Annual Report 2009

A New Way

celesio

Who we are

Celesio is one of the leading service providers within the pharmaceutical and healthcare markets worldwide. We are active in 26 countries and employ approximately 46,000 employees in our three divisions Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions. Almost 2,300 of Celesio's own retail pharmacies, as part of Patient and Consumer Solutions, serve over 550,000 customers every day. In its wholesale activities, which are part of Pharmacy Solutions, around 140 wholesale branches deliver to over 65,000 pharmacies – day in, day out. In the Manufacturer Solutions division, we offer pharmaceutical manufacturers logistics and distribution solutions and support them in marketing and sales.

Our tradition

The primary focus of our entrepreneurial activity is the health of people – and this has been so since our company was founded 175 years ago. Until this day, we have been guided by the principle of our founder, Franz Ludwig Gehe: pharmaceuticals should not be luxury articles but remain affordable for everyone. A capital market orientation is another long tradition at Celesio: we have been a publicly listed company since 1903.

A new way

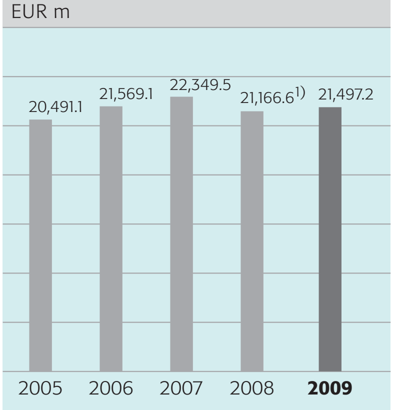
In 2009, we began to explore a new way for Celesio – not only geographically but also the way we think and act. The title of this annual report reflects this. It is an expression of our conviction that success only comes from constantly evolving rather than sticking to rigid structures. Innovation, regardless of the field, is one of our traditions and integral to our future. Our willingness to explore a new way means that we are well-equipped to remain successful in changing pharmaceutical and healthcare markets and create value in a sustainable fashion.

Celesio at a glance

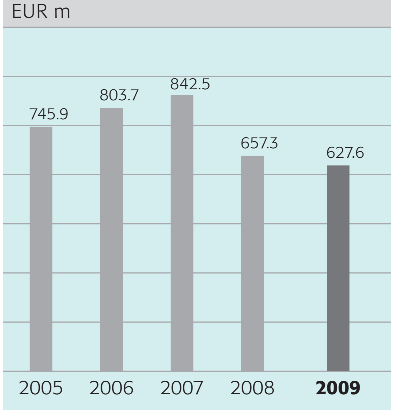
		2008	**2009**	Change on a euro basis %	Change in local currency %
Revenue	EUR m	[1] 21,166.6	21,497.2	1.6	4.6
EBITDA	EUR m	657.3	627.6	−4.5	1.5
Profit before tax	EUR m	125.2	115.3	−7.9	15.1
adjusted[2]	EUR m	412.2	389.6	−5.5	1.5
Net profit/loss	EUR m	−18.5	2.3	112.6	224.4
adjusted[2]	EUR m	268.5	268.7	0.1	7.8
Earnings per share	EUR	−0.12	0.00	96.1	194.8
adjusted[2]	EUR	1.56	1.56	−0.2	7.6
Net cash flow from operating activities	EUR m	536.4	578.2	7.8	–
Net cash flow from investing activities	EUR m	−265.2	−203.1	−23.4	–
Free cash flow	EUR m	147.5	303.9	106.3	–
Total assets[3]	EUR m	7,523.3	8,066.5	7.2	–
Equity[3]	EUR m	2,269.6	2,347.4	3.4	–
Equity ratio[3]	%	30.2	29.1	–	–
Employees[3]		37,746	46,095	–	–
Retail pharmacies[3]		2,337	2,296	–	–
Wholesale branches[3]		120	137	–	–

1) Restated to reflect the change in accounting policies in the Movianto business area.
2) Adjusted for impairment losses recognised on intangible assets consisting of impairment losses on goodwill and brand names. The resulting tax impact is also included in the figure for 2009.
3) Closing figures as at 31 December.

Group revenue
EUR m



Group EBITDA
EUR m



1) Restated to reflect the change in accounting policies in the Movianto business area.

Our divisions[1)]

Under the umbrella of our three divisions Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions, we offer solutions in the form of strong regional and international brands that are perfectly tailored to our customer groups:
patients and consumers, pharmacies and pharmaceutical manufacturers.

Patient and Consumer Solutions

Our customers

Patients and consumers

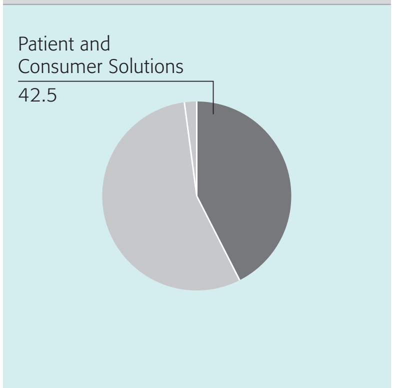
Our offer

- 2,296 retail pharmacies
- Mail-order pharmacies
- Franchise models

Key figures 2009

Revenue	EUR 3,441.5m
Gross profit	EUR 1,163.9m
EBITDA	EUR 300.1m
Employees	23,580
Countries	8

Share in group EBITDA[2)]
%



Pharmacy Solutions

Our customers

Pharmacies

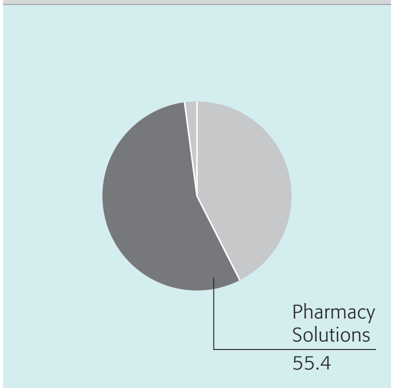
Our offer

- 137 wholesale branches
- Mail-order of pharmacy and laboratory equipment
- Locum and human resource services

Key figures 2009

Revenue	EUR 17,542.3m
Gross profit	EUR 1,088.2m
EBITDA	EUR 390.6m
Employees	16,808
Countries	15

Share in group EBITDA[2)]
%



Manufacturer Solutions

Our customers

Pharmaceutical manufacturers

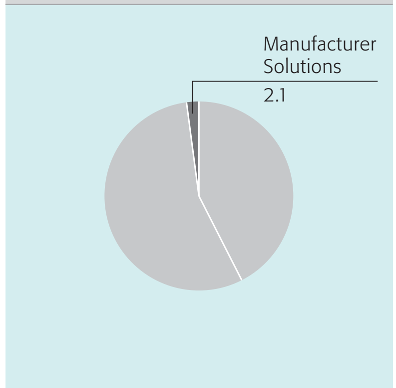
Our offer

- Transport, packaging and storage with space for some 175,000 pallets
- Marketing and distribution
- Specialty pharmacy solutions

Key figures 2009

Gross profit	EUR 255.0m
EBITDA	EUR 14.7m
Employees	5,387
Countries	26

Share in group EBITDA[2)]
%



1) As at 31 December 2009.
2) Without segment Other.

Contents

A new way to meet customer needs

The company is in transition, as are the healthcare and pharmaceutical markets. Patients and consumers require medical care and supplies that adjust to their needs; it is not up to the patients and consumers to adjust their needs to the system in place. That is why our Patient and Consumer Solutions division is pursuing a new way to provide pharmaceuticals, a way which is as individual as the customers we serve.

A new way into new markets

The world is in transition, bringing with it changes in the significance of individual regions. Emerging markets with rapidly developing economies are increasingly coming to the forefront. Our Pharmacy Solutions division is one of the winners in this situation. With Panpharma, we have led the pharmaceutical wholesale market in Brazil since 2009. This is the first time that we have been able to grow our wholesale business in an emerging pharmaceutical market outside of Europe.

A new way for new business

The pharmaceutical industry is in transition, as are the demands placed on service providers in the pharmaceutical market. Our response: a wide range of solutions spanning all sectors of logistics, service, marketing and sales. The administration of some pharmaceuticals is complex and time-consuming, demanding a special method of supply such as medical treatment of patients at home.

Milestones 2009

January – February – March

- New corporate structure with the divisions Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions introduced

Patient and Consumer Solutions | Pharmacy Solutions | Manufacturer Solutions

- »Agenda 2015« growth programme presented
- Europe-wide outsourcing of the group's IT infrastructure initiated
- Acquisition of Dirk Raes, the leading cold chain logistics services provider in the Benelux countries

April – May – June

- ECJ ruling provides clarity regarding European law on the issue of third-party ownership of pharmacies in Germany and the compatibility between wholesale and pharmacies in Italy
- First DocMorris pharmacy in Ireland opened

- Majority acquisition of the leading player in the Brazilian pharmaceutical wholesale market, Panpharma

- Belgian wholesaler Laboratoria Flandria acquired

July – August – September

- Majority acquisition of marketing and sales services provider pharmexx

- First steps taken to establish our own pharmacy chain in Sweden under the DocMorris Apotek brand

October – November – December

- Convertible bond of EUR 350m issued

The Management Board

Dr Fritz Oesterle

Chairman of the Management Board
Personnel Relations Officer
Patient and Consumer Solutions (United Kingdom, Norway)

Chairman of the Management Board since 1 January 1999
Appointed until 1 January 2014

(centre)

Dr Christian Holzherr

Chief Financial Officer
Patient and Consumer Solutions (Belgium, Ireland, the Netherlands, the Czech Republic)

Member of the Management Board since 1 May 2008
Appointed until 30 April 2013

(left)

Wolfgang Mähr

Pharmacy Solutions
Manufacturer Solutions
Patient and Consumer Solutions (DocMorris; Italy)

Member of the Management Board since 1 October 2006
Appointed until 30 September 2011

(right)

Retired from office in the 2009 fiscal year:

Stefan Meister

Deputy Chairman of the Management Board
Personnel Relations Officer
Patient and Consumer Solutions
(until 15 August 2009)

Chairman's letter to the shareholders

Dr Fritz Oesterle
Chairman of the Management Board

Dear shareholders,
ladies and gentlemen,

With our new organisational structure and our growth strategy through 2015 in place, 2009 was the year we laid the groundwork for a new way of approaching the future – despite the worst financial and economic crisis since World War II. In a highly demanding environment, we have paved the way for Celesio's future success.

We were not entirely unaffected by the repercussions of the global financial and economic crisis. Although the pharmaceutical and healthcare markets are less sensitive to economic cycles than other markets, the economic turbulence of the past year did not bypass them entirely. In some regions, business with non-prescription products declined in the poor economic environment, and the pound sterling and Norwegian krone – our two most significant foreign currencies in 2009 – both weakened, again in connection with the economic crisis. The profitability of pharmacies was painfully hit by – in some cases drastic – government intervention in compensation schemes in some countries in which we operate our pharmacy business. There is no reliable way of measuring the extent to which this intervention was indirectly caused by the global financial and economic crisis. Growing national debt and falling funding in the national healthcare systems were accompanied by other factors, including increased demand as a result of the demographic development and increased spending on innovations, which led to the drastic intervention in healthcare spending, including reimbursement structures for pharmacies. As a result, we had to recognise impairment losses on our retail pharmacies in the Netherlands, Ireland and Italy in October 2009.

External factors over which we have no control included the weak pound sterling and Norwegian krone as well as government intervention, especially into our pharmacies' profitability, led to a decrease in earnings before interest, taxes, depreciation and amortisation (EBITDA) to EUR 627.6m. In the weak economic environment, falling demand in our pharmacies for products not eligible for reimbursements also played a role, albeit to a lesser extent than the two effects described above.

How are we responding to these developments? First of all, we will shift the focus in our Patient and Consumer Solutions division. We are now building up and expanding our own pharmacy chains primarily by opening new pharmacies rather than acquiring existing ones. Wherever possible, we will also increase our focus on our mail-order business. Patients and consumers already make use of mail-order pharmacies as an appealing, convenient and safe alternative to traditional retail pharmacies. We believe that this trend will continue over the coming years. We also expect good opportunities for our consumer business thanks to the brand partnerships, franchises and franchise-like systems that we are building up. We are thinking outside the box for ideas of how to develop business in our Patient and Consumer Solutions division for every country in which it operates. This includes reviewing our product range policies for an exact match to customer needs as well as tapping into new growth potential.

Despite the numerous challenges that the year 2009 brought with it, we are on the whole satisfied with the development of our operating business. These recessionary times have revealed what is often concealed by exogenous factors beyond our control: the relative robustness of our core operating business and the widely diversified character of our customer and geographical bases means that we are exposed to a relatively low risk of default triggered by general economic developments. Wholesale, therefore, is and remains an essential pillar of business for us. Thanks to its stability, our wholesale business provides a financial basis that allows us to explore new future-oriented and high-growth areas in a new way.

In 2009, operating business also developed well in our retail pharmacies business in the UK and Norway, our two most important pharmacy markets by far. With Lloydspharmacy and Vitusapotek, we have a strong position in both countries, generating around 80% of our approximately 2,300 retail pharmacies' total revenue in these two countries alone.

The year 2009 was not plain sailing for our Apotheke DocMorris brand partnership business in Germany. The European Court of Justice (ECJ) handed down its ruling on the ban on third-party ownership of pharmacies in Germany in May 2009, much later than expected. We had prepared for a potential opening of the German pharmacy market based on the assumptions of almost all experts. However, this had always been just one of many growth opportunities for us. The ECJ's confirmation that the German ban on pharmacy chains was compatible with European law surprised many. Since the ruling, the situation has been clear from the perspective of European law. We now know that we can concentrate on the DocMorris brand partnerships within our consumer business. Following the ruling by the ECJ, however, it became apparent that we would not be able to build up our German brand business as quickly as originally anticipated. We therefore had to recognise impairment losses also on the Apotheke DocMorris brand partnership business. After analysing and evaluating the situation in the Apotheke DocMorris brand partnership business, we are now making every effort to realign it in Germany in terms of content, structure and strategy. DocMorris is also an increasingly important element of our international brand strategy for our pharmacy and consumer business. This will be especially obvious in Sweden, where, following the lifting of the state monopoly on pharmacies, we will build up our own chain of DocMorris brand pharmacies. We aim to establish a chain of at least 100 pharmacies in Sweden over the next few years. The DocMorris brand is thus not only of key significance to us in Germany.

In addition to preparing for our entry into the Swedish market, we also laid other important groundwork for future growth in 2009. By entering the Brazilian wholesale market, for example, we have taken a major step in a – for us – entirely new direction. The majority shareholding acquired in Panpharma, the leading pharmaceutical wholesaler in Brazil, marks our entry to one of the major emerging markets of the BRIC countries and outside of Europe for the first time with our traditional pharmaceutical wholesale business. This acquisition represents Celesio's first activity on a market with currently few government regulations on compensation structures for pharmaceuticals. Brazil is not only the largest pharmaceutical market in South America, but also one of the most attractive in the world. An average growth rate of over 9% in local currency is anticipated for the Brazilian pharmaceutical market over the next few years. Drivers behind this growth include the rapidly growing population, the ever rising life expectancy, higher private income and a greater willingness to spend disposable income on personal health.

Within Europe, we have tended to follow our more traditional approach in making acquisitions. Following the acquisition of Laboratoria Flandria, we are now the second largest full-line pharmaceutical wholesaler in Belgium. With the acquisition of Dirk Raes, our logistics company Movianto – which specialises in services for pharmaceutical manufacturers – is now the leading cold chain logistics provider for pharmaceuticals in the Benelux countries. Raising our shareholding in pharmexx to become the majority shareholder secured us a new business area for the Manufacturer Solutions division and the position as one of the world's leading marketing and sales services providers for pharmaceutical manufacturers. We thus, once again, made good progress with our relatively small Manufacturer Solutions division in 2009.

The acquisitions made in our Pharmacy Solutions and Manufacturer Solutions divisions in 2009 will reduce our sensitivity to government measures regulating the market as well as the relative significance of the exchange rate of the pound sterling. They were thus in line with the principles set out in our »Agenda 2015« strategy (reduced dependency on government influences and the pound sterling), in which we presented our growth and working programme in spring 2009. Our »Agenda 2015« programme contains the clear goal of generating an operating result (EBITDA) of at least EUR 1bn in 2015. This ambitious target is built on three pillars for growth within the fundamental provisions of the programme: 1) organic growth and even greater efficiency with the effect of boosting profitability in our current business; 2) external growth with business in existing and new geographical markets; 3) growth with new business.

