, Lloydspharmacy brought its own organic skincare range "Your Organics" on the market. Meanwhile, Apotheke DocMorris also launched its first "DocMorris" own-brand products towards the end of 2008. These products are available from the mail-order pharmacy and in local brand partner pharmacies, and they have been met with a positive reaction. This shows that own brand products are an effective way of promoting customer loyalty.

Medicines by post or in the local pharmacy

Apotheke DocMorris has continued to develop well since its integration into the Celesio Group. Apotheke DocMorris offers its customers medicines at attractive prices and good consultation services – as certified several times by the consumer protection organisation Stiftung Warentest – both from its mail-order pharmacy and in the local pharmacies which have entered into brand partnership with Apotheke DocMorris since 2007.

Europe's largest mail-order pharmacy records rising customer numbers

Approximately 1.2 million people to date have used the low-cost, high-quality mail-order service of Apotheke DocMorris. Since Autumn 2008, Apotheke DocMorris has been reaching out very successfully to its customers with Germany's best-known advertising twins – and with great success. The new, user-friendly Apotheke DocMorris website offers a better overview of products and a more convenient ordering process. The mail-order business of Apotheke DocMorris is primarily aimed at patients with chronic illnesses and those who require prescription medicines. But it also offers a comprehensive and attractive range of products for customers looking for good-value OTC medicines.

DocMorris brand partner pharmacies in all federal states

The DocMorris brand partner concept also developed positively in 2008. At the end of the year under review, approximately 150 independent pharmacies bore the green cross of Apotheke DocMorris. This well-known brand is now represented through local pharmacies in all 16 federal states of Germany. Apotheke DocMorris is demonstrating its pharmaceutical expertise with its healthcare programme "Alles im grünen Bereich" ["All Clear"] and with a customer magazine, the first edition of which was published in October 2008 with a print run of over 1.7 million. The monthly magazine keeps customers of the DocMorris brand partner pharmacies up to date with comprehensive information on healthcare issues. It also offers its readers extra value with a store voucher accompanied by the address and a location map of the relevant DocMorris pharmacy.

In 2008, this commitment was recognised by Stiftung Warentest: a DocMorris pharmacy in Berlin took second place in a test of local pharmacies. The regular tests by the chambers of pharmacists confirm the high quality of advice given. Two DocMorris brand partner pharmacies in Cologne and Saarbrücken were rated "good".

Celesio Pharmacies

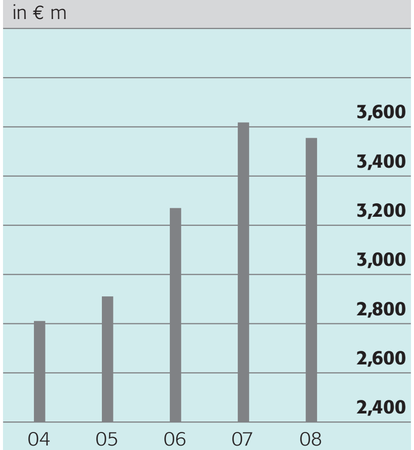
Pharmacies within easy reach

When choosing locations for its pharmacies, Celesio opts for proximity to patients and doctors. The patients benefit from short travel distances and all-round medical provision, whilst the pharmacies profit from their proximity to those prescribing the medicines. In order to remain up to date and offer patients advice in a pleasant atmosphere, Celesio continuously modernises its pharmacies. Last year, for instance, 98 pharmacies were completely renovated.

Outstanding advice

In order to meet its own high standards for pharmaceutical consultations, Celesio invests significantly in the further professional training of its approximately 23,000 pharmacy staff members. The investment pays off: the pharmacy teams regularly receive awards in recognition of their success, as was the case last year. In the UK, Lloydspharmacy was named "OTC Retailer of the Year" for the second time running and won the "Pharmaceutical Care Award" for its cholesterol and heart tests. The Irish Unicare pharmacies won the prize for "Best Company to work for in Ireland 2008". A Celesio pharmacy in the Netherlands was named "Pharmacy of the Year 2008".

Revenue
Celesio Pharmacies
in € m



Revenue and profit development

Due to the negative development of the pound Sterling in comparison with the euro, **revenue** declined by 1.8 per cent from 3,618.7 million euros in 2007 to 3,554.9 million euros. Adjusted for currency effects, revenue increased by 8.0 per cent.

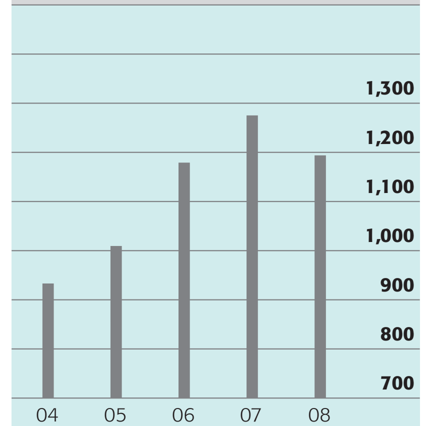
This increase in revenue is due to the full year inclusion of Apotheke DocMorris for the first time, as well as the further development of the portfolio of pharmacies and the attractive products and services available at Celesio pharmacies.

The **gross profit** of Celesio Pharmacies declined by 6.4 per cent from 1,275.2 million euros to 1,193.9 million euros. Adjusted for currency effects, gross profit rose by 3.4 per cent. The gross profit margin stood at 33.58 per cent, compared with 35.24 per cent in the previous year. On the one hand, this can be attributed to considerable government intervention, and on the other hand to the naturally smaller margins generated in the mail-order business compared to retail pharmacies. The rising share of the Apotheke DocMorris mail-order business in the revenue of Celesio Pharmacies is therefore reflected in this trend.

Other income fell because of the significantly smaller number of pharmacies sold compared with the previous year. In the 4th quarter of 2007, Lloydspharmacy sold several pharmacies which featured an undesirable risk profile for Lloydspharmacy following the government measures introduced in October 2007. **Other expenses** were higher than in the previous year because of the increased number of pharmacies.

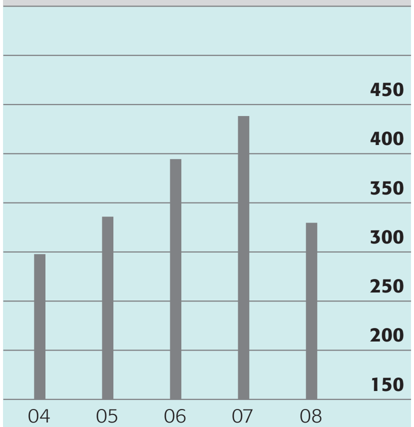
Personnel expenses were 0.8 per cent higher than in the previous year (10.9 per cent higher when adjusted for currency effects). This can essentially be attributed to the pharmacies which were acquired or newly opened, and the wage increases arising from collective wage agreements.

Gross profit Celesio Pharmacies
in € m

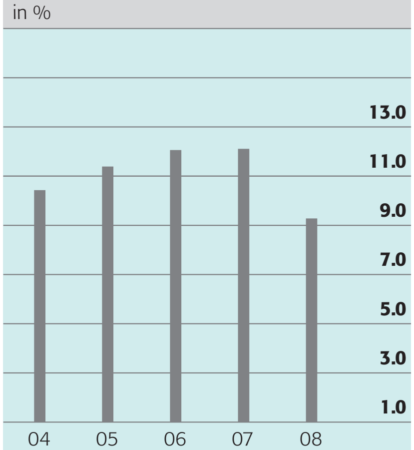


Celesio Pharmacies

EBITDA
Celesio Pharmacies
in € m



Return on sales*
Celesio Pharmacies
in %



* In relation to EBITDA

EBITDA amounted to 329.7 million euros (2007: 438.3 million euros). The decrease of 24.8 per cent compared with 2007 (16.5 per cent when adjusted for currency effects) is mainly attributable to the government measures in the UK described in this annual report. Despite tight cost discipline, it was not possible to compensate for this sharp fall. The return on sales fell by 283 basis points to 9.28 per cent compared to the previous year.

Depreciation and amortisation rose by 10.6 per cent (by 21.5 per cent when adjusted for currency effects). This was caused by the first-time full-year involvement of Apotheke DocMorris, pharmacy acquisitions and Celesio's continued investment in customer-orientated fittings in pharmacies. In addition, there was an impairment of goodwill worth a total of 278.2 million euros in Belgium, the Netherlands, Ireland and Italy.

This impairment led to an **EBIT** of – 5.4 million euros (2007: 386.8 million euros). Adjusted for the impairment of goodwill, EBIT fell by 29.5 per cent (by 21.5 per cent when adjusted for currency effects) to 272.8 million euros.

Celesio Pharmacies	2007		**2008**		Change on a euro basis	Change in local currency
	€ m	% of revenue	**€ m**	**% of revenue**	%	%
Revenue	3,618.7	100.00	**3,554.9**	**100.00**	−1.8	8.0
Gross profit	1,275.2	35.24	**1,193.9**	**33.58**	−6.4	3.4
EBITDA	438.3	12.11	**329.7**	**9.28**	−24.8	−16.5
EBIT	386.8	10.69	***272.8**	**7.68**	−29.5	−21.5

* Adjusted for impairment of goodwill

Celesio offers pharmaceutical manufacturers the highest quality standards for the optimal storage and distribution of their products.

Celesio Solutions

The pharmaceutical industry demands new, innovative solutions and services for its medicines – Celesio Solutions provides these.

Celesio Solutions

How do particularly temperature-sensitive medicines reach a pharmacy safely? How can medicines be reliably located whilst they are in transport? Who can explain to doctors how a medicine works? These are amongst others the questions pharmaceutical manufacturers are raising. Celesio Solutions offers the industry appropriate solutions for logistics, distribution, marketing and sales.

An increasing number of pharmaceutical manufacturers are partially or entirely outsourcing business processes such as logistics tasks or field sales activities. Celesio offers the pharmaceutical companies a broad portfolio of logistics services under the European Movianto brand. Depending on requirements, Movianto stores, packages, labels and assembles pharmaceutical products before delivering them to pharmacies, wholesalers or hospitals. Movianto has subsidiaries with their own branches in ten European countries; total storage capacity amounts to 175,000 pallet spaces. One of Movianto's core competencies is transporting particularly sensitive and high-value medicines. Movianto offers manufacturers a positioning system which determines the precise location of the medicine at any time and monitors the temperature, air humidity and exposure to light whilst the product is being stored and transported. In order to guarantee drug safety, Movianto equips the medicine packages with counterfeit-proof DNA labels on request. This makes it possible to better trace back the medicine's path through the supply chain. In this way, manufacturers and patients can depend on medicine delivery with maximum safety and transparency. Pharmaceutical companies can even have administrative services such as order processing, billing services and accounts receivable accounting performed by Movianto as a one-stop service provider.

New customers for Movianto

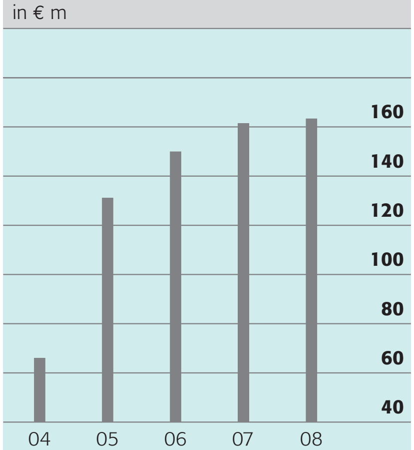
Movianto expanded its business in 2008, signing numerous new contracts with manufacturers. Furthermore, Movianto began its first activities in Slovenia. In order to guarantee the safe storage of anaesthetics, a new warehouse with space for over 430 pallets was built in Neunkirchen in the German state of Saarland. The warehouse constructed in the Czech Republic in 2007 was expanded by 5,000 pallet spaces in 2008. In Spain, Movianto built a second warehouse with space for 13,000 pallets. In addition to successful cooperation with one of the world's leading generic medicine manufacturers in France and the Czech Republic, Movianto also took on the storage and distribution of 200 of this company's medicines in Germany in 2008.

Celesio Solutions

pharmexx offers efficient personnel solutions

Pharmaceutical companies are increasingly opting for flexibility in their sales activities. This is why many pharmaceutical manufacturers are partially or entirely outsourcing their field sales. One service provider that offers manufacturers customised, cost-efficient personnel and marketing solutions is pharmexx GmbH. Celesio has a 30 per cent stake in pharmexx. The company is present in 26 countries and is amongst the world's leading sales and marketing service providers for the pharmaceutical industry. Many international manufacturers rely on pharmexx's services. Due to weak market development in 2008 and the exit from the Italian market, pharmexx earnings and thus Celesio's income from participation from pharmexx were reduced.

Gross profit Celesio Solutions
in € m



Profit development

In 2008, Celesio Solutions increased **gross profit*** by 1.1 per cent from 161.5 million euros in the previous year to 163.4 million euros. Adjusted for currency effects, the gross profit increase amounted to 6.8 per cent.

The expansion of warehouse capacity by Movianto in Germany and Spain and increased transport costs led to an increase in **other expenses**.

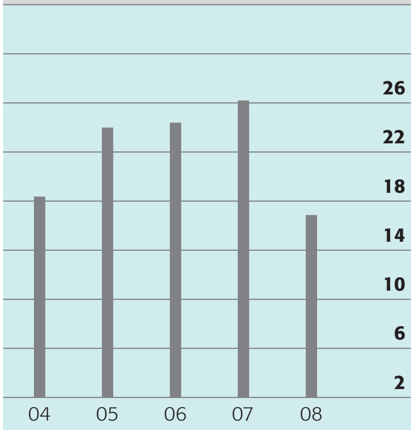
* For Celesio Solutions, the absolute gross profit instead of revenue is the relevant performance metric. This is because customers normally pay performance-related fees. Trading revenue is generated only in a very few cases. The gross profit is calculated as the sum of fee income plus the trading margin. The gross profit ratio is not a meaningful figure due to the particular structure of revenue.

Personnel expenses were 2.1 per cent higher than in the previous year (8.6 per cent higher when adjusted for currency effects). The decisive factor here was new contracts, some of which had greater personnel requirements, and wage increases arising from collective wage agreements.

The increase in other expenses and personnel expenses, in addition to the start-up costs for a new contract in France, led to a fall in **EBITDA** of 16.8 million euros (2007: 26.1 million euros). This represents a fall of 35.6 per cent (32.5 per cent fall when adjusted for currency effects).

EBIT stood at 10.7 million euros, which meant a 43.4 per cent decrease from the previous year's level of 18.9 million euros (a 40.5 per cent fall when adjusted for currency effects).