Following a tough 2008, the development bottomed out in 2009, a year that nevertheless proved to be equally challenging. We can now look to 2010 where we see us on the right track to implement our »Agenda 2015« growth strategy. We are also optimistic that 2010 will see a return to the earnings success enjoyed in the past.

There is, however, another reason why 2010 is an important year for Celesio. Indeed, 175 years ago, on 1 May 1835, Franz Ludwig Gehe laid the foundations for what is now Celesio AG. What started back then as a chemist's and dye business is now one of the leading international service providers within the pharmaceutical and healthcare markets worldwide. We are committed to our traditions and history of being driven by innovation in the future as well.

The pharmaceutical and healthcare markets will change all over the world. This will be especially true of markets which have traditionally had rigid structures. Financial restrictions as well as changing patterns of demand will force these markets in particular to develop in a new way. We will no longer be able to afford to consider demand, provision and expenditure by sector and within the confines of individual service areas such as hospital, general practitioner, specialist physician, care, rehabilitation, pharmacy and preventative care etc. An integrated approach incorporating all sectors is the key to benefiting from efficiency, economies of scale and quality potential. This approach will increasingly be, and must be, adopted on all healthcare markets. We are not only preparing ourselves for this, but are also actively working towards developing and shaping this new way of thinking. We are developing our business portfolio to match this expectation, meaning that we can align our business activities with holistic cross-sector solutions. To achieve this, we must be prepared to leave the well-beaten path and adopt a new way of business.

A new way – the title we have given this annual report means for us above all: to interpret change not as a threat but as an opportunity for future growth. We will shape our future by taking elements of tradition and innovation. Enthusiasm, creativity and the courage to change have made Celesio what it should remain: a company with long-term potential for profitable growth. The foundations have been laid.

Celesio today is made up of some 46,000 employees worldwide. We, the Management Board, would like to thank every one of them. Only thanks to their commitment did we achieve the results we did in 2009, and only through their efforts will we reach the ambitious target of »Agenda 2015« and implement our new way of thinking and acting. We would also like to take the opportunity to thank our shareholders, customers and business associates for the trust they have placed in all of us – board members and employees alike – at Celesio.

Yours sincerely,

Dr Fritz Oesterle
Chairman of the Management Board

Stuttgart, March 2010

The Supervisory Board

Members of the Supervisory Board

Prof Dr Jürgen Kluge
Chairman
(since 3 January 2010)

Ihno Goldenstein[1)]
Deputy Chairman

Klaus Borowicz[1)]

Prof Dr Julius Michael Curtius

Dr Hubertus Erlen

Dirk-Uwe Kerrmann[1)]

Jörg Lauenroth-Mago[1)]
(since 19 June 2009)

Susan Naumann[1)]

Ulrich Neumeister[1)]

W.M. Henning Rehder
(since 8 May 2009)

Hanspeter Spek

Prof Dr Klaus Trützschler

Retired from office in the 2009 fiscal year

Dr Eckhard Cordes
(Chairman until 31 December 2009)

Prof Dr Erich Zahn
(until 8 May 2009)

Regina Zimmerling[1)]
(until 22 June 2009)

Committees of the Supervisory Board

Nomination Committee
Prof Dr Jürgen Kluge (Chairman since 3 January 2010)
Dr Eckhard Cordes (Chairman until 31 December 2009)
Dr Hubertus Erlen

General Committee (Personnel Committee until 31 December 2009)
Prof Dr Jürgen Kluge (Chairman since 3 January 2010)
Dr Eckhard Cordes (Chairman until 31 December 2009)
Dr Hubertus Erlen
Ihno Goldenstein

Audit Committee
Prof Dr Klaus Trützschler (Chairman)
Klaus Borowicz
Ulrich Neumeister
W.M. Henning Rehder (since 8 May 2009)
Prof Dr Erich Zahn (until 8 May 2009)

Arbitration Committee
Prof Dr Jürgen Kluge (Chairman since 3 January 2010)
Dr Eckhard Cordes (Chairman until 31 December 2009)
Ihno Goldenstein
Susan Naumann
Hanspeter Spek (since 8 May 2009)
Prof Dr Erich Zahn (until 8 May 2009)

[1)] Employee representative.

Report of the Supervisory Board

Prof Dr Jürgen Kluge
Chairman of the Supervisory Board

Dear shareholders,

The Supervisory Board once again performed the tasks required of it by law and the articles of association with great care in 2009. The board discussed in detail the economic and financial development of the company as well as its strategic alignment. The Supervisory Board regularly advised the Management Board on management matters and monitored the management of the company. The Supervisory Board was involved in all fundamental company decisions at an early stage.

Cooperation between Management Board and Supervisory Board

The working relationship between the Supervisory Board and the Management Board in 2009 was once again characterised by a dialogue based on mutual trust. The Management Board reported to the Supervisory Board and its chairman regularly and in detail on the situation of the company, both in writing and by means of oral communication. Information included the results of operations, financial position and assets position of the group in particular, as well as the development of business in each of the divisions, the development of the market environment, corporate planning, risk management and compliance topics. The Supervisory Board also closely examined the risk situation of the company. Any deviation in the development of business compared to planning and targets was explained in detail by the Management Board and reviewed by the Supervisory Board based on the documents provided. The Management Board discussed the company's strategic alignment with the Supervisory Board. Where permissible by law, the articles of association and the rules of procedure, the Supervisory Board voted to approve all the resolutions proposed and reports presented by the Management Board following careful consideration.

Supervisory Board meetings

The Supervisory Board held four ordinary and two extraordinary meetings in total in the 2009 fiscal year. In preparation for the meetings, the Supervisory Board received written reports and resolution proposals from the Management Board. Every member of the Supervisory Board attended at least half of the meetings. The average attendance rate stood at over 90%. The Supervisory Board and Management Board also maintained close contact between meetings.

At the meeting on 25 March 2009, the Supervisory Board discussed the 2008 separate and consolidated financial statements. These were ratified following close examination and discussion as well as on the recommendation of the Audit Committee and taking into account the audit reports issued by the independent auditor. The agenda for the annual general meeting held on 8 May 2009 was also agreed. The developments on the German wholesale market were also examined. A further topic of discussion was the planned acquisition of a majority shareholding in Panpharma, the leading Brazilian pharmaceutical wholesaler, including a presentation of the current status of the project. Also addressed was the »Agenda 2015« growth strategy in detail, together with the planned acquisition of Dirk Raes, the Belgian cold chain logistics company, and the outsourcing of the IT infrastructure across the group to an external service provider.

Business development in the first quarter was discussed at the ordinary meeting on 8 May 2009. The Supervisory Board also addressed the audit engagement for the audit of the separate and consolidated financial statements as well as the first half year interim report for 2009. A further focus of discussion was the development of Evolution Homecare in the UK and the majority shareholding acquired in pharmexx GmbH. Another issue was the upcoming lifting of the monopoly on pharmacies in Sweden and associated privatisation of a significant number of state pharmacies.

At the extraordinary meeting held directly after the annual general meeting and on the same date, W.M. Henning Rehder was welcomed to the Supervisory Board as a new member and elected as a new member of the Audit Committee. Hanspeter Spek was elected as shareholder representative on the Arbitration Committee.

At the extraordinary meeting of the Supervisory Board on 10 July 2009, the Supervisory Board authorised the acquisition of 50.1% of shares in Panpharma. The acquisition of Laboratoria Flandria and the issue of a convertible bond were also approved in principle. The Personnel Committee was authorised to propose the resolutions necessary.

At the meeting on 9 September 2009, the Supervisory Board discussed the ruling of the European Court of Justice regarding the ban on third-party ownership of pharmacies as well as the impact of this on Celesio and the development of the mail-order business. The Supervisory Board collected information on using the DocMorris brand outside of Germany as well. Next, the board talked about planned financial measures. The Supervisory Board approved the termination agreement in connection with Stefan Meister's departure from the Celesio Management Board, appointed Dr Fritz Oesterle as Personnel Relations Officer and defined the new areas of responsibility in the Management Board.

On 21 December 2009, the Supervisory Board discussed the results of the annual efficiency review. Apart from numerous suggestions for the rolling improvement process, there was no significant need to adjust the work of the Supervisory Board. Another topic was the declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporation Act), which was discussed and approved at the meeting. The rules of procedure of the Supervisory Board were adjusted to meet new legal requirements as well as the provisions of the German Corporate Governance Code. In addition, the board discussed the budget for 2010. The meeting, which lasted all day, focused on the company's strategy and updating »Agenda 2015«.

Committees

The Supervisory Board has set up four committees to ensure it exercises its duties efficiently. They prepare the resolutions and agenda items to be discussed by the Supervisory Board and pass some resolutions in place of the entire Supervisory Board.

Audit, Personnel, Arbitration and Nomination Committees are in place. The members of these committees are set out on page 18 of this annual report. With the exception of the Audit Committee, the chairman of the Supervisory Board is also the chairman of the committees. Prof Dr Klaus Trützschler is Chairman of the Audit Committee. The Supervisory Board is regularly kept up to date with comprehensive details of the committees' activities.

In 2009, the Audit Committee held four meetings, which were also attended by the independent auditor. On 24 March 2009, it reviewed the separate and consolidated financial statements for the 2008 fiscal year, the management report as well as the audit reports on the separate and consolidated financial statements, together with the proposal for the appropriation of profits. The committee also examined the accounting process as well as the internal control system, considering in particular the new requirements resulting from the Gesetz zur Modernisierung des Bilanzrechts (BilMoG, German Accounting Law Modernisation Act). In addition, the Audit Committee announced its proposal for the election of the independent auditor. On 7 May 2009, the Audit Committee examined the recommendations for the audit focus for the 2009 fiscal year as well as the scope of the audit engagement awarded to the independent auditor. At the same meeting, the audit committee also discussed the interim report for the first quarter of 2009 and the auditor's review report on this interim report as well as receiving an overview of the internal audit at Celesio and current developments relating to compliance at Celesio. The main item for discussion at the meeting on 11 August 2009 was the interim report on the first half year of 2009 and the review thereof performed by the auditor. Other items on the agenda were the risk management system and the monitoring duties of the Supervisory Board pursuant to the BilMoG requirements. The Audit Committee supports the measures proposed in response to the legal requirements. The interim report for the first to third quarter 2009 was discussed at the meeting on 10 November 2009.

The Personnel Committee held four meetings in the reporting period. On 25 March 2009, the final remuneration of the Management Board for the 2008 fiscal year was determined on the basis of contractually agreed provisions for variable remuneration components. Following several individual meetings, all formalities for the departure of Stefan Meister from the Celesio Management Board were handled in a telephone conference held on 31 July 2009. On 20 October 2009, the formal resolutions to issue the Celesio convertible bond were passed during two telephone conferences.

There was no occasion for the committee founded to satisfy Sec. 27 (3) Mitbestimmungsgesetz (MitbestG, Codetermination Act) to meet in the reporting period.

In a telephone conference on 15 January 2009, the Nomination Committee decided who to propose as the successor of Prof Dr Erich Zahn. W.M. Henning Rehder was proposed as a candidate.

Corporate governance

The Supervisory Board regularly dealt with the application and further development of corporate governance regulations. In 2009, Celesio once again complied with the recommendations of the Code with just two exceptions. A resolution to approve the updated compliance declaration published by the Management Board was passed at the Supervisory Board meeting on 21 December 2009 and published shortly thereafter on the company's website. The Management Board and Supervisory Board issue a joint report on corporate governance at Celesio on page 30 of this annual report.

At its meeting on 10 July 2009, the Supervisory Board approved in principle the resolution to issue a convertible bond and assigned a committee to work out the details of the resolution. Owing to the fact that Franz Haniel & Cie. GmbH also considered the issue of a convertible bond on Celesio shares at this time, there was a conflict of interests for the individuals Dr Cordes and Prof Dr Trützschler, who are also members of the Management Board of Franz Haniel & Cie. GmbH. This conflict of interests was reported to the Supervisory Board and resolved by the fact that Franz Haniel & Cie. GmbH issued a normal company bond instead of a convertible bond at the beginning of October. In the meantime, Celesio AG has gained the authorisation of the Supervisory Board and successfully implemented the convertible bond project.

Separate financial statements, consolidated financial statements and management report

The separate financial statements and consolidated financial statements of Celesio AG as well as the combined management report for the year ended 31 December 2009 were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany. The auditors have rendered an unqualified audit opinion on both sets of financial statements. The Supervisory Board awarded the audit engagement on the recommendation of the audit committee of the Supervisory Board and pursuant to the resolution of the annual general meeting on 8 May 2009. The documentation pertaining to the financial statements together with the audit reports were made available to all members of the Supervisory Board and were thoroughly discussed at the Supervisory Board's closing meeting on 18 March 2010 directly following the report of the auditor. Based on the results of the audit, the Supervisory Board had no reservations. Following the recommendation of the Audit Committee, the board agreed with the results of the audit and approved the financial statements of Celesio AG as well as the consolidated financial statements authorised for issue by the Management Board. The financial statements have thus been ratified. The Supervisory Board has examined and approved the Management Board's proposal for the appropriation of profits.

In light of the majority shareholding of Franz Haniel & Cie. GmbH, Duisburg, Germany, in 2009, the Management Board presented the Supervisory Board with the dependent company report prepared pursuant to Sec. 312 AktG and the audit report on this prepared by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, in its capacity as independent auditor pursuant to Sec. 313 AktG. Based on the audit completed with no cause for objections, the independent auditor issued the following audit opinion:

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

1. the actual disclosures contained in the report are correct
2. the payments made by the company in connection with transactions detailed in the report were not unreasonably high.
3. there are no circumstances that would require a materially different assessment of the measures listed in the report than that of the Management Board.«

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

Changes to the Supervisory Board and Management Board

With effect as at the annual general meeting on 8 May 2009, Prof Dr Erich Zahn departed from the Supervisory Board. He served on the Supervisory Board for 23 years. W.M. Henning Rehder was appointed to the board as the new shareholder representative. Regina Zimmerling also left the Supervisory Board in June 2009. The district court of Stuttgart appointed Jörg Lauenroth-Mago as her successor and employee representative of the Supervisory Board. The Supervisory Board would like to thank Ms Zimmerling and Prof Dr Zahn for the constructive and trusting working relationship.

Stefan Meister left the Management Board of Celesio AG as at 15 August 2009. His duties and areas of responsibility have been distributed between the other members of the Management Board until further notice. Following Stefan Meister's departure, the Supervisory Board appointed the Chairman of the Management Board, Dr Fritz Oesterle, as Personnel Relations Officer with effect as at 9 September 2009. The Supervisory Board would like to thank Mr Meister for the constructive and trusting working relationship.

The Supervisory Board would like to thank the Management Board and all employees and express its appreciation for their high level of commitment and loyalty and their outstanding performance in the past fiscal year. We are convinced that Celesio is well on its way to successfully managing future challenges.