EBITDA
Celesio Solutions
in € m



Celesio Solutions	2007		**2008**		Change on a euro basis	Change in local currency
	€ m	% of gross profit	**€ m**	**% of gross profit**	%	%
Gross profit	161.5	100.00	**163.4**	**100.00**	1.1	6.8
EBITDA	26.1	16.17	**16.8**	**10.30**	−35.6	−32.5
EBIT	18.9	11.70	**10.7**	**6.55**	−43.4	−40.5

Celesio
Consolidated Financial Statements

Income Statement for the 2008 Fiscal Year of the Celesio Group

	Notes	2007 € k	2008 € k
Revenue	1	**22,349,472**	**21,828,628**
Own work capitalised		629	1,498
Total operating performance		**22,350,101**	**21,830,126**
Cost of raw materials, consumables and supplies and of purchased goods		– 19,826,387	– 19,419,641
Gross profit		**2,523,714**	**2,410,485**
Other income*	2	229,216	181,233
Other expenses*	3	– 708,113	– 712,647
Personnel expenses	4	– 1,219,287	– 1,208,570
Income from investments accounted for using the equity method	5	2,952	– 143
Net income from other investments	5	14,044	– 13,059
EBITDA		**842,526**	**657,299**
Amortisation of intangible assets and depreciation of property, plant and equipment	6	– 114,778	– 114,083
Impairment of goodwill	6	0	– 287,000
EBIT		**727,748**	**256,216**
Interest expense	7	– 139,739	– 145,766
Interest income	7	14,198	17,227
Other financial result	7	6,606	– 2,466
Profit before tax		**608,813**	**125,211**
Income taxes	8	– 173,395	– 143,738
Net profit/loss		**435,418**	**– 18,527**
Profit attributable to minority interests		4,854	2,469
Profit attributable to equity holders of Celesio AG		**430,564**	**– 20,996**
Earnings per share – basic (€)	9	**2.53**	**– 0.12**
Earnings per share – diluted (€)	9	**2.53**	**– 0.12**

* Other income and expenses have been presented separately since the reporting year 2008. The 2007 figures have been adjusted accordingly

Balance Sheet at 31 December 2008 of the Celesio Group

		Notes	31/12/2007 € k	**31/12/2008** **€ k**
Assets	**Non-current assets**			
	Intangible assets	10	2,966,500	2,438,063
	Property, plant and equipment	11	646,192	600,179
	Associates accounted for using the equity method	12	54,903	51,243
	Other financial assets		146,978	146,098
	Income tax receivables		4,143	3,823
	Deferred tax assets	13	48,233	47,736
			3,866,949	**3,287,142**
	Current assets			
	Inventories	14	1,640,781	1,453,177
	Trade receivables	15	2,503,947	2,487,051
	Income tax receivables	15	55,125	7,490
	Other receivables and other assets	15	269,245	235,033
	Cash and cash equivalents	16	7,130	53,445
			4,476,228	**4,236,196**
	Total assets		**8,343,177**	**7,523,338**

		Notes	31/12/2007 € k	**31/12/2008** **€ k**
Equity and liabilities	**Equity**	17		
	Issued capital		217,728	217,728
	Capital reserves		1,113,030	1,113,030
	Revenue reserves		1,451,912	1,299,939
	Revaluation reserves		20,729	−369,761
	Equity attributable to shareholders of Celesio AG		**2,803,399**	**2,260,936**
	Minority interests		16,212	8,706
			2,819,611	**2,269,642**
	Liabilities			
	Non-current liabilities			
	Financial liabilities	21	2,049,342	1,982,596
	Pension provisions	18	136,406	134,387
	Other non-current provisions	19	35,107	34,740
	Other liabilities	20	18,561	17,502
	Deferred tax liabilities	13	85,572	88,237
			2,324,988	**2,257,462**
	Current liabilities			
	Financial liabilities	21	312,485	233,889
	Trade payables	22	2,124,919	2,135,889
	Other current provisions	19	128,473	109,449
	Income tax liabilities	20	145,438	54,759
	Other liabilities	20	487,263	462,248
			3,198,578	**2,996,234**
	Total equity and liabilities		**8,343,177**	**7,523,338**

Cash Flow Statement for the 2008 Fiscal Year of the Celesio Group

	2007 € k	**2008** **€ k**
Net profit/loss	435,418	– 18,527
Depreciation and amortisation less write-ups of intangible assets and property, plant and equipment	109,689	401,033
Net result from disposals of non-current assets	– 65,502	– 13,207
Non-cash changes in net working capital	49,787	76,760
Other non-cash income and expenses	– 29,233	9,579
Cash flow	**500,159**	**455,638**
Change in operating assets	– 108,490	– 134,470
Change in operating liabilities	– 220,953	91,497
Net cash flow from operating activities	**170,716**	**412,665**
Proceeds from the disposal of non-current assets	46,887	14,096
Investment in non-current assets	– 156,846	– 153,462
Proceeds from the disposal of subsidiaries	34,820	7,324
Cash paid for acquisitions of subsidiaries	– 452,903	– 133,110
Net cash flow from investing activities	**– 528,042**	**– 265,152**
Dividends paid to shareholders	– 128,672	– 133,041
Proceeds from borrowings	761,132	493,469
Repayment of borrowings	– 277,439	– 459,129
Net cash flow from financing activities	**355,021**	**– 98,701**
Net change in cash and cash equivalents	**– 2,305**	**48,812**
Net foreign exchange difference	– 209	– 2,497
Cash and cash equivalents at the beginning of the period	9,644	7,130
Cash and cash equivalents at the end of the period	**7,130**	**53,445**

The change in cash from operating activities includes interest income of € 17,178 k (2007: € 14,211 k), interest payments of € 140,757 k (2007: € 131,381 k) and dividend payments of € 10,417 k (2007: € 5,376 k). Income taxes resulted in cash payments of € 129,526 k (2007: € 144,248 k).

Please refer to page 218 for further explanations.

Statement of Shareholders' Equity for the 2008 Fiscal Year of the Celesio Group

	Issued capital	Capital reserves	Revenue reserves	Revaluation reserves		**Equity attributable to share-holders of Celesio AG**	**Minority interests**	**Equity**
				Currency reserves	Other com-prehensive income			
	€ k	€ k	€ k	€ k	€ k	**€ k**	**€ k**	**€ k**
1/1/2008	**217,728**	**1,113,030**	**1,451,912**	**–4,997**	**25,726**	**2,803,399**	**16,212**	**2,819,611**
Revaluation of financial instruments	0	0	0	0	–46,640	–46,640	–1	–46,641
Currency adjustments	0	0	0	–339,960	–3,890	–343,850	–1	–343,851
Gains or losses recognised directly in equity	**0**	**0**	**0**	**–339,960**	**–50,530**	**–390,490**	**–2**	**–390,492**
Net profit/loss	0	0	–20,996	0	0	–20,996	2,469	–18,527
Sum of gains and losses recognised directly in equity and posted to profit and loss	**0**	**0**	**–20,996**	**–339,960**	**–50,530**	**–411,486**	**2,467**	**–409,019**
Dividends	0	0	–130,977	0	0	–130,977	–2,064	–133,041
Changes to consolidated group/others	0	0	0	0	0	0	–7,909	–7,909
31/12/2008	**217,728**	**1,113,030**	**1,299,939**	**–344,957**	**–24,804**	**2,260,936**	**8,706**	**2,269,642**
1/1/2007	**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
Recognition of financial instruments in profit and loss	0	0	0	0	–6,452	–6,452	0	–6,452
Currency adjustments	0	0	0	–109,357	–1,849	–111,206	–7	–111,213
Gains or losses recognised directly in equity	**0**	**0**	**0**	**–109,357**	**832**	**–108,525**	**–8**	**–108,533**
Net profit/loss	0	0	430,564	0	0	430,564	4,854	435,418
Sum of gains and losses recognised directly in equity and posted to profit and loss	**0**	**0**	**430,564**	**–109,357**	**832**	**322,039**	**4,846**	**326,885**
Dividends	0	0	–127,575	0	0	–127,575	–1,097	–128,672
Changes to consolidated group/others	0	0	0	0	0	0	–6,662	–6,662
31/12/2007	**217,728**	**1,113,030**	**1,451,912**	**–4,997**	**25,726**	**2,803,399**	**16,212**	**2,819,611**

More information can be found in note (17).

Segment reporting for the 2008 fiscal year of the Celesio Group by business division

	Celesio Wholesale		Celesio Pharmacies		Celesio Solutions	
	2007 € k	**2008 € k**	2007 € k	**2008 € k**	2007 € k	**2008 € k**
Revenue	**17,730,416**	**17,213,652**	**3,618,670**	**3,554,864**	**1,322,756**	**1,403,554**
External revenue	17,730,416	17,213,631	3,618,670	3,554,864	1,000,386	1,056,557
Inter-segment revenue	0	21	0	0	322,370	346,997
Gross profit	**1,086,968**	**1,052,689**	**1,275,234**	**1,193,855**	**161,512**	**163,357**
EBITDA	**431,542**	**394,522**	**438,269**	**329,714**	**26,118**	**16,818**
Segment profit/loss from operations	**375,995**	**336,611**	**386,734**	**– 5,408**	**17,039**	**11,220**
Reconciliation to EBIT Income from investments accounted for using the equity method	973	326	114	56	1,865	– 525
EBIT	**376,968**	**336,937**	**386,848**	**– 5,352**	**18,904**	**10,695**
Other notes to the income statement Amortisation of intangible assets and depreciation of property, plant and equipment	54,574	48,785	51,421	56,866	7,214	6,123
Impairment of goodwill	0	8,800	0	278,200	0	0
Other non-cash expenses	66,006	55,929	1,487	6,495	2,707	3,064
Assets, liabilities and capital expenditures Segment assets	4,334,458	4,235,890	3,406,115	2,754,334	389,184	425,045
of which goodwill	485,239	439,341	2,217,129	1,746,517	92,572	78,561
Segment liabilities	2,094,979	2,037,519	531,910	526,308	206,390	262,166
Associates accounted for using the equity method	8,932	3,287	268	244	45,703	47,712
Capital expenditures	44,783	64,704	627,881	185,921	5,100	11,219
Employees Average for year	14,071	13,180	21,119	22,664	1,542	1,649
31/12	13,543	13,132	22,153	22,673	1,569	1,692

More information can be found from page 219 onwards in the notes.

Others		Consolidation		Group	
2007 € k	**2008 € k**	2007 € k	**2008 € k**	2007 € k	**2008 € k**
0	**4,281**	**−322,370**	**−347,723**	**22,349,472**	**21,828,628**
0	3,576	0	0	22,349,472	21,828,628
0	705	−322,370	−347,723	0	0
0	**584**	**0**	**0**	**2,523,714**	**2,410,485**
−53,403	**−83,755**	**0**	**0**	**842,526**	**657,299**
−54,972	**−86,064**	**0**	**0**	**724,796**	**256,359**
0	0	0	0	2,952	−143
−54,972	**−86,064**	**0**	**0**	**727,748**	**256,216**
1,569	2,309	0	0	114,778	114,083
0	0	0	0	0	287,000
160	24,526	0	0	70,360	90,014
104,514	87,833	−23,524	−60,172	8,210,747	7,442,930
2,103	91	0	0	2,797,043	2,264,510
77,200	70,124	−9,707	−69,801	2,900,772	2,826,316
0	0	0	0	54,903	51,243
14,582	16,244	0	0	692,346	278,088
244	243	0	0	36,976	37,736
251	249	0	0	37,516	37,746

Segment reporting for the 2008 fiscal year of the Celesio Group by geographical region

	Germany		France		United Kingdom		Other countries		Group	
	2007 € k	**2008 € k**	2007 € k	**2008 € k**	2007 € k	**2008 € k**	2007 € k	**2008 € k**	2007 € k	**2008 € k**
Segment revenue	3,656,129	3,752,818	7,208,287	7,136,991	5,889,435	5,158,614	5,595,621	5,780,205	22,349,472	21,828,628
Segment assets	937,145	988,882	1,287,066	1,335,574	3,194,713	2,512,559	2,791,823	2,605,915	8,210,747	7,442,930
Segment capital expenditures	218,749	25,300	9,259	14,591	311,174	129,921	153,164	108,276	692,346	278,088

More information can be found from page 219 onwards in the notes.

General

Basis of presentation

The consolidated financial statements for the year ended 31 December 2008 of Celesio AG have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, UK, 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 (€ k).

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. In contrast to the prior year, other income and expenses are already disclosed as separate items in the income statement. Until now they were only broken down in the notes to the financial statements. This serves to improve the information value of the income statement.

The registered offices of Celesio AG are located in Stuttgart, Germany, at the following address: Celesio AG, Neckartalstrasse 155, 70376 Stuttgart. The shares of Celesio AG are publicly traded.

The consolidated financial statements were authorised for issue by the management board on 16 February 2009.

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 at acquisition cost if no market value is available and fair value cannot be reliably determined.

The consolidated financial statements have been prepared from the separate financial statements of consolidated group companies at 31 December 2008. 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.

General

Pursuant to IFRS 3, any equity interest in subsidiaries has been consolidated using the purchase method of accounting, i.e. assets and liabilities and, if the criteria of IFRS 3 are met, any contingent liabilities are measured at their fair value at the date when control is transferred. Interim financial statements were prepared for this purpose. Any difference arising between the purchase price and the share in the net assets of the company acquired is allocated to the respective assets and liabilities where their carrying values differ from their fair values. Purchase price payments that are contingent on future events were considered in the purchase accounting to the extent they are probable and can be reliably estimated. Any remaining difference attributable to the group is recognised as goodwill under 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 599 fully consolidated domestic and foreign companies (2007: 603). This includes 8 (2007: 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. In addition, 5 companies are included due to option agreements to offer for sale or purchase shares not held by Celesio, even though an actual voting majority is not held.

As compared to the prior year the group of consolidated companies has developed as follows:

1/1/2008	**603**
Acquisition of shares	46
Formation of new companies	8
Mergers with other group companies	– 28
Disposals	– 3
Liquidations	– 27
31/12/2008	**599**
of which domestic companies	26
of which foreign companies	573

10 (2007: 15) associates have been consolidated using the equity method.

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

Acquisitions and disposals of companies in the fiscal year 2008

In the fiscal year 2008, a total of 85 pharmacies were consolidated for the first time in the Celesio Pharmacies division. In most cases, all of the shares were acquired. In isolated cases, they were included in the consolidation due to option agreements exercisable as of the cut-off date without Celesio actually having a voting majority. Option agreements to sell and purchase shares for all shares not held by Celesio have been agreed with some of the remaining shareholders. These were included in full in the consolidated financial statements, disclosing any purchase price obligation. The first-time consolidations were carried out on the basis of preliminary purchase price allocations, to the extent that the determination of the fair values had not been completed at balance sheet date. The purchase price allocation is always completed within twelve months of the date of acquisition.

The acquisition cost, including purchase price payments contingent on future events and incidental acquisition costs, amounted to € 136,571 k. The acquisition cost includes an amount of € 5,332 k 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 were settled in full by cash payments, i.e. no treasury shares were issued.

General

The fair value of identifiable assets and liabilities on the date of acquisition of the companies acquired in the reporting year and the corresponding carrying amount directly before the date of acquisition are presented in the following table:

	Carrying amount before acquisition € k	Fair value € k
Intangible assets	3,572	21
Property, plant and equipment	4,988	6,295
Deferred tax assets	5	5
Inventories	6,722	6,722
Trade receivables	10,452	10,452
Cash and cash equivalents	5,332	5,332
Other assets	4,267	4,267
	35,338	**33,094**
Financial liabilities	9,719	9,719
Deferred tax liabilities	49	454
Trade payables	5,929	5,929
Other liabilities	5,366	5,540
	21,063	**21,642**

Goodwill amounts to € 124,331 k. 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.

Revenue of € 90,797 k and net profit for the year of € 6,455 k was generated by companies acquired in the reporting year. If these companies had already been purchased at the beginning of the fiscal year, they would have contributed € 120,911 k to revenue and € 8,163 k to the net profit of the Celesio Group.

Pharmacies in the UK and a company of Celesio Wholesale in Norway were sold in the reporting year, with an overall cash proceeds of € 7,374 k. Assets of € 4,032 k and liabilities of € 2,526 k were sold in the course of the transactions. In the reporting period the companies generated revenue of € 3,014 k.

Changes to the consolidated group do not affect comparability with the prior year.

No major acquisitions were made after the balance sheet date but before approval was given for the issue of the financial statements.

Acquisitions and disposals of companies in the fiscal year 2007

In total, 149 pharmacies were acquired as wholly owned subsidiaries in the fiscal year 2007, primarily in the United Kingdom. In addition, the DocMorris Group was included in the consolidated financial statements as part of the Celesio Pharmacies division at 31 May 2007. At the balance sheet date, Celesio held a 90.44 % shareholding in the DocMorris Group. Since option agreements for the acquisition of remaining shares not held by Celesio were agreed on with the remaining shareholders, the acquisition cost of the company was calculated on the basis of a 100 % share acquisition. Acquired companies were initially consolidated on the basis of provisional figures, and adjusted for the definitive values if necessary within twelve months in accordance with IFRS 3.62. Purchase price allocations for acquisitions in 2007 have since been concluded following the completion of expert valuations. The final values are presented below. There is no significant impact on earnings for the comparative period.

The acquisition cost, including purchase price payments contingent on future events, amounted to € 494,581 k. Of this amount € 182,932 k is attributable to the acquisition of the DocMorris Group. The acquisition cost includes an amount of € 16,134 k (thereof pertaining to the DocMorris Group: € 1,397 k) 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 were settled in full by cash payments, i.e. no treasury shares were issued. Liabilities relating to purchase agreements amounting to € 28,052 k exist for the acquisition of the DocMorris Group at the date of acquisition.

Companies acquired in the course of the past fiscal year generated revenue of € 239,318 k, (thereof pertaining to the DocMorris Group: € 127,069 k) and net profit of € 19,320 k (thereof pertaining to the DocMorris Group: € 7,435 k). If these companies had already been purchased at the beginning of the fiscal year, they would have contributed € 430,877 k (thereof DocMorris Group: € 213,163 k) to revenue and € 23,711 k (thereof DocMorris Group: € 4,360 k) to the net profit of the Celesio Group.

The fair value of identifiable assets and liabilities on the date of acquisition of the companies acquired in 2007 and the corresponding carrying amount directly before the date of acquisition are presented in the following table:

	Carrying amount before acquisition			Fair value		
	Total	DocMorris Group	Other acquisitions	**Total**	DocMorris Group	Other acquisitions
	€ k	€ k	€ k	**€ k**	€ k	€ k
Intangible assets	**31,988**	1,583	30,405	**107,611**	100,533	7,078
Property, plant and equipment	**21,426**	1,088	20,338	**21,426**	1,088	20,338
Deferred tax assets	**6,486**	6,053	433	**9,253**	8,820	433
Inventories	**21,589**	7,499	14,090	**21,589**	7,499	14,090
Trade receivables	**58,119**	21,684	36,435	**57,969**	21,534	36,435
Cash and cash equivalents	**16,134**	1,397	14,737	**16,134**	1,397	14,737
Other assets	**11,743**	396	11,347	**13,024**	1,678	11,346
	167,485	**39,700**	**127,785**	**247,006**	**142,549**	**104,457**
Financial liabilities	**46,806**	14,307	32,499	**46,806**	14,307	32,499
Deferred tax liabilities	**409**	86	323	**36,377**	36,054	323
Trade payables	**49,911**	27,729	22,182	**49,911**	27,729	22,182
Other liabilities	**29,150**	7,391	21,759	**43,569**	20,651	22,918
	126,276	**49,513**	**76,763**	**176,663**	**98,741**	**77,922**

In the course of the purchase price allocation of the DocMorris Group completed by 31 December 2007, part 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 k) and brand names (€ 73,879 k) and recognised as intangible assets. In addition, contingent liabilities were recognised totalling € 13,411 k.

Goodwill amounted to € 407,592 k. This is primarily attributable to the DocMorris Group (€ 123,593 k) and acquisitions in the Celesio Pharmacies division (€ 283,999 k). 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.

During the fiscal year 2007, the two units acquired in connection with the acquisition of the Slovenian Wholesale division, PharmaFarm S.A., Romania and Unipharm d.o.o., Croatia, were sold in addition to a number of individual pharmacies. Unipharm d.o.o. and PharmaFarm S.A. were deconsolidated upon the loss of control in December. Assets totalling € 57,409 k (subdivided into non-current assets of € 5,793 k and current assets of € 51,615 k) and liabilities totalling € 53,833 k (subdivided into non-current liabilities of € 244 k and current liabilities of € 53,589 k) were sold. In the fiscal year 2007, the companies generated revenue of € 93,297 k. Taking account of the loss of cash and cash equivalents (€ 192 k) the total cash impact of the sale of all units was € 34,820 k. The sale did not include any non-cash components.

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 concept. Since the companies of the Celesio Group operate their businesses independently, the assets and liabilities have been translated at the average closing rate on the balance sheet date in accordance with IAS 21. Income statement items are translated using 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 translated using the average closing rate at the balance sheet date. In the event that companies leave the consolidated group, any currency differences carried in equity are released to profit and loss. Changes in exchange rates on the prior year are as follows:

Country	Currency	Closing rate		Average rate	
		31/12/2007	**31/12/2008**	2007	**2008**
United Kingdom	**GBP**	0.7334	0.9525	0.6840	0.7944
Norway	**NOK**	7.9580	9.7500	8.0133	8.1988
Czech Republic	**CZK**	26.6280	26.8750	27.7499	24.9223
Romania	**RON**	3.6077	–	3.3316	–
Croatia	**HRK**	7.3310	–	7.3376	–
Denmark	**DKK**	7.4583	7.4506	7.4506	7.4560

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 summyrised 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.

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 at fair value through profit or 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. Borrowing costs are not capitalised. Assets with a limited useful life are amortised using the straight-line method.

Internally generated intangible assets from which future benefits are likely to flow to the group and which can be reliably evaluated are recognised at the cost of production. The cost of production includes all costs directly attributable to development as well as an appropriate portion of attributable 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 suggest 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 tested for impairment at least once annually in accordance with IAS 36 or if there is any indication of impairment. Impairment losses are determined based on the allocation of goodwill or trade names to cash-generating units. For the Pharmacies and Wholesale divisions, these correspond to the national units (e.g. Celesio Wholesale Germany). Movianto is treated as a cash-generating unit within the Celesio Solutions division.

Impairment losses are recognised at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's value in use and its current market value less the costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit concerned. The planning covers a period of five years. The planning figures are extrapolated to the following years using a constant growth rate. The growth rates after the detailed planning period are based on historical growth rates, external studies on future medium-term market developments taking into account the development of Celesio compared to market growth and expectations as to long-term market growth in light of demographic developments. The budgeted figures are based on past developments and expectations of future market developments. Significant planning assumptions relate to revenue growth, the development of the gross margin and the operating margins as well as the development of the number of brand partnerships in the case of franchise models. Cash flows are discounted using the weighted cost of capital (before taxes) which is calculated individually for each cash-generating unit. The cost of capital is composed of borrowing cost, which is based on long-term market interest rates, and the cost of equity, which is calculated on the basis of a risk-free rate of return, a sector-specific risk premium and a country-specific risk premium. In a second step, fair values are calculated where appropriate based on observable comparable market transactions. Selling costs correspond to the best available estimate on the basis of past experience.

General

The table below summarises the parameters used for the calculation of value in use in 2008 for each segment or significant unit:

	Goodwill		Weighted cost of capital		Growth after detailed planning period	
	2007 € m	**2008 € m**	2007 %	**2008 %**	2007 %	**2008 %**
Celesio Wholesale	485.2	**439.3**	8.2 – 12.1	**9.6 – 12.9**	3.0	**3.0**
Celesio Pharmacies	2,217.1	**1,746.5**	8.2 – 11.8	**9.1 – 13.4**	3.0	**3.0**
thereof UK	1,282.0	**1,062.7**	9.8	**10.1 – 10.8**	3.0	**3.0**
Celesio Solutions	92.6	**78.6**	9.3	**10.2**	3.0	**3.0**

Scenarios for critical calculation parameters such as the weighted cost of capital and growth after the detailed planning phase are carried out to validate the values in use. In the reporting year, the scenarios did not provide any diverging findings about the existence or amount of impairment requirements.

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.

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

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

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

Where necessary, impairment losses are recorded on items of property, plant and equipment 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 lease agreements have terms of up to 10 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 a right of first refusal.

Investments and **financial assets classified as available for sale** and **at fair value through profit or loss** are initially recognised at historical cost and allocated to a category in accordance with IAS 39. Acquisitions and disposals are recognised on their settlement date. These assets are measured at fair value in subsequent periods if this can be reliably determined. Fair value is determined from the official listings issued by public exchanges. In the available-for-sale category of financial assets, unrealised gains or losses are reported in other comprehensive income under equity until they are realised after considering any deferred tax effects. If their fair value falls below their carrying amount for the foreseeable future, an impairment loss is recorded against income. If the reasons for the impairment losses no longer apply, they are reversed without effect on income. In the financial assets measured at fair value through profit or loss category, on the other hand, changes in market value are recognised directly in the income statement. If no active market exists, 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 profit or loss category. The seller had a covered option for the corresponding investment until the end of 2006. Generally, this purchase option of the seller is accounted for at fair value through profit or 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 avoided incongruence in their measurement. The purchase option lapsed at the end of 2006. This does not affect the classification of the financial asset measured at fair value through profit or loss. Thus fluctuations in the fair value of the financial asset now 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 attributable to Celesio, regardless of their impact on profit or loss. 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 the total carrying amount of the investment is impaired. Listed market prices do not exist for any of the associates accounted for at equity.

Raw materials, consumables and supplies, finished goods and **merchandise** are recognised at cost based on weighted average purchase prices and the first-in first-out method 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 addition costs. 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. Allowances on receivables are recognised in a separate valuation account. Defaults are immediately recognised. The maximum possible theoretical bad debt risk is equal to the carrying amount. Carrying amounts generally correspond with fair value. Receivables denominated in foreign currency were translated using the average exchange rate prevailing on the balance sheet date. Changes in value due to exchange rate fluctuations were posted to the income statement.

Tax receivables and **tax liabilities** are measured at the amount expected to be received from 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 average 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 exposure, interest exposure and the risk 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 and subsequently measured at their market value at 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 recognised directly in the profit or loss for the period. By contrast, that portion of the change in value of a cash flow hedge that qualifies as an highly effective hedge is recognised directly in shareholders' equity until the underlying future cash flow occurs.

Currency derivatives used as hedges for fair value risks are generally subject to the rules on hedge accounting. The changes in the fair value of these derivatives which, from an economic point of view, are an effective hedge within the context of the group's 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 rates for the respective residual term of the derivatives are taken.

Depending on their market 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 on temporary differences between the carrying values recognised in the consolidated financial statements and the tax base of assets and liabilities as well as any deferred taxes arising from consolidation. No deferred tax liabilities are recorded for the retained earnings of domestic and foreign subsidiaries or affiliated companies if they are expected to remain within the company for a foreseeable period of time. Unused tax losses that are likely to be utilised 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 various countries at the time they were recognised or which have been enacted for future periods. For German companies, the average tax rate used since 1 July 2007 is 30.7 %.

General

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 service period 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.

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 a provision cannot be recognised because one of the above criteria is not met, the obligation is disclosed under contingent liabilities. Provisions for impending losses are recognised if the contractual obligation is higher than the expected economic benefit. Provisions for financial guarantees are set up at the amount expected to be utilised pursuant to IAS 39 in conjunction with IAS 37. Where there are many similar financial guarantees, these are treated as a portfolio.

Provisions with a term of more than 12 months are discounted. This involves applying interest rates ranging from 3.0 % to 4.3 % (2007: 4.3 % to 5.5 %) depending on the term and currency zone.

Liabilities are carried at amortised cost, generally the amount needed to settle the obligation, except in the case of derivative financial instruments. Financial derivatives are recognised at fair value in accordance with IAS 39.

Financial liabilities designated as the underlying transaction 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 average closing rate at the balance sheet date. Any resulting changes in value are recognised in the income statement.

Shares in assets and liabilities originally classified as non-current whose residual terms are less than one year are reported under current assets as a matter of 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 the receipt of royalties. In the Celesio Solutions division revenue is also generated from services related to manufacturers. 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. License revenue is recognised in the period it is received and in accordance with the respective contractual provisions.

New International Financial Reporting Standards

Since 2006 a number of new IFRSs and IFRICs have been released which became mandatory in 2008:

- In 2006, the IFRIC 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 or after 1 March 2007. The interpretation does not have any impact on the consolidated financial statements of Celesio.
- **IFRIC 12** – Service Concession Agreements was published by the IFRIC in November 2006 and deals with public-to-private service concession arrangements. The interpretation gives guidance on the accounting by private sector entities of the rights and obligations of these kinds of arrangement. Adoption of IFRIC 12 is mandatory for reporting periods beginning on or after 1 January 2008, but has no significance for Celesio.
- In mid-2007, IFRIC published **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 plans 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 1 January 2008. The interpretation does not have a material impact on the presentation of the consolidated financial statements.

General

Since 2006, IASB has published some new standards and revisions to existing standards which must be applied to fiscal periods beginning on or after 1 January 2009. The application of these standards is contingent upon the EU recognising those standards which it has not yet endorsed. Specifically, the standards concerned are:

- In 2006, the IASB published **IFRS 8 (2006)** – Operating Segments which replaces IAS 14 Segment Reporting. IFRS 8 requires that the reporting on the economic situation of the segments be in accordance with the regular review of the chief operation decision maker. The segments and the segment figures are therefore defined on the basis of the internal control system used 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 1 January 2009; early adoption is permitted. Celesio does not currently believe that the adoption of the standard will have a material affect on the presentation of the 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 in profit or loss of borrowing costs will be abolished. The revised standard has to be adopted for borrowing costs of qualifying assets recognised on or after 1 January 2009. Early adoption is permitted. Celesio does not currently expect the revised standard to have a material effect on the consolidated financial statements.