Stuttgart, March 2010
On behalf of the Supervisory Board

Prof Dr Jürgen Kluge
Chairman

The share

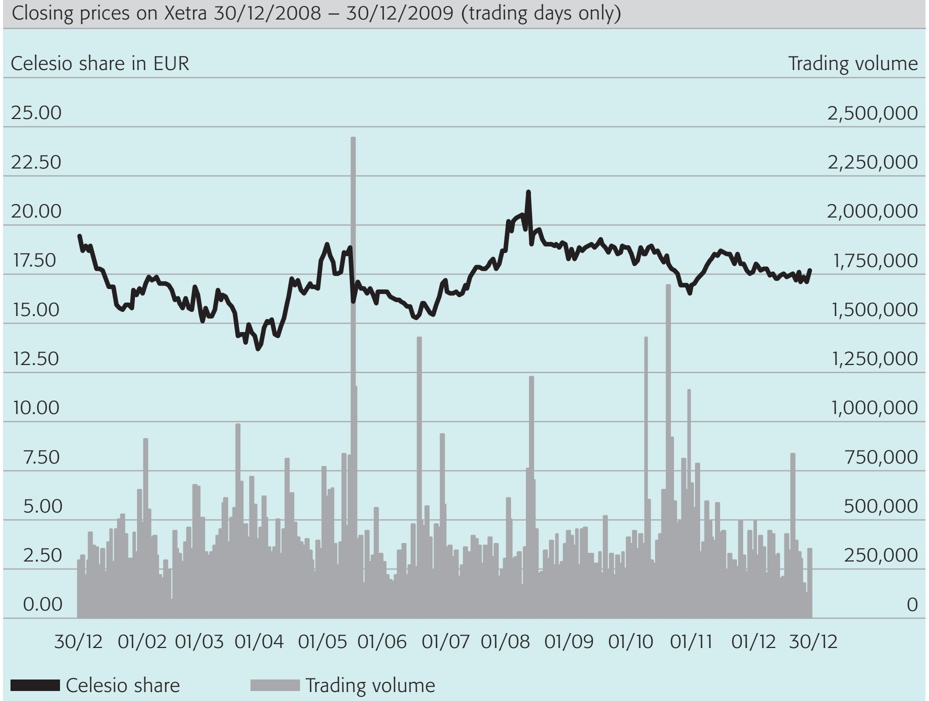
The stock markets

Against the backdrop of the global financial and economic crisis, the 2009 trading year started with the world's stock exchanges continuing the negative trend that had begun in the previous year. Share prices slumped once again across the board. The trend did not reverse until March when expectations arose on the capital markets that the recession had bottomed out and that the economy was on the verge of recovery. This development was also reflected in the performance of the German blue-chip index, the DAX, which rapidly gained ground to close the year at 5,957.4 points, representing a rise of almost 24% on the closing figure for 2008. The MDAX, the German mid-cap index in which the Celesio share is included, even outperformed the DAX, rising approximately 34% to close the year on the last day of trading at 7,507.0 points. In spite of this rally in share prices, the German mid-cap index remained almost 24% below the level it held at the end of 2007 before the financial and economic crisis took hold.

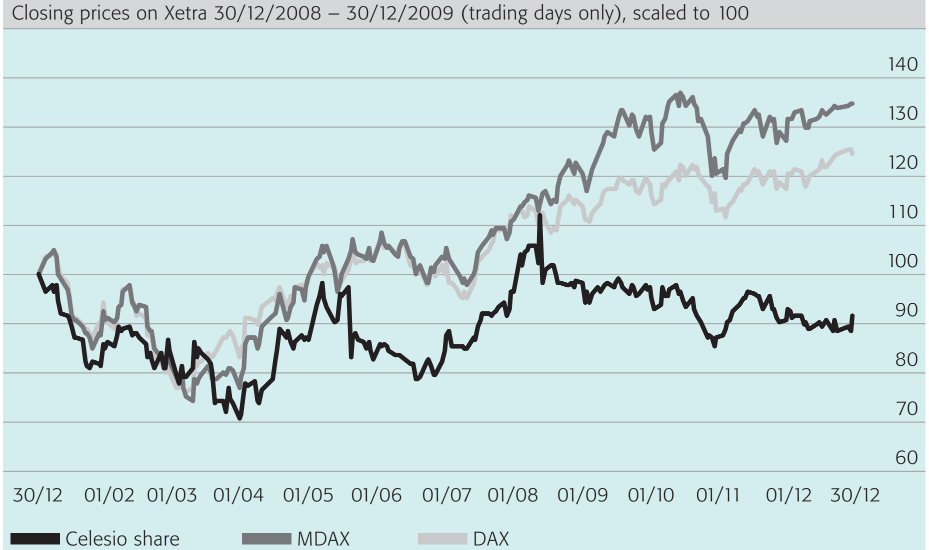
The Celesio share

In the first three months of 2009, the Celesio share more or less developed in line with the two comparable indices, the DAX and the MDAX, decreasing to an annual low of EUR 13.70, thus mirroring the general erosion of the stock markets. In advance of the decision of the European Court of Justice (ECJ) to liberalise the German pharmacy market, the share price rose rapidly in May, as many investors sought to build up their portfolios to profit from a possible rise in the price of our share once the market opened up. On the day the ruling was handed down by the ECJ and the day after (19 and 20 May), the price of our share came under pressure as turnover was high. On 19 May 2009 alone, 2.5m shares were traded. By way of comparison, the average trading volume over the full year 2009 stood at approximately 435,000 shares per day (previous year approximately 734,000 shares). Once we had announced our intention to acquire the leading Brazilian wholesaler, Panpharma, and our decision to enter the Swedish market, the share price rallied again in the middle of the year and climbed to its annual high of EUR 21.69 on 12 August 2009. However, this share price could not be maintained, with the price sliding sideways throughout the fourth quarter. On the last day of trading in 2009, the share price stood at EUR 17.70, down approximately 9% on the closing price for the year 2008.

Development of the Celesio share and trading volume
Closing prices on Xetra 30/12/2008 – 30/12/2009 (trading days only)



Development of the Celesio share, MDAX and DAX
Closing prices on Xetra 30/12/2008 – 30/12/2009 (trading days only), scaled to 100

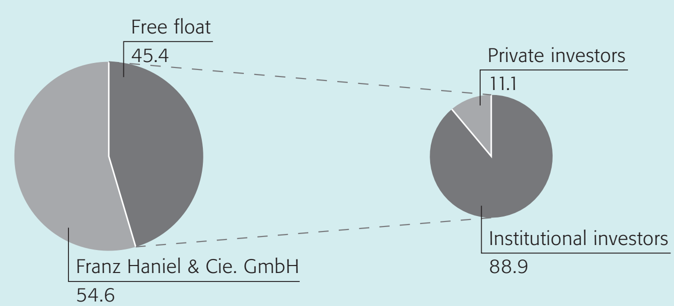


Shareholder structure

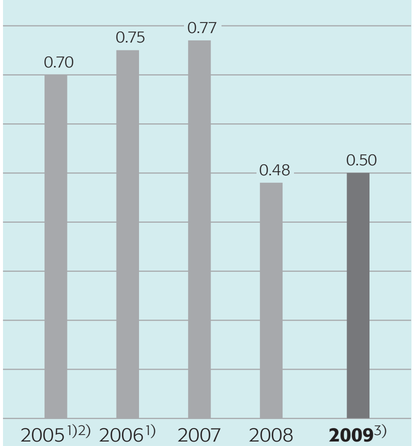
As in the previous year, the largest shareholder on 31 December 2009 was Franz Haniel & Cie. GmbH, Duisburg, Germany with a holding of 54.6%. 45.4% of the shares were in free float. Of the shares in free float 88.9% were held by institutional investors, primarily based in the USA, the UK, Germany and France. Private investors held 11.1% of the free float. In 2009, the US-based investment management firm AllianceBernstein L.P. increased its shareholding in Celesio to over 3%. In January 2010 we were also informed that the US-based asset management firm BlackRock, Inc. held more than 3% of Celesio's shares.

Shareholder structure
31/12/2009, %

Free float
31/12/2009, %



Dividend per share
EUR



1) Adjusted for the 1:2 share split carried out on 24 July 2006.
2) This includes a special dividend of EUR 0.03.
3) Proposed by the Management Board and Supervisory Board to the 2010 annual general meeting.

Annual general meeting

The annual general meeting 2009 was held in the Porsche Arena in Stuttgart on 8 May 2009. With 78.5% of the voting rights present at the meeting, attendance was at a similarly high level as in the previous years. All points on the agenda were approved. The 2010 annual general meeting will again be held in the Porsche Arena in Stuttgart on 6 May 2010. All the necessary documents and information for the annual general meeting will be published in advance as usual at www.celesio.com/generalmeeting.

Dividend

The Management Board and Supervisory Board will propose to the annual general meeting on 6 May 2010 a dividend payment of EUR 0.50 per share for the 2009 fiscal year. Celesio thus remains committed to its long-lasting dividend policy of distributing approximately 30% of the ordinary net profit of the group (after eliminating impairment losses on goodwill). In this way, our shareholders will continue to participate in the profits of the company. At the same time we retain enough headroom to make future investments. A dividend of EUR 0.48 per share was distributed for the 2008 fiscal year.

Key share figures		[1] 2005	[1] 2006	2007	2008	**2009**
Number of shares outstanding[2]	million	170.1	170.1	170.1	170.1	170.1
Market capitalisation[2]	EUR m	6,179.7	6,912.9	7,229.3	3,299.9	3,010.8
Closing price[2]	EUR	36.33	40.64	42.50	19.40	17.70
High	EUR	37.43	42.77	55.02	42.39	21.69
Low	EUR	27.92	34.11	36.21	17.01	13.70
Average trading volume per day	shares	293,672	310,360	485,665	733,755	434,703
EBITDA per share	EUR	4.38	4.72	4.95	3.86	3.69
Earnings per share	EUR	[4] 2.24	2.49	2.53	−0.12	0.00
adjusted[5]	EUR	[4] 2.24	2.49	2.53	1.56	1.56
Dividend per share	EUR	[6] 0.70	0.75	0.77	0.48	[7] 0.50
Dividend yield[3]	%	1.9	1.8	1.8	2.5	[7] 2.8

[1] Adjusted for the 1:2 share split carried out on 24 July 2006.
[2] Closing figures as at 31 December (Xetra).
[3] Related to the closing share price (Xetra).
[4] Adjusted for trade tax reimbursements.
[5] Adjusted for impairment losses on goodwill.
[6] This includes a special dividend of EUR 0.03.
[7] Proposed by the Management Board and Supervisory Board to the 2010 annual general meeting.

Coverage

At the end of 2009, financial analysts from 26 banks and investment firms were monitoring Celesio and the Celesio share. The following institutions publish comments, assessments and recommendations on Celesio at regular intervals:

- Bankhaus Lampe
- B. Metzler seel. Sohn & Co.
- Berenberg Bank
- Bryan, Garnier & Co
- Commerzbank
- Crédit Agricole Cheuvreux
- Credit Suisse
- Deutsche Bank
- DZ Bank
- equinet
- Equita SIM
- Exane BNP Paribas
- Goldman Sachs
- HSBC Trinkaus & Burkhardt
- Independent Research
- Itaú Securities
- LBBW
- MainFirst Bank
- Merck Finck & Co
- M.M.Warburg & CO
- NORD/LB
- Sal. Oppenheim
- SRH AlsterResearch
- UBS
- UniCredit
- WestLB

Investors with a focus on sustainability

There is a growing trend for investors to invest in companies that pursue the goal of sustainability. Ecological and social criteria are becoming increasingly important and corporate social responsibility is developing into a permanent feature of the financial market. In 2009, we qualified for the ECPI Ethical Index EMU for the first time. The Ethical Index Euro covers 150 large companies whose shares are listed in the eleven countries in the European Monetary Union as well as the UK, Norway, Sweden, Denmark and Switzerland.

Investor relations

The goal of our investor relations work is to ensure continuous transparent communication with the capital markets. We are in constant dialogue with our target groups, existing and potential investors as well as analysts. We seek to build long-term relationships. Great emphasis is placed on pro-active personal dialogue. In addition to our annual analyst and investor conference, numerous individual meetings and telephone conferences, we held a total of 18 roadshows in 2009 and participated in eight conferences held at international financial centres. These events took us to London, Paris, New York, Boston, Toronto, Montreal, Stockholm, Copenhagen, Milan, Zurich, Vienna, Dublin, Luxembourg and Frankfurt among others. We also discussed the latest developments at Celesio and the performance of our share and the market trends at events for private investors held in Hamburg, Munich and Düsseldorf.

An important element of our investor relations activities is the Investor Relations section of our website, www.celesio.com, which we redesigned and expanded in 2009. Here you can find not only clearly presented information on the development of our share price, latest news and important dates, but also presentations and speeches on our annual and interim reports. Recent additions include extended information on the company and its strategy. Interested users can register on our homepage for our free mail service and receive the latest press releases and information by e-mail. In addition, we provide a text message service to communicate the closing rate of the Celesio share to investors, employees and other groups related to the company via their mobile telephones on a daily or weekly basis.

Information on the Celesio share	
Share type	No-par value registered shares
Share capital in EUR on 31/12/2009	217,728,000.00
ISIN code	DE000CLS1001
German securities code	CLS 100
German stock exchange code	CLS1
Bloomberg	CLS1 GY
Reuters	CLSGn.DE
Stock exchanges	Xetra; Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Indices	MDAX, MSCI Germany Index, ECPI Ethical Index EMU

Corporate governance report[1)]

Corporate governance stands for responsible management and control of a company generating sustainable value-added. The key components of good corporate governance are efficient cooperation between the Management and Supervisory Boards, respect for shareholder interests as well as open and transparent corporate communication. It is our aim to strengthen confidence in our company – both on the capital markets and in the public at large.

Further information on the German Corporate Governance Code is available on the internet at www.corporate-governance-code.de

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

Declaration of compliance

The Management Board and Supervisory Board of Celesio AG addressed the provisions of the German Corporate Governance Code in detail once again in the 2009 fiscal year. The following declaration of compliance pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporations Act) was issued by the Management Board and Supervisory Board on 21 December 2009:

The Management Board and Supervisory Board declare that, since their last declaration of compliance in December 2008, Celesio AG has complied with the recommendations of the Government Commission of the German Corporate Governance Code first in the version dated 6 June 2008 as well as with the version of the Code dated 18 June 2009 since it came into force – with the following exceptions – and will continue to comply with them in the future:

- Pursuant to No. 4.2.4 and 4.2.5 of the Code, the company has opted not to disclose the remuneration of individual members of the Management Board based on a resolution to this effect passed at the annual general meeting of Celesio AG on 27 April 2006 and valid for five years.
- Pursuant to No. 5.4.6 (3) of the Code, the company does not disclose the remuneration of individual members of the Supervisory Board because no added benefit for investors is perceived.

Transparency

Our aim is to keep shareholders, the capital market, employees and interested members of the public up to date at all times with comprehensive and transparent information on current developments at Celesio. Our company website www.celesio.com is a significant component of communication, providing information on the company,

1) As part of the corporate governance declaration pursuant to Sec. 289a Handelsgesetzbuch (HGB, German Commercial Code), the corporate governance report also forms part of the management report. The full corporate governance declaration can be found on the Celesio website at www.celesio.com/declaration.

its strategy and the Celesio share as well as press releases and all ad hoc announcements, our financial reports, details of our press briefings on annual results, our annual general meeting and our financial calendar. The annual report and the three interim reports published during the year contain detailed analyses and explanations regarding our results of operation, financial position and assets position. We attach great importance to personal contact to our investors, employees and other stakeholders of the group. Our Investor Relations department is available by telephone, e-mail or at any of our numerous information events to answer questions from existing or potential investors and analysts. Our corporate communications department ensures a steady flow of communication with representatives from the German and international press. We also provide e-mail and text message services to keep interested parties up to date quickly and easily with news on the company or the Celesio share price.

Annual general meeting

The annual general meeting is the most important event for our shareholders, giving them the opportunity to enter into dialogue with the Management Board and Supervisory Board and exercise their voting rights. All the necessary documents and information for the annual general meeting will be published in advance on our website. Shareholders unable to attend the annual general meeting personally can elect to have their vote exercised by an authorised representative of their choosing or a company proxy bound by instructions. We also offer this service electronically via the internet. Investors can also register to attend the annual general meeting and order tickets via our website. Shareholders who are unable to attend the meeting in person can view the speech of the Chairman of the Management Board live on the internet.

The 2009 annual general meeting was held in the Porsche Arena in Stuttgart on 8 May 2009. With 78.5% of the voting rights present at the meeting, attendance was at a similarly high level as in previous years. All points on the agenda were approved. Details on agenda items and the results of voting can be found on the internet at www.celesio.com under »Annual General Meeting« in the Investor Relations section.

Management Board and Supervisory Board

Celesio AG has a dual management system. The Management Board is responsible for managing the company and the Supervisory Board for advising and monitoring the management of the company by the Management Board. The boards are strictly segregated in terms of members and areas of competence.

Management Board

The Management Board is responsible for managing the company with the aim of raising the value of the company in the long term, among other things. It acts in the interest of the company, taking into account the needs and concerns of all of our stakeholders. The Management Board represents the company, develops its strategy and is responsible for compliance, corporate governance and an effective risk management system. The composition of the board which comprises at Celesio AG three members and the areas of responsibility of individual members of the Management Board are set out on page 10. None of the members of the Management Board served on more than three Supervisory Boards for non-group listed companies in 2009.