- Application of the revised version of **IAS 1** – Presentation of Financial Statements published in September 2007 is also mandatory for reporting periods beginning on or after 1 January 2009. Early adoption is permitted. The revision is intended to improve readers' ability to analyse and compare the information given in financial statements. The main changes relate to the requirement to include comprehensive income in the income statement and the requirement of an entity to present a statement of financial position as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement. First-time application of this standard will not have a material effect on the consolidated financial statements.

- IASB issued an amendment to **IFRS 2** – Share-based Payment in January 2008. The amendment clarifies that vesting conditions are service conditions and performance conditions only. It also specifies that the same accounting treatment applies to all cancellations, regardless of which party cancelled the plan. The amendments will apply retrospectively for annual periods beginning on or after 1 January 2009, with earlier adoption permitted. Celesio currently assumes that application of the amendments will not have a material impact on the presentation of the consolidated financial statements.

- A revised version of **IFRS 3** – Business Combinations and amendments to **IAS 27** – Consolidated and Separate Financial Statements were also issued in January 2008. A major change is the option for entities to apply the full goodwill method and thus recognise the pro rata share of goodwill of minority interests acquired in the business combination. The treatment of costs incurred in relation to business combinations has also been changed; they are no longer capitalised as incidental costs of acquisition but recorded as expenses. Exceptions to this are costs for debt and equity instruments issued. These are accounted for in accordance with IAS 39. In the case of business combinations achieved in stages, the revision requires the assets and liabilities of the acquiree be revalued at fair value on the date of assumption of control. The difference between the acquisition-date fair value and the carrying value of the acquirer's previously held equity interest in the acquiree must be recognised in profit and loss. Furthermore, some disposals of shares in subsidiaries are recognised in equity as transactions with owners if they do not result in a loss of control. The amendments are mandatory for annual periods beginning on or after 1 July 2009, with earlier adoption permitted. Celesio is currently examining the implications of the future adoption of the amendments for the consolidated financial statements.
- In February 2008, IASB published amendments to **IAS 32** – Financial Instruments: Presentation and Disclosure and IAS 1 – Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation. The amendments to IAS 32 require certain puttable financial instruments, which rank after all other instruments and which only entitle the owner to a pro rata share of the net assets of the entity on liquidation, to be classified as equity. The same applies to certain obligations which only arise on liquidation. The changes to IAS 1 also require additional disclosures on the financial instruments affected. The revisions are mandatory for reporting periods beginning on or after 1 January 2009. Early adoption is permitted. Celesio does not currently believe that the adoption of the amendments will have a material effect on the presentation of the consolidated financial statements.
- In the revision to **IAS 39** – Financial Instruments: Recognition and Measurement – Eligible Hedged Items issued in July 2008, IASB clarified the circumstances under which inflation risks may be designated as an underlaying item within hedge accounting. It also deals with the designation of a one-sided risk in an underlaying item as in the case of an option purchased as a hedging instrument. Retroactive application of the amendments is mandatory for annual periods beginning on or after 1 January 2009, with early adoption permitted. Celesio does not currently believe that the adoption of the amendments will have a material effect on the presentation of the consolidated financial statements.

- In response to the crisis on the financial markets, IASB also issued amendments to **IAS 39** – Financial Instruments: Recognition and Measurement and **IFRS 7** – Financial Instruments: Disclosures entitled Reclassifications of Financial Assets in October 2008. These amendments permit an entity to reclassify certain non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the category of financial assets valued at fair value in particular circumstances. The amendments aim to reduce the differences between financial statements prepared in accordance with US-GAAP and IFRS and provide the readers of financial statements with reliable information by permitting reclassifications which were previously already permissible under US-GAAP. The changes apply retroactively to reporting periods beginning on or after 1 July 2008. These amendments are not material for the consolidated financial statement of Celesio.
- In the course of its first annual amendment process, IASB published the first **"Omnibus of Amendments"** to its standards on 22 May 2008. The Board divided the amendments into two parts. Only the amendments contained in the first part relate to accounting. The second part is concerned solely with changes to terminology and phrasing and is immaterial for accounting purposes. The vast majority of the amendments come into force for reporting periods beginning on or after 1 January 2009; early adoption is permitted. Celesio does not currently believe that the adoption of the amendments will have a material effect on the presentation of the 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 must be 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 1 July 2008. It does not have a material impact on the presentation of the consolidated financial statements.
- IASB published **IFRIC 15** – Agreements for the Construction of Real Estate in July 2008. The interpretation deals with the accounting of real estate sales where a contract with the purchaser is signed before construction is complete. It clarifies the circumstances under which an agreement falls under the scope of IAS 11 or IAS 18. The interpretation must be adopted for the first time for reporting periods beginning on or after 1 January 2009. It does not have an impact on the presentation of the consolidated financial statements.

- **IFRIC 16** – Hedges of a Net Investment in a Foreign Operation issued by the IFRIC in July 2008 deals with hedge accounting of foreign currency risks arising from a net investment in a foreign operation. It clarifies which risks require a hedging relationship to be accounted for in accordance with IAS 39 Financial Instruments and where, within a group, hedging instruments to minimize risk can be held to qualify for hedge accounting. The interpretation applies to reporting periods beginning on or after 1 October 2008. Early adoption is recommended. The interpretation does not have any impact on the consolidated financial statements of Celesio.
- In November 2008, the IFRIC enacted the interpretation **IFRIC 17** – Distributions of Non-Cash Assets to Owners. This interpretation regulates the measurement of dividend obligations which are settled by transferring assets other than cash. The obligation has to be recognised when the dividends have been approved by the relevant bodies and is no longer at the discretion of the entity. It is measured at the fair value of the assets to be distributed. The interpretation applies to fiscal years beginning on or after 1 July 2009. Early adoption is recommended. This interpretation does not have any impact on the consolidated financial statements of Celesio.
- **IFRIC 18** – Transfers of Assets from Customers, which was published in January 2009, deals with the accounting treatment of agreements under which an entity receives items of property, plant and equipment from a customer which it has to use to ensure that the customer has permanent access to the supply of goods or services or to connect it to a supply network. The interpretation is thus particularly relevant for the utilities industry. It applies to fiscal years beginning on or after 1 July 2009; early adoption is possible under certain conditions. IFRIC 18 is of no significance for the consolidated financial statements of Celesio.

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

General

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 on expenses and income.

Accounting for acquisitions

In the course of business combinations goodwill is disclosed in the balance sheet. Upon first-time consolidation, all the identifiable assets, liabilities and contingent liabilities are carried at fair value. The carrying amounts are estimated and as such 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 management's assumptions 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 future assumptions. Planning for a five-year period is based on past developments and anticipated market development. The most important assumptions when estimating the impairment of goodwill are estimated growth rates and weighted cost of capital. These assumptions 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 judgments of individual receivables taking the creditworthiness of the respective customer into account.

Provisions

When measuring provisions, particularly relating to pension obligations, to property, litigation risks and potential losses and restructuring measures, assumptions and estimates play an important role when assessing the probability of utilisation, the obligation amount and the interest rates used for non-current provisions.

Deferred taxes

The measurement of deferred tax assets and liabilities requires management to make assumptions and estimates. Besides interpreting the tax provisions applicable to the tax paying entity in each case, the calculation of deferred tax assets on temporary differences and unused tax losses depends in particular on an appraisal of whether the entity will generate sufficient taxable income in future.

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 2009 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 income

	2007 € k	**2008** **€ k**
Advertising subsidies	63,022	66,183
Income from data sales	17,807	17,752
Income from the write-off of bad debt allowances	18,424	15,682
Net gain on the disposal of non-current non-financial assets	59,350	13,740
Income from rent and lease	7,860	9,860
Other income	62,753	58,016
Total	**229,216**	**181,233**

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.

In addition to property, plant and equipment, the net gain on the disposal of non-current non-financial assets mainly pertains to the sale of pharmacies as well as income from the deconsolidation of a company in the Norwegian Celesio wholesale business.

Income from impairment losses recognised on bad debts includes income from the reversal of impairments as well as payments received for receivables written off in earlier periods.

(3) Other expenses

	2007 € k	**2008** **€ k**
Transportation expenses	– 176,456	– 194,951
Building expenses	– 182,563	– 185,639
IT and communication expenses	– 76,096	– 76,463
Promotion and advertising expenses	– 53,730	– 60,734
Legal and consulting costs	– 36,569	– 31,062
Third-party personnel services	– 22,760	– 23,193
Expenses from bad debt allowances	– 29,675	– 20,104
Net loss on the disposal of non-current non-financial assets	– 1,858	– 626
Other expenses	– 128,406	– 119,875
Total expenses	**– 708,113**	**– 712,647**

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

The net loss on the disposal of non-current non-financial assets pertains to property, plant and equipment.

Expenses from bad debt allowances include expenses relating to the recognition of impairment losses as well as expenses relating to the write-off of unimpaired receivables.

Building expenses include rental and lease expenses of € 103,153 k (2007: € 98,789 k).

Other expenses mainly comprise general costs for administration and distribution, such as expenditure on customer seminars and conferences and office supplies. The net currency result from operations included in this line item includes exchange gains of € 1,346 k (2007: € 1,782 k) and offsetting exchange rate losses of € 1,121 k (2007: € 1,492 k), in both cases including the revaluation of the allocated derivatives with effect on income. Income from the reversal of provisions related to other expenses has been deducted from other expenses.

In the reporting period, research and development expenses for the development of software of € 15,030 k (2007: € 13,490 k) were recorded as other expenses because the recognition criteria pursuant to IAS 38 were not satisfied.

(4) Personnel expenses/employees

	2007 € k	**2008** **€ k**
Wages and salaries	–955,204	–938,428
Social security	–158,504	–159,532
Post-employment expenses	–26,406	–29,705
Personnel services	–71,386	–73,789
Other personnel expenses	–7,787	–7,116
Total	**–1,219,287**	**–1,208,570**

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

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

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

(5) Net income from investments

	2007 € k	**2008** **€ k**
Income from investments accounted for using the equity method	2,952	–143
Income from other investments	14,044	–13,059
Total	**16,996**	**–13,202**

Net income from other investments includes, in particular, the changes in market value and dividend income of the investment in Andreae-Noris Zahn AG (ANZAG) which was measured at fair value through profit or loss. In the prior year, net income from other investments included impairment losses of € 142 k.

(6) Depreciation, amortisation and impairment losses

	2007 € k	**2008** **€ k**
Depreciation of property, plant and equipment	– 98,827	– 97,270
Amortisation of intangible assets	– 15,951	– 16,813
Impairment of goodwill	0	– 287,000
Total	**– 114,778**	**– 401,083**

As in the prior year, the depreciation of property, plant and equipment does not include impairment losses. In the prior year, the Wholesale division recognised impairment losses on other intangible assets of € 2,754 k.

The impairment losses on goodwill are due to the consideration in the planning of the increased economic uncertainty and volatility in regulatory affairs compared to the prior year. The values in use are also adversely affected by the increased discount rates as a result of the financial market crisis. The impairment of goodwill relate to the following entities:

	Impairment of goodwill	Weighted cost of capital	
		2007	**2008**
	€ k	%	**%**
Pharmacies, Belgium	– 47,500	11.3	**12.4 – 13.4**
Pharmacies, the Netherlands	– 47,900	9.4	**10.4 – 11.4**
Pharmacies, Ireland	– 83,400	8.2	**9.1 – 10.1**
Pharmacies and Wholesale, Italy*	– 108,200	11.8	**11.9 – 12.9**

* In Italy, both the Pharmacies division and the affiliated wholesale and distribution business were affected. Impairment losses of € 8,800 k were recognised in the Wholesale division.

The write-down requirement was determined at all entities on the basis of the value in use. In order to reflect the special circumstances on the balance sheet date due to the crisis on the financial markets, specific weighted costs of capital were used in 2008 to discount cash flows for the detailed planning period and the following periods. Scenarios for critical calculation parameters such as the weighted cost of capital and growth after the detailed planning phase are carried out to validate the values in use. In the reporting year, the scenarios did not provide any diverging findings about the existence or amount of write-down requirements.

It was not possible to use fair values to determine the recoverable amount because the small number of observable market transactions at year end, due in part to the financial market crisis, do not provide a sufficiently reliable basis for measurement.

Notes to the income statement

(7) Financial result

	2007 € k	**2008** **€ k**
Interest and similar expenses	**– 139,739**	**– 145,766**
of which to affiliated companies	– 90	– 75
of which for finance leases	– 2,036	– 1,727
of which for pensions	– 2,174	– 4,779
Interest and similar income	**14,198**	**17,227**
of which from affiliated companies	21	28
Other financial result	**6,606**	**– 2,466**
Total	**– 118,935**	**– 131,005**

Interest and similar expenses include expenses and income from compensation paid and received for derivative financial instruments which are accounted for as hedges. The expenses amount to € 85 k (2007: € 2,123 k) and the income to € 4,325 k (2007: € 0).

The interest portion included in the lease payments from leases which are classified as finance leases under IAS 17 are disclosed under interest and similar expenses.

The interest portion included 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 includes changes in the fair value of derivatives used to hedge financial liabilities, but which are not accounted for as hedges. The income recorded as a result totals € 13,049 k (2007: € 20,575 k), while expenses come to € 784 k (2007: € 197 k). The item also includes exchange rate gains of € 274,385 k (2007: € 120,360 k) as well as exchange rate losses amounting to € 289,116 k (2007: € 135,240 k) relating to non-operating receivables and liabilities denominated in foreign currency.

(8) Income taxes

Tax expenses include the corporate income taxes and trade 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.

For retained profits of German and foreign subsidiaries and associates there are temporary differences of € 67,637 k (2007: € 74,684 k). No deferred taxes were recognised as it is not planned to distribute them in the foreseeable future.

No deferred tax assets were recognised on unused tax losses in the fiscal year 2008 (2007: € 0). The utilisation of unused tax losses, which in past periods was considered unlikely, plus tax refunds resulted in a reduction of taxes on income of € 194 k in 2008 (2007: € 2,080 k). In addition, the group is carrying forward unused tax losses of € 107,313 k (2007: € 114,755 k) at 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. In the reporting period, deferred tax assets on loss carryforwards of € 6,800 k (2007: € 967 k) were written down. Of the existing unused tax losses a total of € 85,118 k (2007: € 91,656 k) can be carried forward for an unlimited period of time; an amount of € 334 k (2007: € 0) lapses in the next 10 to 15 years and an amount of € 21,861 k (2007: € 23,099 k) lapses within the next ten years.

	2007 € k	**2008** **€ k**
Current taxes	– 171,450	– 121,513
Deferred taxes	– 1,945	– 22,225
Income taxes	**– 173,395**	**– 143,738**

The current tax burden includes tax income from other periods of € 13,131 k (2007: tax expense € 1,593 k). The deferred taxes relating to temporary differences led to a total expense of € 11,023 k (2007: € 8,566 k).

The reconciliation presented below explains the differences between the current taxes reported in the income statement and the theoretical tax expenses arising from applying the tax rate of Celesio AG to the group's profit before tax. The tax rate of Celesio AG decreased from 38.9 % in the prior year to 30.7 % in the fiscal year 2008 following changes in the German tax law stemming from Unternehmenssteuerreformgesetz 2008 [2008 Business Tax Reform] and Jahressteuergesetz 2008 [2008 Annual Tax Act].

	31/12/2007		**31/12/2008**	
	€ k	%	**€ k**	**%**
Profit before tax	608,813	100.0	125,211	100.0
Estimated income tax expense	**236,828**	**38.9**	**38,440**	**30.7**
Effect of differing national tax rates	– 58,985	– 9.7	– 6,956	– 5.5
Tax from previous periods	1,593	0.3	– 13,131	– 10.5
Tax effect of non-deductible expenses and tax-exempt income	861	0.1	3,160	2.5
Impact of changes to tax rates on deferred taxes	– 7,918	– 1.3	– 9	0.0
Non-recognition, adjustment or unused tax losses	5,710	0.9	20,592	16.4
Impact of tax-neutral amortization of goodwill	0	0.0	88,109	70.4
Other tax effects	– 4,694	– 0.7	13,533	10.8
Income tax expense	**173,395**	**28.5**	**143,738**	**114.8**

Other tax effects mainly result from permanent differences between the carrying amounts in the tax accounts and the IFRS balance sheet, especially concerning the fair values of financial instruments.

(9) Earnings per share

	2007	**2008**
Profit/loss attributable to shareholders of Celesio AG (€ k)	430,564	– 20,996
Weighted number of no-par shares outstanding	170,100,000	170,100,000
Earnings per share (€)	**2.53**	**– 0.12**

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

Notes to the balance sheet

Non-current assets

	2007				2008			
	Intangible assets € k	Property, plant and equipment € k	Financial assets € k	**Total € k**	Intangible assets € k	Property, plant and equipment € k	Financial assets € k	**Total € k**
Accumulated historical cost 1/1	**2,665,976**	**1,473,120**	**194,738**	**4,333,834**	**3,063,256**	**1,548,964**	**205,364**	**4,817,584**
Currency translation differences	– 119,230	– 35,292	– 58	– 154,580	– 372,287	– 128,015	– 224	– 500,526
Changes to consolidated group	515,086	26,285	226	541,597	21	10,727	661	11,409
Changes in fair market value	0	0	986	986	0	0	– 27,801	– 27,801
Additions	27,497	116,797	32,377	176,671	144,083	94,480	46,695	285,258
Reclassifications	831	– 830	– 14,498	– 14,497	328	– 513	– 16,432	– 16,617
Disposals	– 26,904	– 31,116	– 8,407	– 66,427	– 8,287	– 67,623	– 8,380	– 84,290
31/12	**3,063,256**	**1,548,964**	**205,364**	**4,817,584**	**2,827,114**	**1,458,020**	**199,883**	**4,485,017**
Accumulated impairments 1/1	**96,140**	**836,282**	**4,437**	**936,859**	**96,756**	**902,772**	**3,483**	**1,003,011**
Currency translation differences	– 1,563	– 22,185	– 1	– 23,749	– 4,455	– 79,999	6	– 84,448
Changes to consolidated group	2,331	15,802	0	18,133	0	– 1,026	0	– 1,026
Additions	15,951	98,827	142	114,920	303,813	97,270	619	401,702
Reclassifications	204	– 203	– 97	– 96	– 79	– 106	0	– 185
Disposals	– 16,307	– 20,661	– 608	– 37,576	– 6,934	– 61,070	– 12	– 68,016
Reversals	0	– 5,090	– 390	– 5,480	– 50	0	– 1,554	– 1,604
31/12	**96,756**	**902,772**	**3,483**	**1,003,011**	**389,051**	**857,841**	**2,542**	**1,249,434**
Carrying amount at 31/12	**2,966,500**	**646,192**	**201,881**	**3,814,573**	**2,438,063**	**600,179**	**197,341**	**3,235,583**

Notes to the balance sheet

(10) Intangible assets

	2007				
	Franchises, industrial and similar rights € k	Goodwill € k	Other intangible assets € k	Payments on account € k	**Total € k**
Accumulated historical cost 1/1	**110,474**	**2,503,961**	**31,954**	**19,587**	**2,665,976**
Currency translation differences	–2,124	–116,589	–39	–478	–119,230
Changes to consolidated group	3,394	411,771	99,921	0	515,086
Additions	14,820	8,336	243	4,098	27,497
Reclassifications	1,946	0	49	–1,164	831
Disposals	–366	–10,436	–46	–16,056	–26,904
31/12	**128,144**	**2,797,043**	**132,082**	**5,987**	**3,063,256**
Accumulated impairments 1/1	**73,716**	**0**	**6,329**	**16,095**	**96,140**
Currency translation differences	–1,065	0	–32	–466	–1,563
Changes to consolidated group	1,842	0	489	0	2,331
Additions	10,084	0	3,706	2,161	15,951
Reclassifications	204	0	0	0	204
Disposals	–209	0	–42	–16,056	–16,307
Reversals	0	0	0	0	0
31/12	**84,572**	**0**	**10,450**	**1,734**	**96,756**
Carrying amount at 31/12	**43,572**	**2,797,043**	**121,632**	**4,253**	**2,966,500**

Additions to goodwill in 2008 primarily relate to the acquisition of pharmacies. In the prior year, additions were mainly attributable to the acquisition of pharmacies as well as the DocMorris Group. More information on the acquisitions made in the reporting period can be found starting on page 161.

		2008		
Franchises, industrial and similar rights € k	Goodwill € k	Other intangible assets € k	Payments on account € k	**Total** **€ k**
128,144	**2,797,043**	**132,082**	**5,987**	**3,063,256**
−8,608	−363,654	−27	2	−372,287
21	0	0	0	21
17,497	119,043	33	7,510	144,083
3,515	0	−2,531	−656	328
−3,381	−922	−2,250	−1,734	−8,287
137,188	**2,551,510**	**127,307**	**11,109**	**2,827,114**
84,572	**0**	**10,450**	**1,734**	**96,756**
−4,426	0	−29	0	−4,455
0	0	0	0	0
12,054	287,000	4,759	0	303,813
1,835	0	−1,914	0	−79
−2,950	0	−2,250	−1,734	−6,934
−50	0	0	0	−50
91,035	**287,000**	**11,016**	**0**	**389,051**
46,153	**2,264,510**	**116,291**	**11,109**	**2,438,063**

The item other intangible assets includes brand names with an indefinite useful life capitalised in the course of acquisitions of € 81,249 k (2007: € 81,242 k). Of this, € 73,879 k are attributable to the cash-generating unit Apotheke DocMorris.

Notes to the balance sheet

(11) Property, plant and equipment

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

	2008				
	Land, land rights and buildings € k	Technical equipment and machines € k	Other equipment, furniture and fixtures € k	Payments on account and assets under construction € k	**Total** **€ k**
	665,737	**282,213**	**597,910**	**3,104**	**1,548,964**
	−24,002	−19,258	−84,708	−47	−128,015
	9,724	314	730	−41	10,727
	25,822	16,296	46,572	5,790	94,480
	6,744	−2,576	1,157	−5,838	−513
	−9,043	−16,215	−42,211	−154	−67,623
	674,982	**260,774**	**519,450**	**2,814**	**1,458,020**
	307,176	**205,252**	**390,344**	**0**	**902,772**
	−11,596	−13,944	−54,459	0	−79,999
	−168	−24	−834	0	−1,026
	25,462	18,083	53,725	0	97,270
	2,210	−1,069	−1,247	0	−106
	−5,388	−15,081	−40,601	0	−61,070
	0	0	0	0	0
	317,696	**193,217**	**346,928**	**0**	**857,841**
	357,286	**67,557**	**172,522**	**2,814**	**600,179**
	38,998	**1,198**	**423**	**0**	**40,619**

Notes to the balance sheet

(12) Financial assets

	2007					
	Associates accounted for using the equity method € k	Available-for-sale financial assets € k	Financial assets measured at fair value through profit and loss € k	Loans to associates € k	Other loans € k	**Total € k**
Accumulated historical cost 1/1	**55,556**	**41,672**	**50,589**	**5,409**	**41,512**	**194,738**
Currency translation differences	0	– 89	0	18	13	– 58
Changes to consolidated group	0	1	0	0	225	226
Changes in fair value	0	185	801	0	0	986
Additions	1,879	7,213	0	1,342	21,943	32,377
Reclassifications	– 40	40	0	– 408	– 14,090	– 14,498
Disposals	– 2,492	– 4,562	0	– 46	– 1,307	– 8,407
31/12	**54,903**	**44,460**	**51,390**	**6,315**	**48,296**	**205,364**
Accumulated impairments 1/1	**0**	**2,639**	**0**	**110**	**1,688**	**4,437**
Currency translation differences	0	0	0	0	– 1	– 1
Changes to consolidated group	0	0	0	0	0	0
Additions	0	142	0	0	0	142
Reclassifications	0	0	0	– 97	0	– 97
Disposals	0	0	0	– 5	– 603	– 608
Reversals	0	0	0	11	– 401	– 390
31/12	**0**	**2,781**	**0**	**19**	**683**	**3,483**
Carrying amount at 31/12	**54,903**	**41,679**	**51,390**	**6,296**	**47,613**	**201,881**

Available-for-sale financial assets mainly include investments in non-listed entities over which the company has neither control nor material influence.

If no active market exists, these financial assets are reported at (amortised) cost. At 31 December 2008, non-listed equity investments totalling € 46,816 k (2007: € 28,635 k) were measured at cost for this reason.

The investments in associates measured using the equity method mainly consist of the 30 % investment in pharmexx GmbH, Hirschberg, Germany.

2008					
Associates accounted for using the equity method € k	Available-for-sale financial assets € k	Financial assets measured at fair value through profit and loss € k	Loans to associates € k	Other loans € k	**Total** **€ k**
54,903	**44,460**	**51,390**	**6,315**	**48,296**	**205,364**
0	– 172	0	– 5	– 47	– 224
0	531	0	0	130	661
0	– 3,307	– 24,494	0	0	– 27,801
2,996	17,798	0	2,265	23,636	46,695
0	1,226	0	– 925	– 16,733	– 16,432
– 6,656	– 933	0	0	– 791	– 8,380
51,243	**59,603**	**26,896**	**7,650**	**54,491**	**199,883**
0	**2,781**	**0**	**19**	**683**	**3,483**
0	0	0	0	6	6
0	0	0	0	0	0
0	0	0	0	619	619
0	0	0	0	0	0
0	– 12	0	0	0	– 12
0	– 1,468	0	– 19	– 67	– 1,554
0	**1,301**	**0**	**0**	**1,241**	**2,542**
51,243	**58,302**	**26,896**	**7,650**	**53,250**	**197,341**

The share of the net loss of all associates measured at equity attributable to Celesio, including amortisation of intangible assets identified during the purchase price allocation, amounts to € 143 k. In 2007 the share of the net income attributable to Celesio came to € 2,952 k. The carrying amount of all associates measured at equity totals € 51,243 k (2007: € 54,903 k). The goodwill attributable to these investments comes to € 37,700 k (2007: € 35,166 k). These companies generated revenue of € 270,917 k in 2008 (2007: € 284,853 k) and net profit of € 2,953 k (2007: € 23,602 k). Total assets amounted to € 199,764 k (2007: € 183,693 k) and total liabilities to € 144,200 k (2007: € 160,445 k).

(13) Deferred taxes

Depending on their origin, deferred tax assets and liabilities can be allocated to the following balance sheet items:

	31/12/2007		**31/12/2008**	
	Assets € k	Liabilities € k	**Assets € k**	**Liabilities € k**
Intangible assets	737	83,449	678	79,499
Property, plant and equipment	1,539	51,746	2,976	45,471
Other non-current assets	3,581	320	3,057	272
Current assets	20,838	957	18,032	936
Financial liabilities	6,865	503	5,605	261
Provisions	36,406	972	30,343	1,421
Other liabilities	35,416	23,308	39,065	20,369
Sum of deferred taxes on temporary differences	105,382	161,255	99,756	148,229
Deferred taxes on unused tax losses	18,534	0	7,972	0
Less offsetting	–75,683	–75,683	–59,992	–59,992
Total	**48,233**	**85,572**	**47,736**	**88,237**

These include deferred tax liabilities offset against equity and recorded without effect on income totalling € 3,598 k (2007: deferred tax asset of € 10,262 k). 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 (8).

(14) Inventories

	31/12/2007 € k	**31/12/2008 € k**
Raw materials, consumables and supplies	3,147	4,193
Finished goods and merchandise	1,637,104	1,448,922
Payments on account	530	62
Total	**1,640,781**	**1,453,177**

In the reporting period inventories were written down by € 17,990 k (2007: € 12,493 k). This was offset by reversals of impairment losses of € 8,605 k (2007: € 2,775 k). The inventories valued at net realisable value have a carrying amount of € 77,242 k (2007: € 79,256 k). Other than customary retentions of title, inventories have not otherwise been assigned as collateral.

(15) Receivables and other assets

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

	31/12/2007 € k	**31/12/2008 € k**
Trade receivables	**2,503,947**	**2,487,051**
Income tax receivables	**55,125**	**7,490**
Receivables from affiliated companies	453	1,064
Receivables from associates and other investments	915	8,045
Derivative financial instruments	25,305	23,454
Input tax and other tax receivables	25,174	29,437
Other assets	217,398	173,033
Other receivables and other assets	**269,245**	**235,033**
Total	**2,828,317**	**2,729,574**

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

Derivative financial instruments are used primarily to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in full under note (23, g).

The table below presents the allowances on trade receivables, receivables from affiliated companies and associates and the receivables contained in other assets:

	2007 € k	**2008 € k**
Allowances at 1/1	**96,751**	**89,245**
Additions	28,949	18,573
Utilisation	– 15,216	– 2,757
Reversals	– 18,320	– 15,207
Currency, consolidated group and other changes	– 2,919	– 6,615
Allowances at 31/12	**89,245**	**83,239**

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

	31/12/2007 € k	**31/12/2008 € k**
Carrying amounts	2,828,317	2,729,574
Carrying amounts of impaired receivables and other assets	54,462	65,954
Carrying amounts of receivables and other assets that are not impaired	2,773,855	2,663,620
Carrying amounts of receivables that are not impaired or overdue and other assets	2,404,946	2,376,149
Carrying amounts of overdue receivables and other assets that are not impaired	368,909	287,471
of which < 3 months	316,133	248,692
of which 3 – 6 months	30,271	23,936
of which 6 – 12 months	16,176	10,760
of which > 12 months	6,329	4,083

In the case of the receivables that are not impaired, there is no indication that the debtors will not be able to meet their payment obligations. The receivables that are not impaired and not past due contain carrying amounts of assets which do not fall within the category of IFRS 7 in a total amount of € 60,381 k (2007: € 105,604 k).