Supervisory Board

The Supervisory Board's duty is to advise and monitor the Management Board in its management of the company on an ongoing basis. It appoints and dismisses members of the Management Board and works with management on long-term successor planning. The Supervisory Board has a close and trusting working relationship with the Management Board and is involved in all fundamental business decisions. No former members of the Celesio Management Board were active on the Supervisory Board in 2009. The committees set up by the Supervisory Board (Personnel, Audit, Arbitration and Nomination Committee) support the twelve members of the Supervisory Board in fulfilling their duties on time and in full. The composition of the Supervisory Board and its committees is set out on page 18. Details of the work, structure and control function of the board can be found in the report of the Supervisory Board on page 19. The Supervisory Board regularly reviews the effectiveness of its activities in line with the requirements of the German Corporate Governance Code (No. 5.6). The 2009 review revealed that the Supervisory Board performs its work to a very high standard, meaning that no major measures to boost efficiency were required.

Directors' dealings

Pursuant to Sec. 15a of the Wertpapierhandelsgesetz (WpHG, German Securities Trading Act), people who hold a management function at a publicly listed German company, or any legal or natural people who are related to such a functionary, have a duty to report if they buy or sell shares or related financial instruments in the company of EUR 5,000 or more within one fiscal year. Any announcements of directors' dealings are published on the Celesio website. No directors' dealings were carried out at Celesio in the 2009 fiscal year. At all times in the 2009 fiscal year, the members of the Management Board and the Supervisory Board held an accumulated total of well under 1% of Celesio shares issued.

Compliance

Compliance – i.e. observation of laws, statutes and internal company policies – is of utmost priority for Celesio in its commitment to compliant management. To this end, we set up an effective compliance management system, which contains appropriate mechanisms for analysis and review. We examine our compliance system on a regular basis and adjust it as necessary. Some years ago, we established an internal code of conduct according to which our employees are bound to act based on high legal and ethical standards.

Opportunities and risk management

At Celesio, we identify, evaluate and monitor opportunities and risks with the help of appropriate and effective management systems. We refine these on a rolling basis and adapt them in response to new developments. Details can be found in the risk and opportunities report from page 98 onwards.

Financial reporting and audit

The consolidated financial statements of Celesio were prepared pursuant to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, as adopted by the EU. In addition, the provisions of German commercial law were applied pursuant to Sec. 315a (1) Handelsgesetzbuch (HGB, German Commercial Code). The 2009 annual general meeting elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany, as independent auditor for the separate financial statements and the consolidated financial statements for the 2009 fiscal year, and as independent auditor for the review of the interim reports. Before awarding the engagement, the Supervisory Board confirmed that existing relationships between the auditor and the company or its boards did not give any grounds to doubt the independence of the auditor. The independent auditor of Celesio is concerned with the principles of good corporate governance. Its duties include informing the Supervisory Board of all findings and results of the audit of the financial statements which are relevant for the board's work. The auditor must report any independence issues immediately.

Remuneration report[1)]

This remuneration report is in line with the recommendations of the German Corporate Governance Code and contains disclosures pursuant to the requirements of the Handelsgesetzbuch (HGB, German Commercial Code) as well as International Financial Reporting Standards (IFRSs).

Total remuneration and compensation structure of the Management Board

Since the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG, German Act on the Appropriateness of Executive Board Compensation) came into force on 5 August 2009, the legislator set new requirements regarding the determination of management board remuneration. The aim of the legislator is that remuneration of executive

1) The remuneration report also forms part of the management report.

boards be conducive to sustainable and long-term corporate governance. This aim is consistent with the principles on which the remuneration system for Celesio's Management Board is based. In determining Management Board remuneration the provisions of Aktiengesetz (AktG, German Stock Corporation Act) and the German Corporate Governance Code were observed. By resolution of the annual general meeting on 27 April 2006, the Management Board was exempted from disclosing the remuneration of its individual members. Celesio therefore discloses the remuneration of the Management Board in total, broken down into individual components.

The total remuneration of the members of the Management Board comprises both performance-related and non-performance-related components. The compensation structure is conducive to the sustainable development of the company on account of remuneration components with a long-term incentive. In determining the remuneration of members of the Management Board, we take into account the size and complexity of the company, its economic and financial position and the amount and structure of remuneration of management boards of comparable companies, as well as the compensation structure in place otherwise at the company. We also consider the responsibilities and performance of each member of the Management Board. The Supervisory Board regularly reviews the structure of the remuneration system at the instigation of the Personnel Committee, including the appropriateness of remuneration amounts for the Management Board.

Non-performance-related remuneration components The non-performance-related components consist of a fixed basic component, additional benefits and pension contributions. The fixed basic component is paid as a monthly salary. The additional benefits received by the Management Board comprise the use of company cars, accident insurance, health insurance abroad, legal protection 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 contributions plan. An annual contribution of 16% of the fixed basic component plus standard bonus is made. The contribution is made for the period of office as Management Board member. The contributions bear minimum interest. Pensions can be claimed after leaving the company and from the age of 60 years. In the case of invalidity or death, the contributions that would have been due until the age of 63 are credited to the pension account which is then paid out.

Performance-related remuneration components The performance-related components consist of bonuses which are paid out annually as well as a rolling remuneration component as a long-term incentive, currently in the form of the performance cash scheme. The performance cash scheme was set up for the first time with effect as at 1 January 2008 for the period from 2008 to 2010 (2008 tranche). The second performance cash scheme was set up with effect as at 1 January 2009 for the period from 2009 to 2011 (2009 tranche).

The basis for assessment of the bonus in the Celesio Group is the EBITDA. 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 predefined threshold. Bonuses are capped. If, in its best judgement, the Supervisory Board deems the extraordinary service or success of a Management Board member to be worthy of special payments including special remuneration, it is entitled to award these. The same applies in the case of mutual agreement to terminate contracts.

The performance cash schemes are each payable in cash after three years upon achievement of targets. The amount of cash payment for each of the two schemes started so far depends on the target set for each member of the Management Board as well as fulfilment of several performance targets. These include an increase in the share price compared to a defined reference share price, the accumulated Celesio value-added and, in the case of the 2009 tranche, the implementation of operating measures to improve profitability over the term of the scheme. The share-based component is classified as a cash-settled share-based payment transaction in the meaning of IFRS 2 and is measured using a binominal option pricing model. The expenses for the benefits received or the debt to settle these benefits are recognised over the vesting period. The debt is remeasured at each reporting date and on the settlement date. Changes in fair value are recognised in the income statement. The Celesio value-added is a key performance indicator which serves our value-based corporate management. To obtain this indicator, the ratio of earnings before interest and taxes (EBIT) to capital employed is compared with the weighted average costs of capital. The remuneration is thus conducive to a sustainable increase in the company value. The implementation of operating measures to improve profitability relates to the effect on earnings of cost-cutting measures and growth initiatives. The performance cash schemes are also capped at a maximum payout.

The claim for payout from the performance cash scheme is valid only if the claimant held office in the performance period. A payment is made pro rata temporis upon reaching retirement age or stepping down from the Management Board. A transitional arrangement is in place until the date that the rolling system is fully in force, i.e. three tranches have been granted. If a member of the Management Board leaves before 2010, the full target value will be granted for all tranches set up by then.

Total remuneration The total remuneration of the Management Board pursuant to German Accounting Standard 17 stood at EUR 5,493k in 2009 (EUR 6,286k). This breaks down into EUR 2,251k for the annual basic component including additional benefits (previous year EUR 2,202k), EUR 2,969k for bonuses (previous year EUR 3,620k) and EUR 273k for the value of the performance cash plan for the years 2009 to 2011 (2009 tranche) as at the date of issue (previous year EUR 464k). Of the bonuses, an amount of EUR 781k (previous year EUR 656k) was guaranteed.

Disclosures pursuant to IAS 24 »related parties« The cost of short-term benefits as defined by IAS 24.16 a) amounted to EUR 5,220k in 2009 (previous year EUR 5,822k). For the company pension scheme as defined by IAS 24.16 b) a service expense of EUR 774k was incurred in 2009 (previous year EUR 3,372k). A non-recurring special contribution from the reversal of a former pension commitment was included in this amount in the previous year. Expenses for other long-term employee benefits pursuant to IAS 24.16 c) came to EUR 80k (previous year EUR 0k). Expenses for termination benefits pursuant to IAS 24.16 d) came to EUR 1,190k (previous year EUR 0k). Share-based payments as defined by IAS 24.16 e) gave rise to an expense of EUR 56k (previous year EUR 12k) based on the valuation of the performance cash scheme at the end of the reporting period. The provision for these components of the performance cash schemes amounts to EUR 68k in total (previous year EUR 12k).

Other disclosures Former members of the Management Board and their surviving dependents received remuneration of EUR 1,749k in the reporting period (previous year EUR 286 k). Celesio has set up pension provisions of EUR 4,796k (previous year EUR 3,853k) for this group of persons. In the 2009 fiscal year, no loans were granted to members of the Management Board, nor did the company enter into any contingent liabilities in favour of these persons.

Total remuneration and compensation structure of the Supervisory Board
The remuneration paid to the Supervisory Board is defined in Art. 5 of the articles of association of Celesio AG. In addition to reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive fixed remuneration of EUR 5,000 annually and an additional payment of EUR 800 for each half percentage point of dividends distributed to shareholders in the past fiscal year that is in excess of 4% of issued capital entitled to dividends. These payments are net of VAT. The chairman receives twice the standard amount paid to the other members of the Supervisory Board and the deputy chairman receives one and a half times the standard. Each member of a committee – with the exception of the committee founded to satisfy Sec. 27 (3) Mitbestimmungsgesetz (MitbestG, Codetermination Act) – receives EUR 2,000, with the chairman of a committee receiving EUR 4,000.

The total remuneration of the Supervisory Board came to EUR 761k in 2009 (previous year EUR 794k). Of this, EUR 68k (previous year EUR 68k) pertained to fixed remuneration for membership of the Supervisory Board. The variable components pegged to dividend pay-outs for membership of the Supervisory Board came to EUR 669k (previous year EUR 702k). The variable components pegged to dividend payouts for serving on committees came to EUR 24k (previous year EUR 24k).

In the 2009 fiscal year, no loans were granted to members of the Supervisory Board, nor did the company enter into any contingent liabilities in favour of these persons.

Further information on corporate governance at Celesio can be found on the internet at www.celesio.com by clicking on the Corporate Governance section within Investor Relations. This is also where the compliance declaration is published.

Corporate social responsibility

Assuming social responsibility

Assuming corporate social responsibility (CSR) has a long tradition at Celesio. Taking responsibility for the social impact of our actions has been an integral component of our corporate identity ever since the company was founded 175 years ago. We are convinced that this commitment also enhances the financial performance of an enterprise. For this reason our CSR strategy is not aimed at short-term goals but is aligned towards sustainable goals for the long term. The focus of our activities – health and education – has evolved from our business model and our corporate history.

CSR refers to our voluntary contribution to social, economic and ecological goals beyond that required by law. In this regard, we meet a range of voluntary commitments which underscore our belief that entrepreneurial and social acts complement each other and are not mutually exclusive. Examples of this include our code of conduct which embeds high ethical standards in the company, or the Diversity Charter by which we have committed us to ensure a non-discriminatory working environment and an open corporate culture. We have established clearly defined environmental guidelines in the company aimed at protecting and preserving our environment. We have bundled our CSR activities in a dedicated department at the level of the group holding. Moreover, we set up a Sustainability Committee in 2009. This executive body regularly analyses and assesses our CSR strategy from the perspective of the group's departments. In order to network and further refine our CSR activities we conduct regular workshops in which we discuss the latest CSR developments with distinguished representatives from the fields of business, politics, research and non-government organisations.

Selected projects

Healthcare in the third world

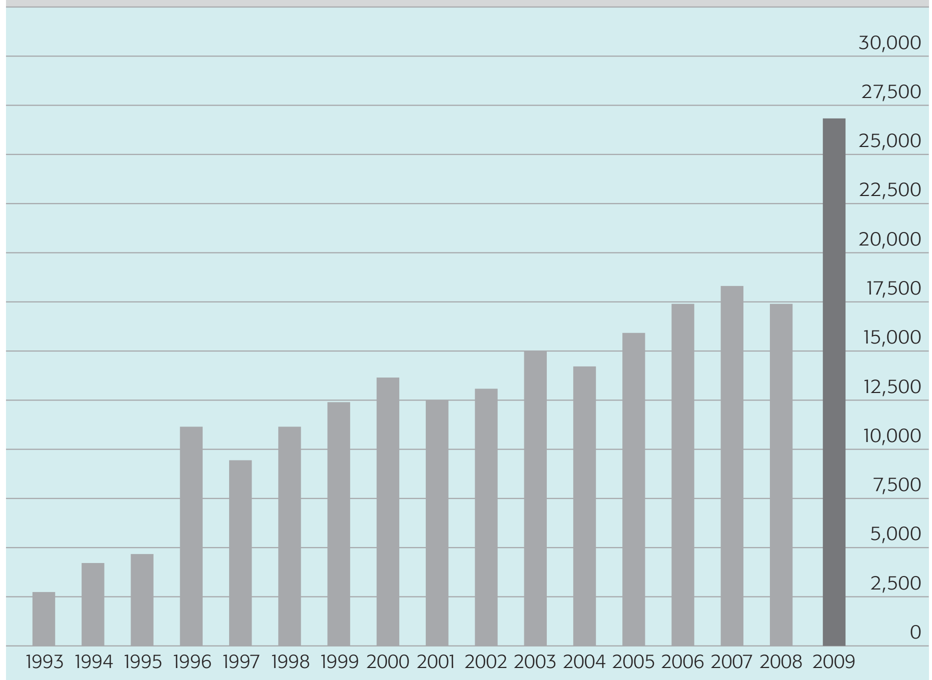
For a number of years now we have been working very closely with »Doctors For Developing Countries«, an aid organisation. It organises the unpaid work of doctors and pharmacists for the benefit of people in the poorest regions of the world. The voluntary aid workers treat patients in these regions, vaccinate children and operate health clinics. We support the aid organisation financially but also by providing professional expertise and the personal input of our employees. From 2004 to 2009, 26 Celesio pharmacists from five different countries went on a total of 34 missions to assist with projects organised by »Doctors For Developing Countries«. We promote our pharmacists' commitment to the organisation at regular workshops. Great emphasis is placed here on the issue of pharmaceutical safety. The range of tasks performed by our pharmacists in individual projects includes setting up mini-laboratories, training personnel and patients how to administer and handle pharmaceuticals correctly and advising doctors on-site on the selection of suppliers and manufacturers. Our project in Nairobi was able to reduce the number of counterfeit pharmaceuticals from over 9% in 2008 to almost total elimination in 2009. In Calcutta the percentage of counterfeit pharmaceuticals in the year 2005 was over 30%. In 2009, it had fallen to just 4%. In order to bring this figure down to virtually 0%, the entire pharmaceutical supply chain in Calcutta, from the procurement to storage to dispensing of the pharmaceuticals, was analysed by our pharmacists on location and the workflows improved in 2009. Moreover, the Pushpa Celesio Children's Tuberculosis Clinic in Calcutta has been aiding the poorest of the poor since 2007. We pay the wages of the hospital staff to keep the facility up and running.

Education and training

In addition to training and further education for our employees we remain in dialogue with universities throughout Europe. We support research and publication efforts related to the topic of corporate social responsibility, thus fostering the academic development of this field. In 2009 we cooperated with researchers from the universities of Berlin, Lugano, Maastricht, Marburg, Passau and Stuttgart. Some of our staff hold teaching positions at universities.

For the last 20 years our German wholesaler, GEHE, has been running the GEHE Academy which is funded by the GEHE trust set up back in 1892. The GEHE Academy is one of the leading partners for pharmacist training in Germany. Approximately 26,700 pharmacists and pharmacy assistants nationwide attended the training programmes offered in 2009. Among other aspects, the training programmes cover such skills as consulting and product expertise, thus helping to improve the quality of pharmaceutical provision to the wider population.

Participants attending the GEHE Academy 1993 – 2009



Commitment to the environment

In addition to health and education, we are also active in the field of environmental protection in our role as a service provider. For example, when purchasing company cars we take care to purchase energy-efficient models to effectively reduce emissions from the use of private transport. In our wholesale operations, we optimise route planning, thereby reducing the CO_2 emissions of our vehicle fleet. Beginning in 2010, our 1,700 retail pharmacies and wholesale warehouses in the UK will be powered by electricity from renewable sources. By the end of 2010 this will have reduced our carbon footprint by 330 tons compared to 2007. In a second step, our gas and water consumption will be reduced significantly. With regard to our own brands we will reduce packaging to a minimum and review our suppliers on an ongoing basis in terms of our environmental standards. Our own brands are developed without recourse to animal testing.

More detailed information on our CSR activities, such as reports on the latest projects and other facts and figures in the field of CSR, can be found on the internet at www.celesio.com.

You can find more information on CSR in the following sections of this annual report:
- Corporate governance report (page 30)
- Employees (page 94)
- Risk and opportunities report (page 98)

Group management report

Combined management report
of the Celesio Group
and Celesio AG

Business activity and organisation

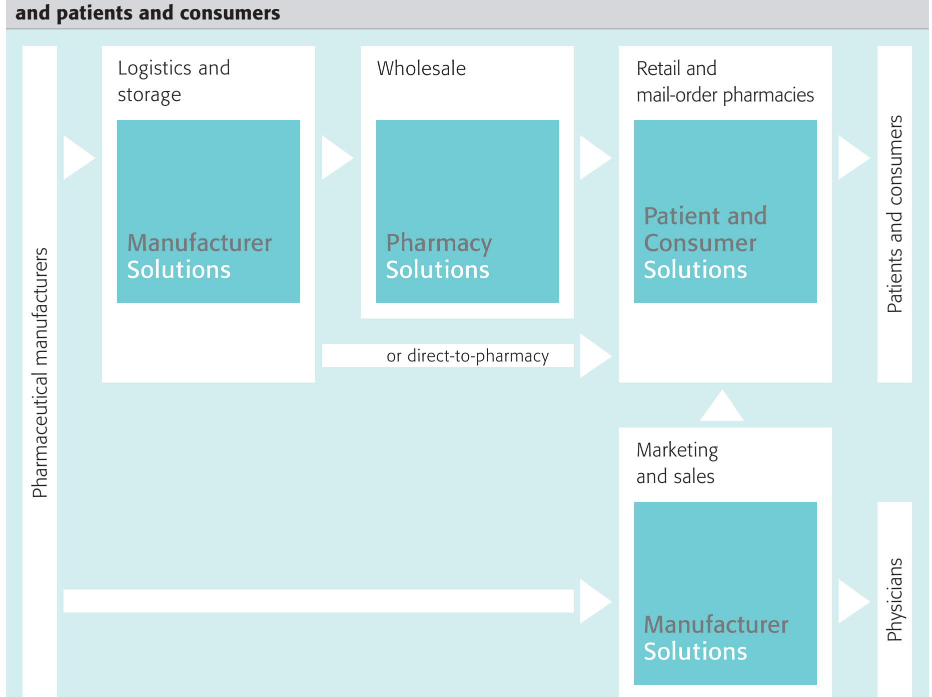
Business model

We are one of the leading service providers with around 46,000 employees and strong regional and international brands on 27 pharmaceutical and healthcare markets worldwide (as at year-end 2009). With manufacturer-oriented services such as warehousing, logistics, marketing or sales, pharmaceutical wholesale business and the operation of retail and mail-order pharmacies, our core business spans the entire value-added chain of the pharmaceutical industry, including patients and consumers. We also operate in other business areas to complement our core business, offering our customers tailored services and products to meet their individual needs. Examples of this include the mail-order business of pharmacy equipment or franchise-like cooperations for pharmacies. Our risks are diversified thanks to the broad range of activities within our clear customer-oriented structure.

Value-added chain in the pharmaceutical industry

For a pharmaceutical product, the traditional path from manufacturer to consumer usually consists of several steps. First of all, the medicine is transported to a full-line wholesaler, or directly to the pharmacy via a specialised logistics provider such as our subsidiary Movianto, for example. If delivery is made to the wholesaler, medicines are then held at the wholesaler's branch, meaning that pharmacies can order all pharmaceuticals required easily and efficiently from one contact. Once the pharmacy takes

Pharmaceutical distribution: Major points along the value-added chain between manufacturers and patients and consumers



delivery of the medicine from the wholesaler just a couple of hours after ordering, it is then responsible for dispensing it to patients and consumers – either directly as a retail pharmacy or by post as a mail-order pharmacy.

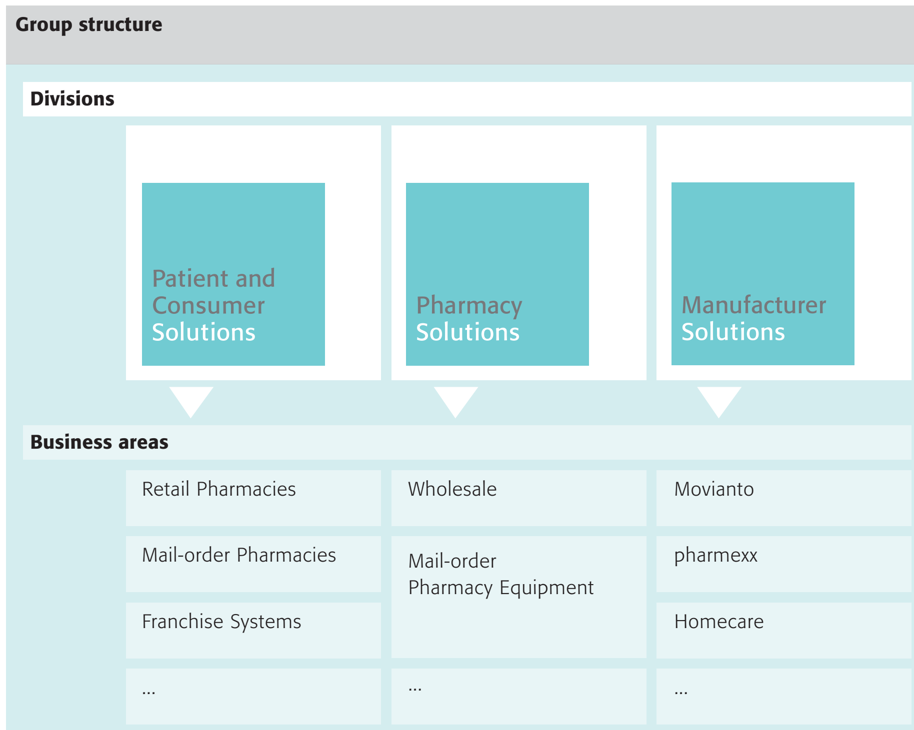
The UK as an example: Here, we are active at almost every point along the value-added chain. With pharmexx, we provide pharmaceutical manufacturers with innovative marketing and sales solutions for their products. With Movianto, we take care of the demanding transportation of medicines, from the manufacturer to the recipient, the wholesaler or pharmacy directly. As a strong wholesale partner, our subsidiary AAH supplies pharmacies nationwide. At our own Lloydspharmacy pharmacies, we offer patients and consumers specialist advice and comprehensive healthcare services that go far beyond the pure dispensing of medicines. With Evolution Homecare in the UK we also provide medical treatment to patients at home, i.e. we organise the administration of complex medicines directly to patients at their homes.

Government compensation schemes

With our wholesale business as well as retail and mail-order pharmacies, we operate in business areas characterised by government-regulated compensation schemes which vary from country to country. When pharmaceutical wholesalers sell medicines to pharmacists, they generally receive a government-regulated mark-up on the manufacturer price which is itself often regulated or at least influenced by the government. Pharmacies receive a government-fixed margin on the purchase price for pharmaceuticals dispensed. A further common compensation model at pharmacies is the dispensing fee set by the government for every prescribed qualifying pharmaceutical or other service. In some cases, such as Germany, these two models are combined.

Group structure

We changed our organisational structure with effect as at 1 January 2009. We have created three divisions, Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions with service portfolios tailored to the needs and demands of our three customer groups. For each division, we report on the development of business, revenue and earnings figures of individual business areas significant for the consolidated financial statements. This raises the level of detail and transparency of our reporting. Business areas not allocated to a specific division are summarised under »other business areas«.



Management and control

The Management Board is responsible for the management of the Celesio Group based on legal requirements and the rules of procedure laid down by the Supervisory Board. The Management Board is advised and monitored in its management function by the Supervisory Board. The Supervisory Board is made up of an equal number of shareholder and employee representatives and is responsible for appointing members of the Management Board; any major transactions by the Management Board must be approved by the Supervisory Board.

Corporate governance declaration

The corporate governance declaration pursuant to Sec. 289a of the Handelsgesetzbuch (HGB, German Commercial Code) is also included in the management report. The full text is available on the internet at www.celesio.com/declaration.

Remuneration report

The remuneration report forms an integral part of the group management report and is included in the notes from page 183.

Internal control system

Our central performance indicator is EBITDA (earnings before interest, taxes, depreciation and amortisation). EBITDA thus reflects our operating business before financing costs. Our use of EBITDA permits a convenient comparison with other listed companies.

In addition to EBITDA, we also focus on value-added, which measures the result of our investments and thus our capital employed. Value-added is calculated as follows:

Value-added = EBIT (earnings before interest and taxes) –
capital employed × weighted average cost of capital (WACC)

Capital employed is calculated as the total of all non interest-bearing assets (except tax items) less non-interest-bearing liabilities (except tax items), measured at carrying amounts. WACC is the weighted average market cost of debt capital and equity and currently comes to 10.1%. In 2009, value-added came to EUR –235.8m compared to EUR –316.3m in the previous year. Both figures were influenced by the impairment losses recognised on goodwill in these years. After eliminating the impairment losses reflected in both EBIT and capital employed, the value-added rose by EUR 39.4m. This increase is mainly attributable to the reduced tax rate as well as a change in the weighting of capital components in WAAC.

Accounting-related control system

The internal control and risk management system with regard to the group accounting process is an unclear legal concept and has not been defined by law. Our understanding is that the internal control system is a comprehensive system to ensure the appropriateness and effectiveness of the accounting as well as compliance with applicable legal requirements. With regard to group accounting, the risk management system is designed to detect any risk of misstatement in the group accounting and is in line with financial reporting. We have the following structures and processes in place with respect to the group accounting process:

The Management Board bears overall responsibility for the internal control and risk management system. All business units included in the consolidated financial statements are incorporated via a defined management and reporting organisation. The Supervisory Board – and its Audit Committee in particular – as well as the internal audit department are responsible for monitoring the effectiveness of the system independently of the process. The Audit Committee therefore regularly addresses the topic of the internal control and risk management system.

Our group guidelines and organisational instructions set out the principles governing the structures and procedures of the internal control and risk management system relating to group accounting; these are revised on a regular basis to reflect current external and internal developments. In particular, these include guidelines governing the scheduling and procedural the process for annual and interim financial statements, the group accounting manual pursuant to uniform International Financial Reporting Standards (IFRSs) to be employed across the group, a uniform group chart of accounts and standardised forms for recording disclosures to the notes at the level of the divisions included in the consolidated financial statements. Employees responsible for the financial statements attend regular training.

The consolidated financial statements are based on the separate financial statements prepared by the subsidiaries' bookkeeping departments. In some cases, these are directly prepared in accordance with uniform group accounting standards or they are reconciled to them. Various decentralised IT systems are in use at the subsidiaries. Data reporting for the consolidated financial statements is carried out using a centrally managed group reporting and consolidation package (SAP SEM BCS) as well as an IT platform for preparing the disclosures in the notes. Inclusion in the consolidated financial statements generally takes the form of subgroup statements for business areas at the country level (e.g. retail pharmacies in the UK), with several legal entities combined. In addition to an internal review, data reporting is also subject to a statutory audit or review by independent auditors. The group accounting department is responsible for further consolidation into the consolidated financial statements. The group accounting department monitors reporting deadlines and the quality of data reported, ensuring that this complies with group provisions. It also serves as a central contact for any accounting or consolidation queries. The process of preparing the financial statements is divided into hard close as at 30 September, equivalent in terms of nature and scope to preparing annual financial statements, and the fast close as at 31 December.

With regard to the group accounting process, we pay particular attention to features of the internal control and risk management system which safeguard group accounting and the overall picture conveyed by the consolidated financial statements as well as the group management report. In particular, this includes the following elements:

- Identification by the group accounting department of the significant areas of risk and control relevant for the group accounting process. In particular, this includes unusual and complex business events as well as non-routine transactions.
- Judgements in recognition and measurement of assets and liabilities. There is an inherent risk here that they may not be presented correctly in the consolidated financial statements. The group accounting department regularly reviews the significant areas of risk based on findings arising in the course of preparing the consolidated financial statements as well as the ongoing assessment of special accounting questions. The hard close as well as other interim financial statements permit any new critical issues to be identified at an early stage and dealt with before year-end.

- Preventative control measures in the finance and accounting departments of the group and divisions included in the consolidated financial statements. Operating and business processes are also included since these generate important information for the preparation of the financial statements of the divisions incorporated as well as for the consolidated financial statements including the group management report. In this respect, we would like to highlight the segregation of functions in group accounting and at the business units incorporated, the principle of dual control and the predefined approval processes in the relevant areas. The group accounting manual in place across the group supports this, as does the use of a uniform group reporting and consolidation package for the consolidated units to record data and the later preparation of the consolidated financial statements.
- Monitoring of the group accounting process and findings at the level of the Management Board or relevant departments as well as at the level of the business units incorporated. In particular, this consists of monitoring the accounting on a rolling basis by submitting monthly reporting to the Management Board, performing quality control on reported data in group accounting and group controlling as well as assessing the significant accounting judgements made by the divisions included in the consolidated financial statements.
- Measures to safeguard the appropriateness of computer-assisted processing of issues and data relating to group accounting – in particular, centrally managed user access to the group reporting package, access controls on accounting-related IT systems as well as automated validation of reported data applying centrally defined controls prior to further processing by the group accounting department.
- Selective measures for monitoring the internal control and risk management system relating to group accounting, especially by the internal audit department.
- For specific accounting and measurement questions relating to preparation of the financial statements, we draw on external service providers if necessary, for example, when preparing pension appraisals or appraisals on purchase price allocation in the event of business combinations.

Not even an appropriate and functioning internal control and risk management system can identify and manage risks with absolute certainty.

Notes on capital and shareholder structure

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

1. The share capital of Celesio AG amounts to EUR 217,728,000 and is divided into 170,100,000 no-par registered shares. The proportionate nominal value per share is EUR 1.28.
2. Each share in Celesio AG is given one vote. There are no shares with multiple, preferential or maximum voting rights. No limitations of voting rights arising from shares exist nor is Celesio aware of any limitations to the transferability of shares.
3. The current shareholding of Franz Haniel & Cie. GmbH, Duisburg, was 54.6% at the end of the reporting period. We are not aware of any other shareholding of a direct or indirect nature in the capital of Celesio AG of a magnitude of more than 10%.
4. There are no shareholders with special rights.
5. Employees with shares in the capital of the company may directly exercise their control rights.
6. a) Members of the Management Board are appointed by the Supervisory Board for a maximum term of office of five years. A reappointment or extension to the term of office is permitted for a maximum of five years in each case. Reappointment or extension to the term of office requires a new decision by the Supervisory Board, which may only be made at the earliest one year prior to expiry of the previous term of office. In the event of the death of a member of the Management Board or if members leave the Management Board due to their appointment being revoked or through resignation from office, the court must, in urgent cases, appoint a member at the request of one of the parties involved if the absent Management Board member is required for a representation or managerial measure. The Supervisory Board may revoke the appointment of a member of the Management Board and the Management Board's nomination for chairman for good cause. Good cause is specifically gross breach of duty, incapability of proper management or a vote of no confidence by the annual general meeting, unless the vote of no confidence was on clearly unjustified grounds.