(16) Cash and cash equivalents

	31/12/2007 € k	**31/12/2008 € k**
Cash on hand and cheques	3,874	3,981
Bank balances	3,256	49,464
Total	**7,130**	**53,445**

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

Bank balances are only held at selected banks. No bank deposits have been assigned as collateral, either for existing loans or approved lines of credit.

(17) Shareholders' equity

The issued capital of Celesio AG has been split into 170,100,000 no-par value shares. Authorised capital of € 43,546 k is available until 25 April 2012.

In the reporting period, an ordinary dividend of € 0.77 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 earnings 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 includes changes to equity arising from measuring financial instruments used for cash flow hedges at fair value. These amounted to € – 22,095 k (2007: € 25,183 k). In addition, this item also includes changes in the fair value of securities categorised as available-for-sale financial assets which totalled € – 2,709 k in the reporting period (2007: € 543 k). In the fiscal year no reserves were derecognised to profit and loss (2007: € 6,452 k).

The reduction in minority interests is mainly due to the purchase of additional shares in K.V. Tjellesen A/S, Denmark. At 31 December 2008 the company held 100 % (2007: 74.02 %) of the shares.

Capital management

The prime objective of the group's capital management is to ensure that it maintains the financial flexibility needed to allow for value-creating investments as well as healthy balance sheet ratios.

The Celesio Group monitors its capital structure based on the equity ratio, gearing and the interest coverage ratio. No mandatory external guidelines need to be observed in this respect.

		31/12/2007	**31/12/2008**
Equity	€ k	2,819,611	2,269,642
/ total assets	€ k	8,343,177	7,523,338
Equity ratio	**%**	**33.8**	**30.2**
Net financial debt	€ k	2,354,690	2,205,208
/ equity	€ k	2,819,611	2,269,642
Gearing		**0.84**	**0.97**
EBIT	€ k	727,748	256,216
/ – financial result	€ k	118,935	131,005
Interest coverage ratio		**6.1**	**2.0**

(18) Pension provisions

Depending on the economic, legal and tax environment of the respective country, the employees of the Celesio Group are entitled to join various pension schemes. These include both defined benefit arrangements and defined contribution schemes. The obligations arising from the defined benefit schemes are covered by external pension funds and appropriate provisions.

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

	2007 %	**2008 %**
Discount rate by currency region		
EUR	5.7	6.0
NOK	4.8	4.0
GBP	6.0	6.5
Future salary increases	2.5 – 5.1	1.5 – 4.0
Future pension increases	1.75 – 3.3	1.5 – 3.3
Expected return on plan assets	4.5 – 6.6	4.0 – 6.8

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

	31/12/2007 € k	**31/12/2008 € k**
Service cost	20,805	15,049
Past service cost	0	2,649
Amortisation of actuarial gains and losses	– 3,852	227
Interest expense	27,655	28,143
Expected return on plan assets	– 25,481	– 23,365
Curtailments and settlements	– 1,937	– 498
Total	**17,190**	**22,205**

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

Notes to the balance sheet

Pension provisions developed as follows in the reporting period:

	2007 € k	**2008** **€ k**
Provisions for pension liabilities at 1/1	**139,468**	**136,406**
Pension expenses	17,190	22,205
Pension payments	– 19,641	– 16,100
Currency translation differences	– 558	– 7,497
Consolidated group and other changes	– 53	– 627
Provisions for pension liabilities at 31/12	**136,406**	**134,387**

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

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

	2007 € k	**2008** **€ k**
Present value of funded obligations	477,833	418,772
Present value of unfunded obligations	95,598	100,520
Fair value of plan assets	– 412,875	– 299,234
Unrecognised actuarial gains/losses (accumulated)	– 24,150	– 85,671
Pension provisions at 31/12	**136,406**	**134,387**

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

	2007 € k	**2008** **€ k**
Defined benefit obligation at 1/1	**609,245**	**573,431**
Service cost	20,805	15,049
Interest expense	27,655	28,143
Contributions by plan participants	682	283
Benefits paid	– 24,111	– 19,980
Unrecognised actuarial gains/losses	– 37,582	22,524
Past service cost	0	2,649
Curtailments and settlements	– 1,937	– 495
Currency translation differences	– 21,288	– 100,310
Consolidated group and other changes	– 38	– 2,002
Defined benefit obligation at 31/12	**573,431**	**519,292**

	2007 € k	**2008** **€ k**
Fair value of plan assets at 1/1	**431,455**	**412,875**
Expected return on plan assets	25,481	23,365
Contributions by employer	13,187	11,133
Contributions by plan participants	682	283
Payments from plan assets	– 17,657	– 15,014
Actuarial gains/losses	– 19,558	– 44,859
Currency translation differences	– 20,715	– 87,549
Consolidated group and other changes	0	– 1,000
Fair value of plan assets at 31/12	**412,875**	**299,234**

The table below shows the development over a period of five years:

	2004 € k	2005 € k	2006 € k	2007 € k	**2008** **€ k**
Defined benefit obligation	410,009	569,876	609,245	573,431	519,292
Fair value of plan assets	360,610	401,862	431,455	412,875	299,234
Surplus/deficit	**49,399**	**168,014**	**177,790**	**160,556**	**220,058**

The plan assets consist of the following components:

	2007 € k	**2008** **€ k**
Equity instruments	138,393	85,321
Fixed-interest securities	233,573	188,957
Real estate	27,242	18,809
Other	13,667	6,147
Fair value of plan assets at 31/12	**412,875**	**299,234**

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

	2004 € k	2005 € k	2006 € k	2007 € k	**2008** **€ k**
Expected return on plan assets	17,696	21,395	23,689	25,481	23,365
Actual return on plan assets	23,109	48,669	25,893	5,723	– 15,424

The development of experience adjustments relating to the defined benefit obligation and plan assets is shown in the table below:

	2007 € k	**2008** **€ k**
Development of experience adjustments of the DBO	3,285	2,462
Development of experience adjustments of plan assets	– 19,758	– 38,789

For the defined contribution pension plans there were no further obligations for Celesio Group companies at the balance sheet date other than the payment of the defined contribution to the external fund. Expenses from current contributions to these plans amounted to € 12,223 k in the reporting period (2007: € 11,297 k). In addition, employer contributions were made to state pension funds. The directly attributable employer contributions amounted to € 32,647 k (2007: € 31,585 k).

(19) Other provisions

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

	2007		2008							
	Carrying amount 31/12	of which due within 1 year	Changes in currency and in the consolida-tion group	Additions	Utilisations	Reversals	Discount rate adjustment	Reclassi-fications	Carrying amount 31/12	of which due within 1 year
	€ k	€ k	€ k	€ k	€ k	€ k	€ k	€ k	€ k	€ k
Other personnel obligations	81,014	48,739	– 5,027	49,140	– 47,856	– 1,487	1,200	0	76,984	44,182
Other provisions	82,566	79,734	– 8,022	21,480	– 12,608	– 16,211	0	0	67,205	65,267
Total	**163,580**	**128,473**	**– 13,049**	**70,620**	**– 60,464**	**– 17,698**	**1,200**	**0**	**144,189**	**109,449**

The provisions for other personnel obligations mainly consist of current provisions for bonuses and severance payments as well as non-current provisions for rights to special phased retirement benefits (Altersteilzeit), severance payments and long-service bonuses. Other provisions mainly comprise provisions relating to real estate such as the obligation to repair rented buildings or parts of buildings, potential losses arising from property with non-cancellable rental agreements which is no longer in use, restructuring – especially in relation to the reorganisation of the branch network – and litigation risks.

(20) Liabilities

	31/12/2007				**31/12/2008**			
	Due in				Due in			
	1 year	1 – 5 years	more than 5 years	Carrying amount	1 year	1 – 5 years	more than 5 years	**Carrying amount**
	€ k	€ k	€ k	€ k	€ k	€ k	€ k	**€ k**
Financial liabilities								
Liabilities to banks	228,788	35,866	1,284,231	1,548,885	115,507	578,051	695,371	1,388,929
Promissory notes	77,883	433,533	258,524	769,940	111,414	444,780	233,519	789,713
Lease liabilities	4,019	10,791	10,592	25,402	3,418	9,042	8,210	20,670
Other financial liabilities	1,795	9,709	6,096	17,600	3,550	9,851	3,772	17,173
	312,485	**489,899**	**1,559,443**	**2,361,827**	**233,889**	**1,041,724**	**940,872**	**2,216,485**
Trade payables and other liabilities								
Trade payables	2,124,919	0	0	2,124,919	2,135,889	0	0	2,135,889
Income tax liabilities	145,438	0	0	145,438	54,759	0	0	54,759
Liabilities to affiliated companies	183	0	0	183	1,156	0	0	1,156
Liabilities to associates and other investments	2,610	0	0	2,610	1,532	0	0	1,532
Other liabilities	484,469	18,561	0	503,030	459,560	17,502	0	477,062
	2,757,619	**18,561**	**0**	**2,776,180**	**2,652,896**	**17,502**	**0**	**2,670,398**
Liabilities	**3,070,104**	**508,460**	**1,559,443**	**5,138,007**	**2,886,785**	**1,059,226**	**940,872**	**4,886,883**

(21) Financial liabilities

a) Liabilities to banks

The Celesio Group generally finances itself with long-term bilateral credit facilities and promissory notes. There is furthermore a liquidity reserve within the scope of a syndicated loan. In addition, special-purpose lease entities have arranged fixed interest loans of € 78,750 k (2007: € 75,248 k) to finance real estate. The fair value of fixed interest loans comes to € 74,812 k (2007: € 77,015 k). Liabilities to banks are broken down by maturity.

b) Promissory notes

As part of the policy to diversify and optimise its financing structure, Celesio placed promissory notes in the first and fourth quarters of 2008. The total volume of the promissory notes of £ 60 million and € 105.5 million is equivalent to a total of € 168,492 k at the balance sheet date. The promissory notes are subject to a floating rate of interest and have a maturity of 5 years. The new borrowed funds were used for general financing purposes.

The Celesio Group also holds several promissory notes from prior years, with original maturities of between 5 and 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 partial amount of all these loans with a nominal value of € 123,491 k (2007: € 200,946 k) is subject to a fixed rate of interest and has a market value of € 140,317 k (2007: € 205,489). The effective interest rates at the balance sheet date range between 3.33 and 6.11 % (2007: between 4.58 and 6.70 %).

c) Lease obligations

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 real estate leased in the Celesio Wholesale division. Fair values generally correspond with their carrying amounts.

	31/12/2007 € k	**31/12/2008 € k**
Minimum lease payments	30,823	25,812
due within one year	5,122	4,347
due after one year but not more than five years	13,586	12,847
due in more than 5 years	12,115	8,618
Interest portion	–5,421	–5,142
Present value	**25,402**	**20,670**

d) Other financial liabilities
Other financial liabilities mainly include security retainers related to business combinations, and other interest-bearing liabilities.

Collateral for financial liabilities is mainly given in the case of special purpose lease companies for long-term leases of real estate. In these cases, collateral equal to the secured loans of € 71,708 k (2007: € 83,201 k) has been assigned.

(22) Trade payables and other liabilities

Trade payables contain payments on account for orders of € 50,871 k (2007: € 50,108 k).

Other liabilities are as follows:

	31/12/2007 € k	**31/12/2008 € k**
Personnel liabilities	115,421	112,883
Other tax liabilities	78,738	32,829
Outstanding invoices	145,705	123,289
Derivative financial instruments	29,800	66,772
Interest liabilities	14,215	13,377
Other liabilities	119,151	127,912
Total	**503,030**	**477,062**

Derivative financial instruments are used to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in full under note (23, g).

(23) 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 of which is monitored constantly. These include functional segregation of trading, settlement and accounting activities and the authorisation of only a few qualified employees to enter into derivative financial instruments. All derivatives are entered into exclusively for hedging purposes and are entered into only with selected banks. 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 net profit of the group. A distinction must be made between fixed interest and floating interest financial instruments. For fixed interest financial instruments, a fixed market interest rate is agreed on for the full term of the derivative. The risk is that when the market interest rates fluctuate, the market price of the financial instrument will change (fair value risk due to interest rates). The market price is based on the present value of future payments (interest payments plus repayment of principal) discounted using the market interest rate prevailing on 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, swaps and collars were used in the fiscal year to hedge interest risks. An interest cap puts an upper limit on a floating interest rate. An interest swap involves swapping the fixed or variable interest rate in the underlying transaction for the entire term of the underlying instrument. Interest collars set both the upper and the lower interest limit. The decision as to whether to use derivative financial instruments is based on the interest rate risks involved in projected debt. The interest rate risk is reviewed at monthly intervals. 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 result and on equity. It is assumed here that the exposure at balance sheet date is representative of the year as a whole and that the assumed change in market interest rate at balance sheet date would have been possible.

A hypothetical increase (decrease) of the euro market interest rate by one percentage point as of 31 December 2008 would lower (raise) the profit before tax to € 6.558 k (€ 6,944 k) (2007: € 349 k or € 2,587 k). In the event of an increase (decrease) of the euro market interest rate by one percentage point as of 31 December 2008, equity would increase (decrease) by € 7,736 k (€ 6,911 k) (2007: € 11,106 k or € 9,213 k).

A hypothetical increase (decrease) of the pound Sterling market interest rate by one percentage point as of 31 December 2008 would lower (raise) the profit before tax to € 1,992 k (€ 1,991 k) (2007: € 571 k or € 1,266 k). In the event of an increase (decrease) of the pound Sterling market interest rate by one percentage point as of 31 December 2008, equity would increase (decrease) by € 12,340 k (€ 13,698 k) (2007: € 15,717 k or € 16,898 k).

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 transaction risk from foreign currencies can be classified as low. The major part of the foreign exchange rate risks results from the development of the euro (EUR) against pound Sterling (GBP).

Forward exchange rate contracts and currency swaps were used in the 2008 fiscal year to hedge against transaction risk from exchange rate fluctuations. 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 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 the EUR 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 % devaluation (revaluation) of the GBP against the EUR would have increased (decreased) the profit before tax by € 72,488 k (2007: € 67,988 k increase or € 83,804 k decrease).

Adjusted for these loans, a 10 % devaluation (revaluation) of the GBP against the EUR would have reduced (increased) the profit before tax by € 82 k (2007: € 3,186 k).

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 inter-currency granting of loans between two group subsidiaries.

If the GBP was devalued (revalued) against the EUR by 10 % at 31 December 2008 other comprehensive income would have increased (decreased) by € 625 k (2007: € 2,978 k).

The indirect impact of exchange rate effects on the operating business has not been taken into account in the sensitivity analysis.

This analysis assumes that the exchange rates change by the percentage stated as at the balance sheet date. Movements over time and the changes in other market parameters observed in reality are not considered in this analysis.

d) Credit risk

Due to its existing customer structure, the bad debt risk in the Celesio Group can be classified as relatively low as the large customers are the operators of the healthcare systems and therefore in the past enjoyed a very high credit standing. Due to the large number of business relationships there is no significant concentration of risk either.

Celesio mitigates the credit risk from financial instruments by only entering into such contracts with selected partners. The maximum theoretical risk of default on current derivative financial instruments equals the positive fair values of the instruments. These amount to € 23,454 k at the balance sheet date (2007: € 25,305 k).

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 into account existing lines of credit. The Celesio Group has a significant amount of unused long-term confirmed lines of credit and bank guarantees and can make use of these at any time.

The Group has a syndicated line of credit of € 600,000 k. The line of credit expires on 11 February 2013. The line of credit had not been used at the balance sheet date.

The Celesio Group aims to always have 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) profit before tax of € 2,690 k (2007: € 5,139 k) and to a direct increase (decrease) in equity of € 355 k (2007: € 530 k).

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 assets and existing balance sheet items and future cash flows. This includes currency hedges to secure the planned purchase of merchandise as well as investments and divestitures.

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 December 2008, 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:

	2007		**2008**	
	Nominal value € k	Due date	Nominal value € k	Due date
	101,872	15/9/2009	78,439	15/9/2009
	81,811	15/12/2010	10,499	15/3/2010
	20,844	15/9/2011	62,992	15/12/2010
	100,000	15/6/2012	16,049	15/9/2011
	739,067	31/1/2013	25,000	31/1/2012
	181,811	15/6/2014	100,000	15/6/2012
	40,905	31/1/2015	300,638	31/1/2013
			62,992	15/3/2013
			50,000	15/12/2013
			252,483	31/1/2014
			183,989	15/6/2014
			68,605	31/1/2015
Total	**1,266,310**		**1,211,686**	

Notes to the balance sheet

Losses of € 55,567 k were made in the reporting period in connection with cash flow hedges (2007: gains of € 11,170 k) which have been recorded under equity without affecting income for the year. In the fiscal year, no effects from prior years were transferred from equity to the income statement (2007: € 8,960 k transferred to interest income).

Fair value hedge

A fair value hedge resulted in an adjustment of € – 562 k to the underlying balance sheet item which was recognised in other financial result (2007: € 197 k). The changes in the fair value of the hedge amounting to € 562 k (2007: € – 197 k) were also recognised in other financial result.

Summary of derivative financial instruments

Derivative financial instruments break down as follows:

	31/12/2007			**31/12/2008**		
	Fair value **€ k**	of which fair value hedge € k	of which cash flow hedge € k	**Fair value** **€ k**	of which fair value hedge € k	of which cash flow hedge € k
Assets						
Interest instruments	15,013	0	14,400	2,008	0	1,962
Currency instruments	10,292	0	1,227	21,446	0	43
Total assets	**25,305**	**0**	**15,627**	**23,454**	**0**	**2,005**
Equity and liabilities						
Interest instruments	29,581	562	29,018	66,688	0	66,426
Currency instruments	219	0	0	84	0	14
Total liabilities	**29,800**	**562**	**29,018**	**66,772**	**0**	**66,440**

The tables below present the contractually agreed undiscounted debt service payments due on the primary financial liabilities and derivative financial assets and liabilities over time.

At 31 December 2008 the figures were as follows:

	Cash flows 2009 € k	Cash flows 2010 € k	Cash flows 2011 – 2013 € k	Cash flows 2014 – 2018 € k	Cash flows 2019 onwards € k
Primary financial liabilities					
Liabilities to banks	– 235,687	– 49,902	– 626,694	– 743,369	– 1,471
Promissory notes	– 140,349	– 100,475	– 420,944	– 239,312	0
Trade payables	– 2,135,889	0	0	0	0
Liabilities to affiliated companies	– 1,156	0	0	0	0
Liabilities to associates and other investments	– 1,532	0	0	0	0
Lease liabilities	– 4,352	– 4,240	– 8,753	– 8,618	0
Other financial liabilities	– 4,299	– 700	– 30,354	– 3,253	– 1,481
	– 2,523,264	**– 155,317**	**– 1,086,745**	**– 994,552**	**– 2,952**
Derivative financial assets					
Derivatives designated for hedge accounting	278	618	2,103	288	0
Derivatives not designated for hedge accounting	22,446	0	0	0	0
	22,724	**618**	**2,103**	**288**	**0**
Derivative financial liabilities					
Derivatives used as hedges	– 5,275	– 3,898	– 12,183	– 17,145	0
Derivatives without hedge accounting	– 375	– 348	– 805	0	0
	– 5,650	**– 4,246**	**– 12,988**	**– 17,145**	**0**

At 31 December 2007 the figures were as follows:

	Cash flows 2008 € k	Cash flows 2009 € k	Cash flows 2010 – 2012 € k	Cash flows 2013 – 2017 € k	Cash flows 2018 onwards € k
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 and other investments	– 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 assets					
Derivatives used as hedges	0	0	0	0	0
Derivatives without hedge accounting	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Derivative financial liabilities					
Derivatives used as hedges	691	– 653	– 4,458	– 7,975	– 299
Derivatives without hedge accounting	0	0	0	0	0
	691	**– 653**	**– 4,458**	**– 7,975**	**– 299**

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

	2007							
	Financial assets at fair value through profit and loss € k	Financial assets held for trading € k	Loans and receivables € k	Available-for-sale financial assets € k	No IAS 39 category € k	Outside the scope of IFRS 7 € k	**Carrying amount € k**	**Fair value € k**
Assets								
Available-for-sale financial assets	0	0	0	41,679	0	0	41,679	41,679
Financial assets at fair value through profit or loss	51,390	0	0	0	0	0	51,390	51,390
Loans to associates	0	0	6,296	0	0	0	6,296	6,296
Other loans	0	0	47,613	0	0	0	47,613	47,613
Other financial assets	**51,390**	**0**	**53,909**	**41,679**	**0**	**0**	**146,978**	**146,978**
Trade receivables	**0**	**0**	**2,503,947**	**0**	**0**	**0**	**2,503,947**	**2,503,947**
Receivables from affiliated companies	0	0	453	0	0	0	453	453
Receivables from associates and other investments	0	0	915	0	0	0	915	915
Derivative financial instruments	0	9,678	0	0	15,627	0	25,305	25,305
Other assets	0	0	217,398	0	0	25,174	242,572	242,572
Other receivables and other assets	**0**	**9,678**	**218,766**	**0**	**15,627**	**25,174**	**269,245**	**269,245**
Cash and cash equivalents	**0**	**0**	**7,130**	**0**	**0**	**0**	**7,130**	**7,130**

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

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

2008							
Financial assets at fair value through profit and loss € k	Financial assets held for trading € k	Loans and receivables € k	Available-for-sale financial assets € k	No IAS 39 category € k	Outside the scope of IFRS 7 € k	**Carrying amount € k**	**Fair value € k**
0	0	0	58,302	0	0	58,302	58,302
26,896	0	0	0	0	0	26,896	26,896
0	0	7,650	0	0	0	7,650	7,650
0	0	53,250	0	0	0	53,250	53,250
26,896	**0**	**60,900**	**58,302**	**0**	**0**	**146,098**	**146,098**
0	**0**	**2,487,051**	**0**	**0**	**0**	**2,487,051**	**2,487,051**
0	0	1,064	0	0	0	1,064	1,064
0	0	8,045	0	0	0	8,045	8,045
0	21,449	0	0	2,005	0	23,454	23,454
0	0	173,033	0	0	29,437	202,470	202,470
0	**21,449**	**182,142**	**0**	**2,005**	**29,437**	**235,033**	**235,033**
0	**0**	**53,445**	**0**	**0**	**0**	**53,445**	**53,445**

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

The development of impairments on loans and receivables is presented in note (15). For information about the impairments attributable to financial assets classified as available for sale, please refer to note (12).

Notes to the balance sheet

	2007					
	Financial liabilities held for trading € k	Other financial liabilities € k	No IAS 39 category € k	Outside the scope of IFRS 7 € k	**Carrying amount** **€ k**	**Fair value** **€ k**
Equity and liabilities						
Liabilities to banks	0	1,320,097	0	0	1,320,097	1,321,864
Promissory notes	0	692,057	0	0	692,057	696,600
Liabilities to associates	0	0	0	0	0	0
Liabilities to shareholders	0	0	0	0	0	0
Lease liabilities	0	0	0	21,383	21,383	21,383
Other financial liabilities	0	15,805	0	0	15,805	15,805
Non-current financial liabilities	**0**	**2,027,959**	**0**	**21,383**	**2,049,342**	**2,055,652**
Other non-current liabilities	**0**	**0**	**18,561**	**0**	**18,561**	**18,561**
Liabilities to banks	0	228,788	0	0	228,788	228,788
Promissory notes	0	77,883	0	0	77,883	77,883
Lease liabilities	0	0	0	4,019	4,019	4,019
Other financial liabilities	0	1,795	0	0	1,795	1,795
Current financial liabilities	**0**	**308,466**	**0**	**4,019**	**312,485**	**312,485**
Trade payables	**0**	**2,124,919**	**0**	**0**	**2,124,919**	**2,124,919**
Liabilities to affiliated companies	0	183	0	0	183	183
Liabilities to associates and other investments	0	2,610	0	0	2,610	2,610
Personnel liabilities	0	0	0	115,421	115,421	115,421
Other tax liabilities	0	0	0	78,738	78,738	78,738
Outstanding invoices	0	0	0	145,705	145,705	145,705
Derivative financial instruments	219	0	29,581	0	29,800	29,800
Interest liabilities	0	14,215	0	0	14,215	14,215
Other liabilities	0	52,126	7,773	40,692	100,591	100,591
Other current liabilities	**219**	**69,134**	**37,354**	**380,556**	**487,263**	**487,263**

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

2008					
Financial liabilities held for trading € k	Other financial liabilities € k	No IAS 39 category € k	Outside the scope of IFRS 7 € k	**Carrying amount** **€ k**	**Fair value** **€ k**
0	1,273,422	0	0	1,273,422	1,269,484
0	678,299	0	0	678,299	728,453
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	17,252	17,252	17,252
0	13,623	0	0	13,623	13,623
0	**1,965,344**	**0**	**17,252**	**1,982,596**	**2,028,812**
0	**0**	**17,502**	**0**	**17,502**	**17,502**
0	115,507	0	0	115,507	115,507
0	111,414	0	0	111,414	114,408
0	0	0	3,418	3,418	3,418
0	3,550	0	0	3,550	3,550
0	**230,471**	**0**	**3,418**	**233,889**	**236,883**
0	**2,135,889**	**0**	**0**	**2,135,889**	**2,135,889**
0	1,156	0	0	1,156	1,156
0	1,532	0	0	1,532	1,532
0	0	0	112,883	112,883	112,883
0	0	0	32,829	32,829	32,829
0	0	0	123,289	123,289	123,289
332	0	66,440	0	66,772	66,772
0	13,377	0	0	13,377	13,377
0	56,133	9,692	44,585	110,410	110,410
332	**72,198**	**76,132**	**313,586**	**462,248**	**462,248**

Due to their short maturities the fair value of current financial liabilities, trade payables and other current liabilities, with the exception of promissory notes, corresponds to their carrying amounts.

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

	2007 € k	**2008** **€ k**
Financial assets at fair value through profit and loss	2,735	– 22,558
Financial assets held for trading	18,336	16,714
Available-for-sale financial assets	11,309	9,501
Loans and receivables	4,028	12,829
Other financial liabilities	– 147,076	– 157,041
Financial liabilities held for trading	0	0
Total	**– 110,668**	**– 140,555**

Valuation losses of € 3,298 k on available-for-sale financial assets were recorded in equity in the reporting period (2007: valuation gains of € 188 k). No effects (2007: none) generated in prior years were transferred from equity to other investment income.

(24) Contingent liabilities and other financial obligations

Warranties and guarantees stood at € 217,376 k (2007: € 169,695 k) at balance sheet date.

The warrantees and guarantees were primarily issued by the Celesio Wholesale division in the United Kingdom of € 129,042 k (2007: € 95,182 k) and Austria of € 28,544 k (2007: € 25,429 k).

Provisions of € 6,000 k (2007: € 0) were set up for some of the warranties and guarantees issued by the Celesio Wholesale division. They are included in "other provisions".

As of 31 December 2008, 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.” In the opinion of the management board of Celesio AG it is unlikely that a substantial risk will result from this guarantee. Consequently, these subsidiaries were exempted from certain disclosure requirements.

Other financial obligations	31/12/2007 € k	**31/12/2008** **€ k**
Rental agreements and operating leases due within 1 year	110,302	103,703
due after 1 year but not more than 5 years	319,623	295,173
due in more than 5 years	446,758	423,969
	876,683	**822,845**
Purchase price commitments from business combinations	9,474	5,312
Purchase obligations for capital expenditures	6,543	16,070
Property, plant and equipment	2,305	3,480
Intangible assets	3,417	6,194
Other assets	821	6,396
	892,700	**844,227**

Obligations related to rental agreements and operating lease obligations are mainly attributable to the Celesio Wholesale and Celesio Pharmacies divisions in the United Kingdom of € 476,256 k (2007: € 510,224 k) and Celesio Pharmacies in Ireland of € 129,511 k (2007: € 123,306 k). In addition, future rental income of € 52,964 k (2007: € 43,589 k) can be expected from sub-leases of property.

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 including the cash effects of changes in net working capital. Operating assets include inventories, trade receivables and other assets. Operating liabilities include trade payables, provisions and other non-interest bearing liabilities. Non-cash changes in net working capital mainly comprise write-downs of inventories and receivables, non-cash changes in pension provisions and non-cash changes in deferred taxes.

Celesio shows the figure cash flow as an additional sub-total in the net cash flow from operating activities. This includes 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 expenditure, receipts from the sale of non-current assets, and the cash effects of acquiring and disposing of companies. Payments made for acquisitions of subsidiaries of € 138,834 k correspond with the payments of the purchase price less any cash and cash equivalents acquired of € 5,724 k. This also includes cash paid for the purchase of additional shares in companies that are already fully consolidated. For further details please refer to the section on business combinations starting on page 161 of the notes. Cash received from sales of companies correspond to the gains on sale received of € 7,374 k less cash and cash equivalents of € 50 k. Non-cash investments in non-current assets amounted to € 377 k (2007: € 418 k) in the reporting period and relate to finance leases.

Cash payments from financing activities include dividends paid to the shareholders of Celesio AG and to minority shareholders of subsidiaries as well as receipts from new loans taken out and repayments of existing loans and 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 applied 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 2006. The Others segment is used to report the activities of the parent, Celesio AG. The consolidation of inter-segment activities is shown separately.