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

7. a) By resolution of the annual general meeting of 26 April 2007, the Management Board is authorised to increase the share capital on or before 25 April 2012 with the consent of the Supervisory Board by issuing new no-par registered shares in return for cash contributions on one or more occasions by a maximum of EUR 43,545,600 (authorised capital 2007). In this respect, the shareholders are to be granted a subscription right; the Management Board is, however, authorised to exempt fractional amounts from the subscription right of the shareholders with the consent of the Supervisory Board. Pursuant to Sec. 186 (5) Aktiengesetz (AktG, German Stock Corporation Act), the new shares may also be offered for acquisition by a bank under the obligation of offering them for sale to the shareholders. The Management Board is 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 resolution of the annual general meeting of 8 May 2009, the Management Board is authorised to increase the share capital of the company on or before 30 April 2014 with the consent of the Supervisory Board by issuing new no-par registered shares in return for cash contributions or contributions in kind on one or more occasions by a maximum of EUR 65,318,400 (authorised capital 2009). In this respect, the shareholders are to be granted a subscription right. The Management Board is permitted, however, to exclude shareholders' subscription rights in the following circumstances: (I) for fractional amounts; (II) 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; (III) if the issue price of the new bonds is not materially lower than their listed price and the shares issued excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed 10% of the share capital on the date of becoming effective or on the date of exercising this authorisation. This limitation also applies to the sale of treasury shares if they are sold excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG during the term of the authorisation. This limitation also applies to shares issued to serve bonds with options or conversion rights or obligations in the case of bonds issued during the term of this authorisation excluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG. The Management Board is further authorised, with the agreement of the Supervisory Board, to exclude subscription rights in the case of a capital increase in return for contributions in kind and define the further conditions of the capital increase and its execution, in particular the content of the share rights and the conditions governing the issue of shares.

c) By resolution of the annual general meeting of 8 May 2009, the Management Board was authorised on or before 7 May 2014, subject to the agreement of the Supervisory Board, to take the following measures:
   - To issue, on one or more occasions, registered option bonds or convertible bonds (together: bonds) with a total par value of up to EUR 500,000,000 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 EUR 21,772,800 of the share capital. In accordance with Art. 3 No. 4 of the articles of association of Celesio AG, the share capital of Celesio AG is conditionally increased by the corresponding amount (conditional capital 2009).
   - To exclude the shareholders' subscription rights (I) for fractional amounts occurring as a result of the subscription ratio; (II) 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; (III) completely 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% 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.

d) In the event of the share capital being increased, the distribution of profits may be determined in derogation of Sec. 60 AktG.

e) The company may acquire treasury shares with the intention of offering them as part of the employee share programme to persons who are or were employed by the company or an affiliate.

f) Furthermore, the Management Board is authorised on or before 7 November 2010 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, up to a maximum proportionate amount of 10% of the share capital represented at the time the resolution was passed.

  g) The entitlement of the shareholders to securitise their shares is excluded. The Management Board is entitled to issue share certificates for several shares (multiple share certificates); the form and content of the share certificates as well as the dividend and renewal certificates are determined by the Management Board, with the agreement of the Supervisory Board.
8. Pursuant to the terms of the convertible bond issued on 29 October 2009, a change of control in the event of a takeover bid could give the bond creditors the right to terminate prematurely or adjust the conversion price. Celesio AG has not entered into any other significant agreements 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 bid.

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

Dependent company report

Franz Haniel & Cie. GmbH, Duisburg, has a majority shareholding in Celesio AG. Celesio has therefore prepared a report on relationships with affiliates as required by Sec. 312 AktG. The report concludes as follows: »We hereby declare in summary that in the legal transactions and measures listed in the dependent company report, and according to the circumstances that were known to us when those legal transactions were performed or measures taken or omitted, Celesio AG, Stuttgart, and its subsidiaries, received appropriate consideration in each legal transaction and was not placed at a disadvantage by measures taken or omitted.«

Strategy

Market conditions

In an environment of increasing spending on pharmaceuticals and healthcare products, the global pharmaceutical and healthcare markets are, and will remain, growth markets. Factors driving this trend are:

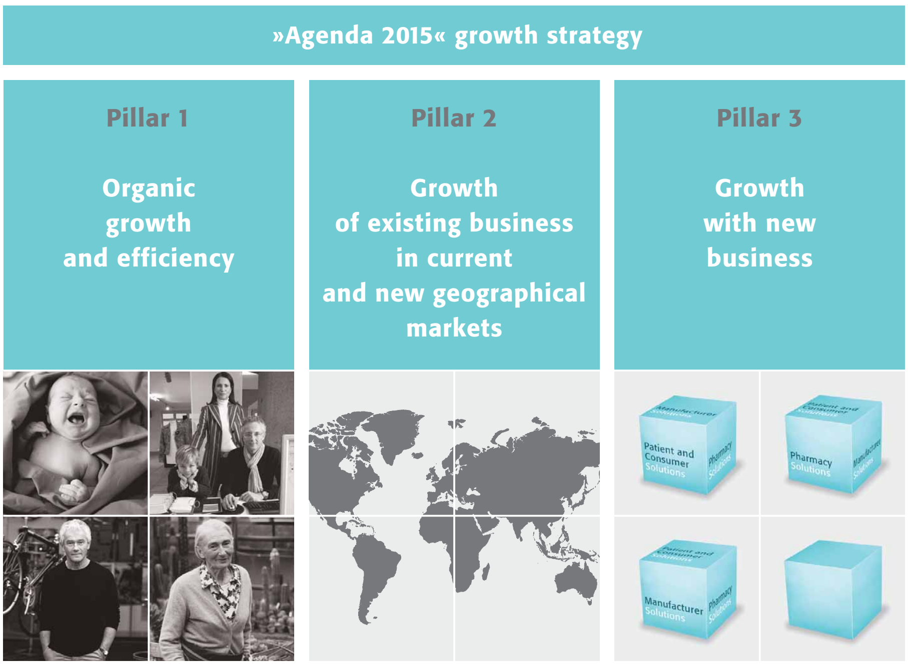
- Demographic change. The population structure is ageing as a whole; demand for pharmaceuticals is higher in older people.
- The development of innovative pharmaceutical products.
- Increasing health consciousness.

We will benefit from this growth.

The drivers behind growth on the pharmaceutical and healthcare markets also entail spending for the healthcare systems, most of which are government-run. The need to continually increase the quality of healthcare while reducing spending will bring about fundamental changes in the pharmaceutical and healthcare markets in the medium to long term. Market players generally operate in widely disparate sectors at present but the future trend will be towards integrated, cross-sector solutions. Traditional fields will be expanded, abandoned or merged with others. This is the only way to avoid redundancy and structural inefficiencies and realise economies of scale.

»Agenda 2015« growth strategy

We want to achieve long-term profitable growth based on our sustainable business model, thus creating value for our customers and shareholders. To achieve this, we continually work towards consolidating and expanding on our position as one of the leading service providers within the pharmaceutical and healthcare markets worldwide. We defined clear strategic guidelines on how to achieve this in our »Agenda 2015« growth strategy, which was introduced at the beginning of 2009. Over the coming years, we want to increase our earning power by launching numerous measures and initiatives with the aim of generating earnings before interest, taxes, depreciation and amortisation (EBITDA) of more than EUR 1bn in 2015. »Agenda 2015« is built on three pillars:



Pillar 1: Organic growth and efficiency
Our core business is solid as a whole, providing a basis for organic growth. This is supported by the steady growth of the pharmaceutical and healthcare markets. We continually work to optimise internal processes and procedures to boost efficiency and thus press ahead with efforts to increase earnings. An example of a measure in our efficiency drive is the outsourcing of our IT infrastructure to an external service provider, a group-wide measure started in 2009.

Pillar 2: Growth of existing business in current and new geographical markets
Our existing business enjoys growth – not only on markets in which we already have a presence, but also geographical markets which are new for us. As in the past, we intend to continue expanding through acquisitions. In our pharmacy business, growth will focus on starting up and expanding our own pharmacy chains through new openings.

Pillar 3: Growth with new business
For us, growth also means tapping into new business activities. To this end, we make use of the change occurring on the pharmaceutical and healthcare markets and the associated demand for new services and products – in every area that we currently operate and beyond. We develop new business to meet the needs of our existing customer groups as well as in line with demand from potential new customers.

As the pharmaceutical and healthcare markets change, so too will these factors. This gives us the manoeuvrability and opportunities to introduce completely new business models. An example of one with great potential is Evolution Homecare, a subsidiary founded in the UK at the end of 2008 for the coordination of medical treatment of patients at home.

Acquisition criteria

We make acquisitions based on clearly defined criteria in order to make the best possible economic use of our resources. These criteria form part of our »Agenda 2015«.

- In the case of markets we already operate in, we will make acquisitions only if this improves our competitive position.
- We will only enter into new geographical markets if we can achieve a significant market position and the profit-risk ratio is suitable for us. Significant factors in connection with this are the conditions of the economy as a whole, regulatory framework and stability of the local currencies in these markets.
- Acquisitions should also help diversify our currency portfolio and reduce the significance of the pound sterling for our earnings.
- When prioritising potential acquisitions, our aim to reduce the proportional influence of government-regulated reimbursement structures on our business in the long term plays a major role.

Business environment

Economic environment

In 2009, the global economy suffered the worst recession since World War II. Triggered by the crisis on international financial markets, which shook the banking sector in particular in the two preceding years, the recession increasingly took hold of other industries in 2009. Those industries susceptible to economic cycles were especially hard hit, including the chemicals, mechanical engineering and automotive industries. All of the industrialised nations of the west as well as the emerging markets experienced significant drops in economic performance until mid 2009. By the end of the first half year, however, indications that this development had bottomed out were increasingly apparent. The global economy stabilised at a low level, due in part to the drastic increase in government spending in many countries. Global economic performance decreased by a total of 2.3% in 2009 according to the International Monetary Fund (IMF). In the previous year, the figure was positive at growth of 1.8%. In the European Union, gross domestic product (GDP) decreased by 4.2%, compared to a growth of 1.0% in the previous year. Ireland, Germany and Italy were particularly affected. The financial and economic crisis affected Brazil – with its fall of 0.7% – to a far lesser degree than the European countries. Global trade contracted by 11.9% in 2009 (previous year growth of 3.0%).

Change in GDP in countries/regions relevant for Celesio	2008 %	**2009** %
Austria	2.4	−3.8
Belgium	1.0	−3.2
Brazil	5.1	−0.7
Czech Republic	2.7	−4.3
Denmark	−1.2	−2.4
France	0.3	−2.4
Germany	1.2	−5.3
Ireland	−3.0	−7.5
Italy	−1.0	−5.1
Netherlands	2.0	−4.2
Norway	2.1	−1.9
Portugal	0.0	−3.0
Slovenia	3.5	−4.7
United Kingdom	0.7	−4.4
World	**1.8**	**−2.3**

Source: International Monetary Fund, January 2010 (in local currency).

Economic situation of the industry

The pharmaceutical and healthcare markets were not immune to the general economic environment, although they suffered less than other branches of industry. The cyclical development nevertheless indirectly affected financing of state-run healthcare systems since in most of the countries in which we operate, these are funded by tax revenue or social security contributions based on income. Decreases in tax receipts as a result of rising unemployment, for example, as well as more restrictive government spending policies due to higher national debt, often led to cuts in healthcare budgets. This affected compensation schemes in some countries in 2009, impacting on our wholesale and pharmacies business. In addition to such indirect effects, the financial and economic crisis weakened consumer confidence in some countries, reducing demand for non-core products at pharmacies such as cosmetics, perfumery items or dietary supplements.

Regulatory environment

The regulatory environment affects the markets of our Wholesale as well as Retail and Mail-order Pharmacies business areas. Government measures, which varied from country to country, had an impact in some of the countries in which we operate in 2009, affecting our business to differing degrees. More information on these government measures can be found in the sections on the Patient and Consumer Solutions (page 64) and Pharmacy Solutions division (page 73).

Revenue and earnings development

Revenue[1] We generated group revenue of EUR 21,497.2m in the 2009 fiscal year, up 1.6% on the previous year. In local currency – without exchange rate effects – we saw a 4.6% increase in group revenue. The effects were mainly due to the weakness of pound sterling and Norwegian krone, both of which were major foreign currencies for us in 2009. The increase in revenue measured in local currency stems from the solid development overall of our core operating business in the 2009 fiscal year. Adjusted for exchange rate effects, acquisitions and divestitures, group revenue increased by 1.7%.

Group revenue[1]
EUR m

As an international service provider, our group once again generated the majority of group revenue abroad in 2009. The largest contribution to revenue was once again made by France with 32.4% (previous year 33.7%), followed by the UK with 21.8% (previous year 24.1%) and then Germany with 18.6% (previous year 17.7%). As a result of our acquisitions of Panpharma and pharmexx, Brazil made its first contribution to revenue in the second half of 2009, accounting for 1.9% of group revenue.

Group revenue by country[1]	2008 EUR m	**2009** EUR m	Change on a euro basis %	Change in local currency %
France	7,137.0	6,971.5	−2.3	−2.3
United Kingdom	5,098.3	4,691.0	−8.0	3.1
Germany	3,750.7	3,988.8	6.3	6.3
Austria	1,016.7	1,046.7	3.0	3.0
Norway	928.3	923.3	−0.5	5.8
Brazil[2]	–	405.8	–	–
Other	3,235.6	3,470.1	7.2	7.9
Total	**21,166.6**	**21,497.2**	**1.6**	**4.6**

Gross profit The gross profit (revenue less cost of goods sold) improved by 4.0% to EUR 2,507.2m. In local currency, this was an increase of 9.4%. The gross profit margin increased from 11.4% to 11.7% – mainly as a result of the higher profit margins in Brazil, the improvement in margins in the Patient and Consumer Solutions division as well as the first-time consolidation of pharmexx.

[1] The figures for 2008 have been restated to reflect the change in accounting policies in the Movianto business area. Further information on page 135.
[2] Since the second half of 2009.

Other income Other income increased significantly, up 11.4% to EUR 201.9m (an increase of 15.1% in local currency). The main reason for the increase was the non-recurring reimbursement received by our retail pharmacies in Ireland as a result of a court ruling to temporarily reverse government measures from the previous year's. Income from the sale of non-current assets was also up on the previous year's level. This was influenced by sales of pharmacies – especially in the UK – as part of optimising our portfolio as well as the sale of the Lloydspharmacy subsidiary Sapphire Primary Care Developments. In addition, we saw an increase in other income generated in our wholesale business with pharmacy customers as well as through cooperations with manufacturers from promotional marketing and sales activities.

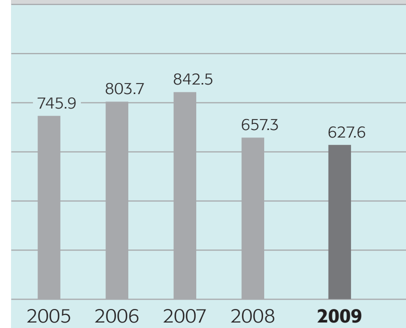
Other expenses Other expenses came to EUR 834.4m, representing an increase of 17.1% on the previous year's level (an increase of 21.9% in local currency). The main reason for the increase was expenses in connection with outsourcing our group-wide IT infrastructure started in 2009 to cut costs over subsequent years. As a result of the IT project, our personnel expenses and depreciation decreased, while other expenses increased. There was also an increase in bad debt allowances in wholesale, as well as increased operating expenses as a consequence of the higher total number of prescriptions. Also included was an Apotheke DocMorris advertising campaign, with costs in the mid-single-digit million euro range, as well as costs in the low double-digit million euro range linked to preparatory measures in anticipation of liberalisation of the European pharmacy markets.

Personnel expenses At EUR 1,261.4m, personnel expenses were up 4.4% on the previous year (an increase of 9.6% in local currency) – the result of new employees joining the Celesio Group from Panpharma and pharmexx in 2009. The general wage increases as well as a rise in the volume of work at our pharmacies owing to the higher number of prescriptions are further reasons for the rise in personnel expenses. Outsourcing our IT infrastructure had a compensatory effect.

Investment result Our investment result comprises the result from associates accounted for using the equity method as well as the result from other investments. The investment result mainly stems from our investment in the German pharmaceutical wholesaler Andreae-Noris Zahn (ANZAG), whose shares are traded on the Frankfurt stock exchange. The investment result improved to EUR 14.3m after EUR – 13.2m in the previous year as a result of the 23.1% increase of the ANZAG shares in the trading year. Every fluctuation of EUR 1 in the ANZAG share price has an impact of around EUR 1.3m on our investment result. pharmexx is no longer included in the investment result with effect as at July 2009 as a result of the acquisition.