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

Segment profit pursuant to IAS 14 corresponds to the EBIT excluding 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:

	31/12/2007 € k	**31/12/2008 € k**
Gross assets	8,343,177	7,523,338
Deferred tax assets	–48,233	–47,736
Long-term and short-term income tax receivables	–59,268	–11,313
Derivative financial instruments	–25,305	–23,454
Other assets	376	2,095
Segment assets	**8,210,747**	**7,442,930**
Gross liabilities	5,523,566	5,253,696
Deferred tax liabilities	–85,572	–88,237
Long-term and short-term financial liabilities	–2,361,827	–2,216,485
Income tax liabilities	–145,438	–54,759
Derivative financial instruments	–29,800	–66,772
Other liabilities	–157	–1,127
Segment liabilities	**2,900,772**	**2,826,316**

Capital expenditures are derived from the internal reporting and also include 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" includes the Netherlands, Austria, Norway, Spain, Portugal, the Czech Republic, Belgium, Ireland, Italy, Slovenia and Denmark; in 2007, Romania and Croatia were also included up until deconsolidation of PharmaFarm S.A. and Unipharm d.o.o.

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

Other notes

Related parties

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

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		Subsidiaries of Franz Haniel & Cie. GmbH		Associates	
	2007 € k	**2008 € k**	2007 € k	**2008 € k**	2007 € k	**2008 € k**
Receivables and loans	0	679	479	411	27	7,047
Liabilities	0	1,005	183	151	2,610	0
Income	0	14	34	28	37,427	12,330
Expenses	405	343	407	575	32	153

There are guarantees to associates of € 40 m (2007: € 40 m).

The total remuneration and structure of compensation paid to members of the management board and supervisory board are presented in separate sections.

Statutory audit

The annual financial statements of Celesio AG, the German subsidiaries and the consolidated financial statements were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (Ernst & Young Germany), Stuttgart, Germany. In the fiscal year, expenses for services rendered by Ernst & Young Germany totalled € 538 k. Of this amount, € 421 k pertained to statutory audits and € 117 k was spent on other services.

Other notes

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 obligation to publish their financial statements: ABG Apotheken-Beratungsgesellschaft mbH, Stuttgart, Admenta Deutschland GmbH, Stuttgart, Admenta Deutschland Beteiligungs-GmbH, Stuttgart, Alliance Apotheken Management GmbH, Stuttgart, Apo Interim Personalservice GmbH, Stuttgart, GEHE Pharma Handel GmbH, Stuttgart, Inten GmbH, Stuttgart, Movianto GmbH, Stuttgart, and Movianto Deutschland GmbH, Kist.

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

Notices from shareholders

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

According to Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, amounted to 55.8 % (2007: 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 Codex pursuant to Sec. 161 AktG [Aktiengesetz: German Stock Corporation Act] on 19 December 2008 and published this on the website at www.celesio.com.

Total remuneration and remuneration structure of the management board

By resolution of the annual general meeting of 27 April 2006, the management board was exempted from the requirement to disclose the remuneration of individual board members. Therefore, Celesio has opted to disclose the remuneration of the management board on aggregate but broken down into individual components.

The total remuneration of the management board members comprises a fixed monthly salary and a performance-based variable component. In determining the remuneration of Celesio’s management board, the size, economic and financial position of the company are taken into account as well as the amount and structure of remuneration at comparable companies. The structure of the remuneration system for the management board is discussed regularly and checked for appropriateness by the supervisory board at the instigation of the personnel committee. In 2008, parts of the remuneration system were revised; these changes took effect 1 January 2008. The main changes are presented in the notes that follow.

Non performance-related remuneration components
The non performance-related remuneration components are made up of a fixed basic salary, other benefits and a pension contribution. Celesio pays the fixed basic component to management board members as a monthly salary. Other benefits received by the management board comprise the use of a company car as well as accident insurance, international health insurance, legal protection insurance and D&O insurance. Management board members are individually liable to pay tax on the use of a company car.

Management board members benefit from a defined contribution plan. An annual contribution of 16 % of the fixed basic component plus standard bonus is made for the period of office as management board member. The standard bonus corresponds to target attainment of 100 %. The contributions bear minimum interest. Pension commitments have been replaced by the defined contribution plan. Pensions can be claimed after leaving the company, at the earliest from the age of 60 years. In the case of disability or death, the contributions that would have been due until the age of 63 are credited to the pension account to be paid out.

Performance-related remuneration components
The performance-related components consist of bonuses which are paid out annually depending on performance as well as a rolling remuneration component as a long-term incentive, currently in the form of the performance cash scheme. The bonus scheme was revised with effect as of 1 January 2008, mainly with respect to the basis for assessment, and replaces the profit bonus. The performance cash scheme was set up for the first time with effect as of 1 January 2008 for the period from 2008 to 2010 and replaces the strategy bonus paid in the past. The second performance cash scheme was set up with effect as of 1 January 2009 for the years 2009 to 2011.

The EBITDA of the Celesio Group is used as the basis for assessment of the bonus. The bonus amount is determined as a percentage share of the EBITDA generated in the fiscal year and an additional payment due if the year-on-year EBITDA growth exceeds a pre-defined threshold. The bonus amount is capped.

If, in its best judgement, the supervisory board deems the extraordinary service or success of a management board member to warrant of special benefits including a special bonus, it is entitled to award these. The same applies in the case of mutual agreement to terminate contracts.

If targets are reached, the performance cash schemes are paid out in cash upon maturity after a term of three years. The cash amount paid for the 2008 to 2010 scheme will depend on the target value set for each management board member as well as the attainment of two performance targets: A rise in the share price compared to a fixed reference price and the accumulated Celesio value added over the corresponding period. The share price based components are classified as a "cash-settled share-based payment transaction" in the sense of IFRS 2 and valued using a binominal option pricing model. The expense for payments received and liability for settling these payments are recognised over the expected vesting period. The liability is revalued as of each reporting date and on the settlement date. Changes to fair value are recognised in the income statement as profit or loss. The Celesio value added is an indicator used in value-based management. Earnings before interest and taxes (EBIT) are set in relation to the capital employed and compared to the weighted average cost of capital. Remuneration is thus linked to improving the value of the business in the long term. The performance cash schemes are also capped.

Management board members are entitled to take part in the performance cash scheme only if they were employed during that performance period. Members that reach retirement age or leave the company are entitled to payment pro rata temporis.

Remuneration amount

The total remuneration paid to the management board in 2008 pursuant to DRS 17 amounted to € 6,286 k (2007: € 7,201 k). Of this amount, € 2,202 k pertained to the basic annual salary including other benefits (2007: € 1,567 k), € 3,620 k to bonuses (for comparison purposes: in 2007 the bonus amounted to € 4,633 k) and € 464 k to the value of the performance cash scheme on the grant date (for comparison purposes: strategy bonus of € 1,001 k awarded in 2007). Of the bonuses, € 656 k related to guaranteed amounts.

Disclosures pursuant to IAS 24 (Related Parties)

The cost of short-term benefits as defined by IAS 24.16 a) amounted to € 5,822 k in 2008 (2007: € 7,201 k). For the company pension scheme as defined by IAS 24.16 b) a service expense of € 3,372 k (2007: € 300 k) was incurred in 2008. This amount contains a non-recurring special contribution from the reversal of the former pension commitment.

The share-based payments as defined by IAS 24.16 e) gave rise to an expense of € 12 k based on the valuation of the performance cash scheme as at the balance sheet date. The provision for the performance cash plan also amounts to € 12 k.

Former board members and their survivors received payments totalling € 286 k in the year under review (2007: € 280 k). Celesio AG recognised pension provisions of € 2,857 k for this group (2007: € 3,740 k).

In the 2008 fiscal year, Celesio AG neither granted loans to management board members, nor did it enter into any contingencies in favour of these persons.

Total remuneration and remuneration structure of the supervisory board

The remuneration paid to the supervisory board is defined in Art. 5 of the articles of association of Celesio AG. In addition to reimbursement of their out-of-pocket expenses, the members of the supervisory board receive fixed compensation of € 5,000 annually and an additional payment of € 800 for each half percentage point of dividends distributed to shareholders in the past fiscal year that is in excess of 4 % of 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 2008 amounted to € 794 k (2007: € 1,259 k). Of this amount, € 68 k (2007: € 68 k) was attributable to fixed remuneration paid for membership of the supervisory board. A total of € 702 k (2007: € 1,177 k) was paid as variable components pegged to dividend payouts for membership of the supervisory board. An amount of € 24 k (2007: € 14 k) was paid for committee activities.

In the fiscal year 2008, Celesio AG neither granted credit to supervisory board members nor did it enter into any contingencies in favour of these persons.

Proposal from the management board for the appropriation of profits

The profit of Celesio AG available for distribution amounts to € 81,648,000.00 (2007: € 130,977,000.00).

The management board proposes distributing this amount of € 81,648,000 in full (2007: € 130,977,000.00) as a dividend for the 2008 fiscal year.

Based on this proposal for the appropriation of profits, the dividend per share amounts to € 0.48 (2007: ordinary dividend of € 0.77).

Stuttgart, 16 February 2009

The management board

Members of the Management Board

	Membership in other management boards and comparable bodies:	Membership in other 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 eG
Stefan Meister Deputy Chairman		
Dr Christian Holzherr (since 1 May 2008)		
Wolfgang Mähr		– GEHE Pharma Handel GmbH, chairman – OCP S.A., chairman – Herba Chemosan Apotheker-AG
Dr Felix A. Zimmermann (until 30 April 2008)		

Members of the Supervisory Board

	Occupation held:	Membership in other 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	– Galeria Kaufhof GmbH, chairman – Real Holding GmbH, chairman – Tertia Handelsbeteiligungsgesellschaft mbH, chairman (since 6 May 2008) – TAKKT AG, deputy chairman (since 24 September 2008, previously member) – Air Berlin PLC, non-executive director on the board of directors (until 31 March 2008) – SKF Aktiebolaget, member of the board of directors (until 16 April 2008)
Ihno Goldenstein Deputy chairman	Employee, goods-in department GEHE Pharma Handel GmbH	
Klaus Borowicz	Regional head and head of branch office GEHE Pharma Handel GmbH	
Professor Dr Julius Michael Curtius	Cardiologist with own practise	
Dr Hubertus Erlen	Deputy chairman of the supervisory board of Bayer Schering Pharma AG	– Bayer Schering Pharma AG, deputy chairman – Invest in Germany GmbH
Dirk-Uwe Kerrmann	Commercial employee GEHE Pharma Handel GmbH	
Susan Naumann (since 30 April 2008)	Trade union secretary of ver.di – Vereinte Dienstleistungsgewerkschaft	– GEHE Pharma Handel GmbH
Ulrich Neumeister	Logistics employee GEHE Pharma Handel GmbH	
Hanspeter Spek (since 30 April 2008)	Member of the management board Sanofi-aventis S.A.	– ZENTIVA N.V. – Sanofi-aventis Deutschland GmbH
Professor Dr Klaus Trützschler	Member of the management board Franz Haniel & Cie. GmbH	– TAKKT AG, chairman (since 24 September 2008), deputy chairman (until 23 September 2008) – Allianz Versicherungs-AG (until 24 April 2008) – Bilfinger Berger AG – Advisory Board of Wilh. Werhahn KG
Professor Dr Erich Zahn	Professor emeritus of business studies University of Stuttgart	– Board of trustees of the Fraunhofer Institute for Production Technology and Automation (IPA), member of the board of trustees
Regina Zimmerling (since 30 April 2008)	Trade union secretary of ver.di – Vereinte Dienstleistungsgewerkschaft	
Jörg Lauenroth-Mago (until 30 April 2008)	Regional head of division for trade for Saxony, Saxony-Anhalt, Thuringia ver.di – Vereinte Dienstleistungsgewerkschaft	– GEHE Pharma Handel GmbH
Hans-Martin Poschmann (until 30 April 2008)	Trade union secretary of ver.di – Vereinte Dienstleistungsgewerkschaft	
Dr Ihno Schneevoigt (until 30 April 2008)	Member of the management board (ret.) Allianz Versicherungs-AG Allianz Lebensversicherungs-AG	– Korn/Ferry International Corp., board of directors – Ströer Out-of-Home Media AG

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, 16 February 2009

The management board

Dr Fritz Oesterle

Stefan Meister

Dr Christian Holzherr

Wolfgang Mähr

Auditor’s Report

We have issued the following opinion on the consolidated financial statements and the group management report which was combined with management report of the company:

”We have audited the consolidated financial statements prepared by Celesio AG, Stuttgart, 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 was combined with management report of the company for the fiscal year from 1 January 2008 to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [”Handelsgesetzbuch”: ”German Commercial Code”] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [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 group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Stuttgart, 17 February 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Professor Dr Pfitzer
Wirtschaftsprüfer
(German public auditor)

Matischiok
Wirtschaftsprüfer
(German public auditor)

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 based on the net income for the year plus depreciation and amortisation and after eliminating certain non-cash items 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	Certificates or contracts that are not assets in their own right but relate 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 attributable 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.
Celesio Value Added	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 net financial debt by equity.
GIRP	Groupement International de la Répartition Pharmaceutique Européenne. European Association of Pharmaceutical Wholesalers.

Hedging — Hedging interest, currency, and exchange rate risks by use for example of derivative financial instruments which limit the risk of the underlying transaction.

Interest cap — A guaranteed upper interest rate acquired for a premium. If market interest rates rise above the guaranteed upper limit, the buyer of an interest cap receives the difference from the seller of the cap.

Interest collar — A guaranteed upper and lower interest rate acquired for a premium. If market interest rates rise above the guaranteed upper limit, the buyer of an interest collar receives the difference from the seller of the collar. If market interest rates fall below the lower limit of the collar, the buyer of an interest collar must pay the difference to the seller of the collar.

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 capital employee and the liquidity structure of a company. Calculated as the difference between current operating assets (inventories, trade receivables and other assets) and current operating liabilities (trade payables, provisions and other liabilities).

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 implementing measures to mitigate the risk or reduce its possible negative impact.

Transaction risk — Exchange rate risk associated with the exchange 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.

Contacts

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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 2008 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) which is sourced 100 per cent from sustainable forestry, of which 95 per cent from certified forests.

Group structure

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AFM – S.P.A.
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www.movianto.com

Movianto Deutschland GmbH
Kist
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Movianto Danmark
K.V. Tjellesen A/S
Rødovre
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Movianto France S.A.S.
Gonesse Cedex
France

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www.movianto.com

Movianto Česká republika, a.s.
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Czech Republic

Alliance with a 30 per cent share

pharmexx GmbH
Hirschberg
Germany www.pharmexx.com

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 2009

Balance Sheet Press Conference, Stuttgart	26 March 2009
Celesio Analysts' and Investors' Conference, Stuttgart	30 March 2009
International Bankers Day, Stuttgart	3 April 2009
Annual General Meeting 2009, Stuttgart	8 May 2009
Interim Report, 1st Quarter 2009	14 May 2009
Interim Report, 1st Half-Year 2009	13 August 2009
Interim Report, 1st to 3rd Quarter 2009	12 November 2009

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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