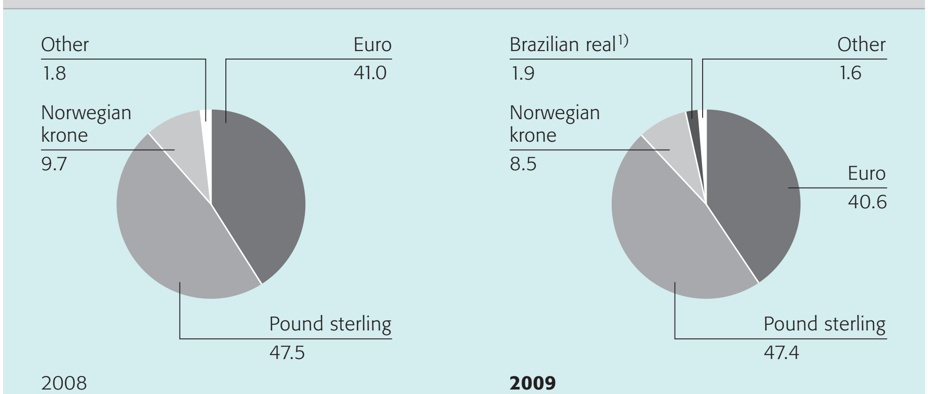
EBITDA Our earnings before interest, taxes, depreciation and amortisation (EBITDA) came to EUR 627.6m. The 4.5% decrease on the previous year is mainly attributable to a negative exchange rate effect of EUR 39.8m – of which EUR 36.0m was caused by the ongoing weakness of the pound sterling alone – as well as the influence of government measures with an effect of EUR 38.1m. The increase in the investment result had a positive effect. Measured in local currency, i.e. without exchange rate effects, we improved our EBITDA by 1.5% on the previous year.

Group EBITDA
EUR m



As in the previous year, we generated the largest portion of EBITDA with 47.4% in pound sterling. The eurozone accounted for the second largest share with 40.6%. Earnings in Norwegian krone contributed 8.5%. EBITDA included contributions in Brazilian real for the first time for the second half of 2009, accounting for a share of 1.9%. Once Panpharma is included in the consolidated financial statements for the whole year, the share of the Brazilian real will make a significant difference to the diversity of our currency portfolio. Other currencies contributed a share of 1.6% to EBITDA.

Group EBITDA by currency
%



[1] Since the second half of 2009.

Of the three divisions[2], Pharmacy Solutions made the largest contribution to group EBITDA at 55.4%; Patient and Consumer Solutions generated 42.5% of EBITDA and Manufacturer Solutions accounted for 2.1%.

[2] Without segment Other.

Amortisation, depreciation and impairment losses Amortisation of intangible assets and depreciation of property, plant and equipment came to EUR 115.7m, an increase of 1.6% on the previous year. While amortisation increased as a result of assets acquired from Panpharma and pharmexx, this was partially compensated for by the outsourcing of our IT infrastructure and associated reduction in the need to recognise amortisation and depreciation. As a result of the annual impairment test of intangible assets, we recognised impairment losses of EUR 274.3m (previous year EUR 287.0m) on intangible assets in the Patient and Consumer Solutions division. The impairment losses pertained to our retail pharmacies in the Netherlands with EUR 86.8m, in Ireland with EUR 85.2m and in Italy with EUR 31.3m as well as the franchise-like brand partnerships of Apotheke DocMorris in Germany with EUR 71.0m.

EBIT Earnings before interest and tax (EBIT) – which was affected by impairment losses on goodwill – came to EUR 237.6m. It was therefore 7.3% below the figure for 2008, which had also been affected by impairment losses.

Financial result The financial result is the balance of three items interest expense, interest income and other financial result. It improved from EUR – 131.0m to EUR – 122.3m, mainly as a result of the general decrease in interest rates in the reporting period. Given the fact that average liabilities remained at a similar level to the previous year, our financing costs decreased. The interest expense from unwinding discounted liabilities relating to expected future variable purchase price payments from business combinations had the opposite effect. We also incurred pro rata expenses for fees in connection with the issue of our convertible bond and for unwinding the discount on the liability from the bond. Adjusted for the impairment losses on goodwill, the interest coverage ratio came to 4.2 (previous year 4.2). This performance indicator reflects the mathematical number of times that the financial result could be paid by the EBIT (before impairments on goodwill).

Profit before tax Profit before tax decreased by 7.9% to EUR 115.3m. Adjusted for the effects of impairment losses, it decreased by 5.5% on the previous year to EUR 389.6m. In local currency, the adjusted profit before tax increased by 1.5%.

Income taxes The low profit before tax led to a decrease in the absolute tax expense to EUR 113.0m, a reduction of 21.4%. Adjusted for the impairment losses on goodwill, the tax rate was 31.0% (previous year 34.9%). The year-on-year increase in the share of earnings attributable to national companies with comparatively low effective tax rates (in 2009 including Brazil, for example) is the main reason for the decrease.

Net profit/loss Our net profit for the year came to EUR 2.3m following a net loss of EUR 18.5m in the 2008 fiscal year. Adjusted for the effects of impairment losses on goodwill, the net profit for the year was EUR 268.7m, 0.1% above the previous year's figure after eliminating impairment losses. In local currency, the increase came to 7.8%.

Earnings per share Earnings per share of EUR 0.00 (previous year EUR – 0.12) also reflect the impairment losses on goodwill. Without the impairment losses, earnings per share stood at EUR 1.56 (previous year EUR 1.56).

Revenue and earnings development in the Celesio Group		2008	**2009**	Change on a euro basis %	Change in local currency %
Revenue	EUR m	[1] 21,166.6	21,497.2	1.6	4.6
Gross profit	EUR m	2,410.5	2,507.2	4.0	9.4
EBITDA	EUR m	657.3	627.6	– 4.5	1.5
EBITDA per share	EUR	3.86	3.69	– 4.5	1.5
Profit before tax	EUR m	125.2	115.3	– 7.9	15.1
adjusted[2]	EUR m	412.2	389.6	– 5.5	1.5
Net profit/loss	EUR m	– 18.5	2.3	112.6	224.4
adjusted[2]	EUR m	268.5	268.7	0.1	7.8
Earnings per share	EUR	– 0.12	0.00	96.1	194.8
adjusted[2]	EUR	1.56	1.56	– 0.2	7.6

[1] Restated to reflect the change in accounting policies in the Movianto business area.
[2] Adjusted for impairment losses recognised on intangible assets consisting of impairment losses on goodwill and brand names. The tax impact of the impairment losses is also included in the 2009 figure.

Patient and Consumer Solutions division

Our Patient and Consumer Solutions division targets patients and consumers with our strong pharmacy brands. We use both the traditional sales channel of retail pharmacies and also mail-order pharmacies. In Germany, where corporations are not permitted to operate their own pharmacies, we also participate in brand partnerships with independent pharmacists. As well as dispensing medicines, we attach great importance to providing comprehensive pharmaceutical advice by highly qualified pharmacists. Our customers also benefit from our range of attractive own branded non-prescription products.

Business areas

Retail Pharmacies

We are one of the largest pharmacy operators in Europe, with around 2,300 of our own retail pharmacies in seven countries in 2009; since the start of 2010, we are also represented in Sweden. We advise and supply over 550,000 people on a daily basis. Our most important market is the UK, where we operate around 1,700 retail pharmacies with Lloydspharmacy. For patients and consumers, our pharmacists are often the first port of call for any questions on health and pharmaceuticals. Our focus is on advice, the quality of our product portfolio and service. At many of our pharmacies, our customers take advantage of preventative diagnostic tests, some subject to a fee, such as measuring blood pressure, blood sugar or cholesterol values. The services offered at our retail pharmacies are tailored to the varying customer needs and general environment of each country. In selecting the location of our retail pharmacies, we aim to achieve close proximity to our customers as well as physicians and health centres.

Mail-order Pharmacies

Wherever legally permissible, mail-order pharmacies have become an established component of pharmacy markets. Demand for the convenient but nevertheless safe option of ordering pharmaceuticals and healthcare products from home is rising steadily. In Germany we are represented by Apotheke DocMorris, the largest mail-order pharmacy in Europe. According to the results of a survey published by the market research institute GfK in 2009, Apotheke DocMorris is the strongest pharmacy brand in Germany, with prompted brand awareness of around 60%. We have also been operating mail-order pharmacies in the UK and Norway since 2008 and 2009 respectively, albeit on a comparatively smaller scale in these two countries.

Other business areas

The brand partnership business of Apotheke DocMorris, currently only in Germany, is included in other business areas. As at the end of 2009, some 150 pharmacies had chosen to enter into a brand partnership with Apotheke DocMorris. In addition to the DocMorris brand, independent pharmacists in the brand partnership system can make use of services in the areas of marketing, sales promotion, merchandise procurement, service and communication. A DocMorris brand partnership enables pharmacists to stand out from their market competitors and boosts customer frequency. As at year-end 2009, we began to revise the system in order to offer our brand partners an improved selection of marketing, service and product range options in the future.

Market environment

Retail Pharmacies

In the Retail Pharmacies business area, there was considerable variation between countries and product ranges in the development of the market environment in the 2009 fiscal year. Prescription medicines proved solid overall in spite of the effects of government measures in some countries. Non-prescription products (OTC products) saw a fall in demand as a result of the general economic situation, especially in the UK and Ireland.

Mail-order Pharmacies

The mail-order pharmacy markets grew in Germany and the UK once again in 2009. In Norway, mail-order activities were introduced gradually, with licensed pharmacies already permitted to sell online any other products not mandatory for sale at a pharmacy. Examples include dietary supplements, freely obtainable medicines or cosmetics. Since January 2010, it has also been legal to sell OTC medicines by mail order in Norway.

Other business areas

On 19 May 2009, the European Court of Justice (ECJ) ruled that the ban on third-party ownership of pharmacies in Germany is compatible with the freedom of establishment of the EC Treaty, and that the issue of third-party ownership of pharmacies lies with the individual EU member states. This means that corporations, in Germany for example, remain unable to operate pharmacy chains. Pharmacy cooperations, brand partnerships and franchise or similar systems remain the only option for corporations to offer services to patients and consumers via retail pharmacies in these countries.

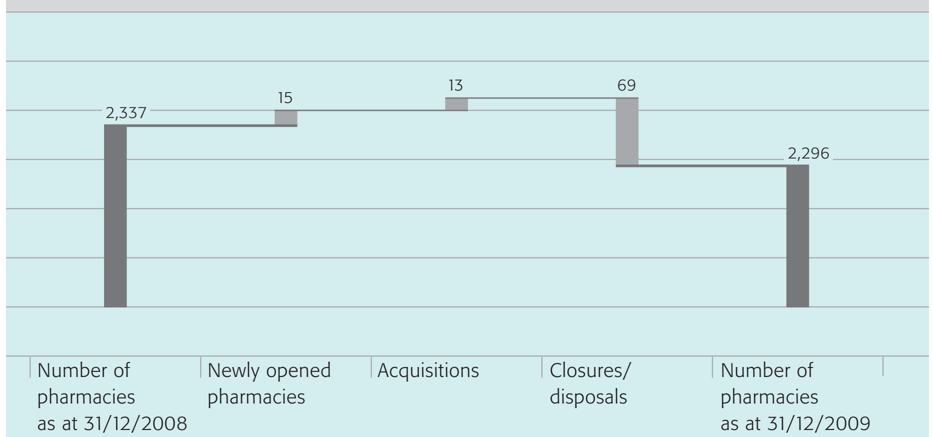
Business development

Retail Pharmacies

The prescription pharmaceuticals business developed well overall in 2009. We saw a fall in demand for OTC products in some countries as a result of the economic environment, although the extent of the decrease was less than anticipated at the start of the year.

As at 31 December 2009, we operated a total of 2,296 pharmacies, a decrease of 41 compared to the end of the previous year. In the 2009 fiscal year, we opened 15 new pharmacies (previous year 16 pharmacies) and acquired 13 pharmacies (previous year 85 pharmacies). The significantly lower number of pharmacy acquisitions compared to previous years demonstrates our new focus on setting up and expanding our own pharmacy chains in this business area, a goal which should mainly be achieved by opening new pharmacies to conserve capital and goodwill. The lower number of acquisitions also reflects the fact that the market for pharmacy transactions more or less came to a standstill in most European countries in 2009. With the aim of boosting efficiency, we closed or sold 69 pharmacies in the reporting period (previous year 37 pharmacies), primarily in the UK.

Change in the number of pharmacies in the 2009 fiscal year



United Kingdom Our most important country for pharmacies is the UK. In 2009, we generated 62.7% of revenue in the Retail Pharmacies business area in the UK. Operating business of our retail pharmacies developed well in the reporting period in spite of the challenging economic environment. In response to the growing significance of healthcare services, we have built on our position as a holistic healthcare partner providing services meeting our customers' healthcare needs beyond the dispensing of medicines. Lloydspharmacy expanded its range of services to include the option of seeking advice on symptoms from a doctor at over 300 online terminals in their pharmacies and obtaining prescriptions for certain medicines. This online service is the only government-approved system of its kind in the UK and facilitates local access to medical care for patients and consumers. In 2009, we acquired a share of around 10% in Ashley House, a property developer specialising in healthcare centres, in order to secure our access to attractive pharmacy locations at medical centres. At the same time, we sold our subsidiary Sapphire Primary Care Developments (SPCD) to Ashley House. SPCD is a property developer for medical centres and pharmacies.

The following government measures affected the development of earnings at our UK pharmacies in the 2009 fiscal year: cuts to the reimbursement prices for generic medicines made by the National Health Service (NHS) had already had a negative impact in October 2008. As at 1 October 2009, reimbursement prices for generic medicines were reduced again, which will also affect the 2010 fiscal year. At the same time, the NHS budget for UK pharmacies was increased. This did not compensate for the reduction in reimbursement prices for generic medicines, however, but only serves to make up for the overall rise in prescriptions. Lloydspharmacy saw an increase in revenue as a result of the rise in the number of prescriptions. However, this also led to an increase in operating costs, i.e. personnel and operating expenses. The increase in the practice payment to 101.1 pence by the UK government – limited until the end of the first quarter of 2009 – had a positive effect. The practice payment has been 70.9 pence since April 2009. Although it is well above the level of the first three quarters of 2008, when it stood at 34.5 pence, the increase only partially makes up for massive cuts in prices for generic medicines from 2007 to 2009.

Norway Our Norwegian pharmacies developed very well, contributing 14.6% of revenue to the Retail Pharmacies business area in 2009. The Norwegian economy was affected by the financial and economic crisis to a far lesser extent than other European countries. The step price model introduced by the Norwegian government in 2005 was once again extended in 2009. This led to price reductions on a regular basis for active agents not protected by patents, mainly generic medicines, which had an effect on our earnings situation. Business with non-pharmaceuticals developed very well at Vitusapotek, contrary to the European trend. This was driven by the very good sales in the area of toiletries in particular, which Vitusapotek also offers under its own brand.

Italy The development of revenue from prescription medicines was slightly negative in Italy, while other business enjoyed growth. Government cost-saving measures had a negative effect on our earnings over the course of the year. For instance, the Italian government reduced the reimbursement of medicines in the 2009 fiscal year, with the result that pharmacies also saw a further reduction in their earnings basis. We therefore had to recognise an impairment loss of EUR 31.3m on the goodwill of our Italian pharmacies.

Netherlands Business at our Dutch LLOYDS Apotheken pharmacies focuses on dispensing prescription medicines, as is the case for our local competitors. Regulatory measures therefore have a particularly large impact here. The Dutch government did not make any changes to the compensation for pharmacies during 2009. It was therefore not possible to compensate for the negative effects of the preference policy which was tightened beyond expectations in the same year. Under the preference policy, Dutch health insurers, which are all private, run tenders which have an impact on prices for generic medicines. Furthermore, the government reintroduced clawbacks in the Netherlands. This meant that pharmacies had to return a total of 8.5% of the amount invoiced to health insurers for pharmaceuticals in the 2009 fiscal year. The clawback had been temporarily set at zero in mid-2008 by a court ruling. OTC pharmaceuticals and non-pharmaceutical products traditionally account for only a small share of business at Dutch pharmacies. We were therefore not able to compensate for the effects on business with prescription medicines arising from the regulatory measures. We recognised impairment losses of EUR 86.8m on the goodwill of our Dutch pharmacies in the 2009 fiscal year as a result of the unpredictable development of earnings, continued uncertainty and the overall difficult economic conditions.

Ireland The market environment in Ireland deteriorated significantly over the course of the year. Ireland was particularly hard hit by the global financial and economic crisis compared to other European countries. This impacted on earnings of our 71 local Unicarepharmacy pharmacies in the area of non-prescription products in 2009. This area traditionally accounts for an above-average share in revenue at Irish pharmacies in comparison to other European countries. In June 2009, we benefited from a ruling whereby Irish pharmacies received reimbursement for a government measure introduced in the previous year which had a negative impact. However, the Irish government introduced a new pharmacy compensation model in July 2009 which saw a considerable reduction in reimbursement prices for prescription medicines and a fall in pharmacy compensation, well knowing that these measures are likely to lead to a significant number of pharmacy closures in the future. We recognised impairment losses on goodwill of EUR 85.2m on our Irish pharmacies in light of the anticipated significant decrease in the operating result. In May 2009, we opened our first DocMorris pharmacy in Ireland – a pilot project as part of our internationalisation of DocMorris as a franchise or independent pharmacy brand.

Belgium The development of pharmacy revenue in Belgium was satisfactory in 2009. Major activities included the complete redesign of most of our Lloydspharma pharmacies to make more efficient use of the space available. Compared to other European countries, the Belgian pharmacy market was less affected by government measures in 2009. With the exception of a slight price decrease for prescription medicines, the Belgian government did not intervene in the market in 2009. In Belgium, charges borne by patients for medical care are quite high. The economic downturn meant that the number of pharmacy visits also decreased.

Czech Republic Our pharmacies in the Czech Republic did well in the 2009 fiscal year. Although the prescription pharmaceuticals business was affected by government measures and intense competition, it developed better than in the previous year. Other business developed even better, accounting for around 45% of total revenue in our pharmacies. Some of our Lékárny Lloyds pharmacies were redesigned to have larger, modern sales floors, enabling us to offer our customers more choice especially in the non-pharmaceuticals segment, e.g. care and cosmetics products.

Sweden In Sweden, we initiated preparatory measures to set up our own chain of pharmacies in September 2009, with new openings under the DocMorris Apotek brand. Our entry to this market was made possible by the lifting of the government monopoly on pharmacies on 1 July 2009. With over 10,700 inhabitants per pharmacy, the Swedish market has one of the lowest densities of pharmacies in Europe, providing us with attractive entry opportunities. We chose not to participate in the tender process for the disposal of the majority of formerly state-owned pharmacies which were sold in clusters of varying sizes to the highest bidder. By opening new pharmacies, we conserve capital and goodwill with the advantage of being able to select the locations ourselves. This is in pursuit of our strategy to spread into new geographical markets with our existing business. From 2010 we aim to open between 20 and 30 DocMorris pharmacies per year; our medium-term goal is to be represented by around 100 of our own retail pharmacies. Our subsidiary Norsk Medisinaldepot (NMD), which successfully operates our Vitusapotek pharmacy chain in Norway, has assumed the task of building up business in Sweden.

Mail-order Pharmacies

Our DocMorris mail-order pharmacy developed positively in 2009. In addition to the very good prescription business, accounting for the majority of the revenue of Apotheke DocMorris, our mail-order business for non-prescription products also saw significant growth. Apotheke DocMorris saw the number of orders picked per day peak at a new record – in part thanks to the television advertising campaign run in Germany in 2009 as well as the new internet presence launched in the year before. The mail-order business of Lloydspharmacy in the UK is still quite new and developed well, albeit at a comparatively low level. In Norway, we launched mail-order activities under the Vitusapotek brand in 2009. This is a preliminary phase for a planned electronic prescription system which will in future enable prescriptions to be entered by the physician and retrieved by the pharmacist.

Other business areas

In Germany, we now have clarity regarding European law on the issue of third-party ownership of pharmacies following the ruling by the ECJ. In addition to our mail-order business, we can now focus on building up our brand partnerships and expanding the DocMorris own-brand range. However, over the course of 2009 it became apparent that our planned expansion of the brand partnerships was too ambitious in terms of timing. We revised the plan to have 500 brand partnerships with independent pharmacists in Germany by the end of 2011 to 2015 at the earliest. As a result of this new estimate, we recognised an impairment loss totalling EUR 71.0m on the brand partnership business of Apotheke DocMorris in Germany. Regardless of this, we aim to exploit the strong DocMorris brand outside of Germany as well as in franchise and own pharmacy chains – for example, in building up our own pharmacy chain in Sweden. The mail-order business of Apotheke DocMorris, which is developing well, was not affected by the impairment loss.

Revenue and earnings development

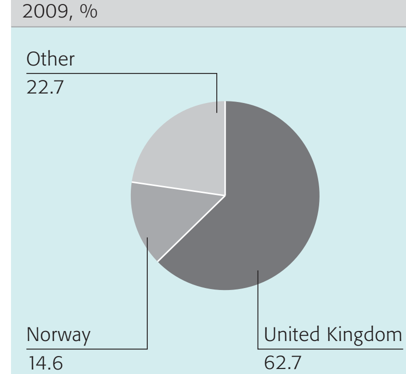
Revenue

Revenue totalled EUR 3,441.5m in the Patient and Consumer Solutions division in 2009, a decrease of 3.2% on the previous year. The poor development of the exchange rates of the pound sterling and Norwegian krone throughout the year had a negative effect. In local currency, revenue increased 4.5%. This revenue growth is based in particular on the sharp increase in prescriptions handled by our UK pharmacies. Our Retail Pharmacies business area accounted for the largest share in revenue with EUR 3,180.0m. Compared to the previous year, this is a decrease of 4.5% on a euro basis. In local currency, our revenue in this business area improved by 3.7% thanks to the good operating development in the UK and Norway. These two countries accounted for 77.3% of revenue generated in the Retail Pharmacies business area.

Revenue Patient and Consumer Solutions
EUR m

Development of retail pharmacies by country	Revenue 2008 EUR m	**Revenue 2009 EUR m**	Change on a euro basis %	Change in local currency %	Retail pharmacies 31/12/2009
United Kingdom	2,150.5	1,993.8	– 7.3	3.9	1,667
Norway	473.7	465.1	– 1.8	4.4	169
Italy	203.6	204.1	0.2	0.2	162
Netherlands	168.5	173.4	2.9	2.9	67
Ireland	154.5	152.5	– 1.3	– 1.3	72
Belgium	130.4	135.9	4.2	4.2	110
Czech Republic	49.3	55.2	11.9	18.5	49
Total	**3,330.5**	**3,180.0**	**– 4.5**	**3.7**	**2,296**

Revenue of Retail Pharmacies business area by country
2009, %

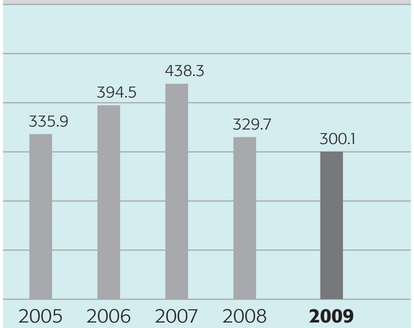


In the Mail-order Pharmacies business area, we achieved a healthy increase in revenue of 16.4% (16.6% in local currency) to EUR 256.7m. Revenue came to EUR 4.8m in the other business areas, up 29.9% on the previous year.

Gross profit

Gross profit in the Patient and Consumer Solutions division decreased by 2.5% to EUR 1,163.9m, an increase of 5.7% after eliminating currency effects. In spite of the increased share in revenue of our mail-order business – which generates lower margins than retail pharmacies – we managed to improve the gross profit margin for the division as a whole from 33.6% to 33.8%.

EBITDA Patient and Consumer Solutions
EUR m



EBITDA

The total EBITDA for the year of the Patient and Consumer Solutions division came to EUR 300.1m, down 9.0% on the previous year's level. In local currency, the EBITDA remained more or less stable. The Retail Pharmacies business area disclosed an EBITDA of EUR 306.7m and thus a decrease of 6.7% on the previous year – a direct consequence of exchange rate developments and government measures in certain countries. In local currency, EBITDA improved by 2.2% in this business area thanks to the good operating business in the UK and Norway. Non-recurring effects also played a role, i.e. a court order to reimburse fees to pharmacies in Ireland as well as proceeds on the sale of pharmacies and sale of the Lloydspharmacy subsidiary Sapphire Primary Care Developments. The rise in prescriptions led to an increase in costs in the UK, however, which we were not able to fully compensate for by improving efficiency in the reporting period. In the Mail-order Pharmacies business area, EBITDA decreased from EUR 6.6m to EUR – 3.6m. This is mainly attributable to expenses for the Apotheke DocMorris advertising campaign. EBITDA of EUR – 3.0m was generated in other business areas, an improvement on the EUR – 5.4m recorded in the previous year.

Revenue and earnings development Patient and Consumer Solutions		2008		**2009**		Change on a euro basis	Change in local currency
		EUR m	% of revenue	EUR m	% of revenue	%	%
Retail Pharmacies	Revenue	3,330.5	100.0	3,180.0	100.0	– 4.5	3.7
	Gross profit	1,153.7	34.6	1,118.0	35.2	– 3.1	5.4
	EBITDA	328.5	9.9	306.7	9.6	– 6.7	2.2
Mail-order Pharmacies	Revenue	220.7	100.0	256.7	100.0	16.4	16.6
	Gross profit	37.9	17.2	42.8	16.7	12.9	13.3
	EBITDA	6.6	3.0	– 3.6	– 1.4	– 154.6	– 153.9
Other business areas	Revenue	3.7	100.0	4.8	100.0	29.9	29.9
	Gross profit	2.3	61.0	3.1	63.7	37.0	37.0
	EBITDA	– 5.4	– 147.2	– 3.0	– 61.9	45.4	45.4
Total	Revenue	3,554.9	100.0	3,441.5	100.0	– 3.2	4.5
	Gross profit	1,193.9	33.6	1,163.9	33.8	– 2.5	5.7
	EBITDA	329.7	9.3	300.1	8.7	– 9.0	– 0.2

Pharmacy Solutions division

In our Pharmacy Solutions division, we cater to the needs of pharmacies, providing them with solutions key to their success. The focus of this division is our comprehensive pharmaceutical wholesale business which is stable and relatively unaffected by economic developments. The steady cash flow from this business area is an important cornerstone for financing Celesio's growth. In addition to the pharmaceutical wholesale business, the Pharmacy Solutions division also operates in other smaller – but nevertheless growth-driven – business areas in which we offer services and product ranges to pharmacists to supplement the traditional wholesale business. We thus enable our pharmacy customers to concentrate on their pharmaceutical core competences.

Business areas

Wholesale

As a full-line pharmaceutical wholesaler, Celesio is an essential bridge between the pharmaceutical industry and pharmacies. We procure medicines approved in each country as well as other products sold in pharmacies directly from the manufacturers – in Germany, for example, over 120,000 different products. We then store them at regional wholesale branches with the support of our efficient warehousing management system. With a complex delivery system, we ensure rapid and safe supply directly to our pharmacy customers nationwide. We generally receive a price-related margin for our wholesale services. This varies from country to country, but is usually regulated by the government in the case of pharmaceuticals. Competition between wholesalers forces us to pass on some of this margin to our pharmacy customers in the form of discounts. We are represented on the pharmaceutical wholesale market by subsidiaries in twelve European countries and Brazil. We lead the market in France, the UK, Norway, Austria and Brazil. In all other countries – with the exception of Italy, where we only operate regionally – we are among the market leaders. Our 137 branches supply over 65,000 pharmacies on a daily basis. Our range of services includes the organisation and management of pharmacy cooperations such as Pharmactiv in France or gesund leben in Germany.

Other business areas

Rudolf Spiegel Versand, which specialises in pharmacy fittings and equipment, is included in the other business areas of the Pharmacy Solutions division. In Germany, we have a leading development and marketing firm for pharmacy locations, Inten. With Apo Interim, we support pharmacies by arranging for temporary employees to replace employees on holiday or on sick leave in a nationwide pilot project launched in Germany in 2009.

Market environment

Wholesale

The pharmaceuticals wholesale business is solid and less sensitive to economic cycles than other businesses. In western Europe, it shows steady single-digit percentage growth rates. Following the expiry of numerous patents on top-selling original pharmaceuticals, these medicines accounted for a smaller share of the pharmaceutical market in terms of volume; the share occupied by generic medicines increased accordingly. Alternative distribution models gained in significance in the reporting period. These include the reduced wholesale model in the UK or direct-to-pharmacy delivery. Pharmaceutical manufacturers applying the reduced wholesale model usually work exclusively with just two or three wholesalers to improve transparency in the value-added chain.

Other business areas

Overall, the markets in which we operate with our other business areas provided a satisfactory environment for the development of business in 2009.

Business development

Wholesale

The development of our wholesale business was stable overall in 2009 despite regional differences and barely affected by the deterioration in the economic environment compared to the previous year. Although the financial and economic crisis led to some pharmacy customers exiting the market, this did not have a significant impact on the development of our business.

France Our French wholesale subsidiary OCP optimised its branch structure also in 2009. It closed its Le Puy branch and improved operational processes at most other branches. Pharmactiv, our pharmacy cooperations programme, developed very well, with over 1,000 pharmacies by the end of 2009. Intensified competition had a negative effect on our French business, mainly as a result of the fact that wholesalers organised as cooperatives set up additional branches despite overcapacities throughout the country. We were prepared to accept a slight drop in market share to secure our profitability. The reduction in the wholesale margin introduced in April 2008 affected us throughout 2009. With effect as at 1 January 2009, the French act to modernise commercial agreements and legislation on competition (Loi de modernisation de l'économie) came into force for all French companies, leading to a reduction in the payment terms for our commercial wholesale customers. This had a negative effect on net working capital as well as on other agreements on conditions arranged with pharmaceutical manufacturers.

Germany GEHE's business developed very well in Germany in 2009 and we were able to recoup the loss in market share suffered in previous years. In a bid to strengthen the competitive position of our German pharmacy customers, GEHE offers an innovative inventory control system, Wawi Top, launched in 2009 to optimise the cooperation between pharmacies and wholesalers and cut costs for both sides. In June 2009, the German parliament passed the 15th amendment to the Arzneimittelgesetz (AMG, Medicinal Products Act). Although it provides for the obligatory supply of wholesalers by pharmaceutical manufacturers, the reimbursement scheme for wholesalers has not been adjusted – as necessary – to reflect the drastic change in the product mix, which now comprises a larger share of very low-price generic medicines.

United Kingdom AAH's operating business developed well overall in the reporting period. We benefited from various efficiency-boosting measures such as the modernisation of our warehouses in Ruislip, Warrington and Bexhill. In Bexhill, the dispatch section of the warehouse was adapted in response to the increased volumes. In the UK, the trend towards new distribution models continued with the reduced wholesale model; as leader of the UK wholesale market, we are one of the preferred partners of manufacturers. The average reduction of 3.9% as at 1 February 2009 in prices for original pharmaceuticals as a result of the pharmaceutical price regulation scheme (PPRS) had a negative effect on revenue and earnings. Revenue was curbed by some manufacturers' quotation of their own pharmaceuticals. This quotation meant that we were unable to deliver the volumes ordered by our pharmacy customers in a few cases.

Austria The business development of Herba Chemosan in Austria was characterised by strong market gains in in-house pharmacies run by general practitioners in rural areas as well as a slight decrease in the market share of public pharmacies. These in-house pharmacies safeguard the supply of essential medicines for the population. Although our gains in this area went hand in hand with an increase in transport costs in Austria, we were able to optimise our delivery route planning as a whole, contributing to environmental protection as well as improving efficiency. Austrian wholesalers had to make a special payment totalling EUR 2.6m to the social security fund in 2009. This payment will be due again in 2010 and 2011. In contrast, the Austrian government has waived all other cost-cutting measures affecting wholesalers until 2011.

Portugal The 30% reduction in prices for generic medicines introduced effective 1 October 2008 in Portugal had a negative effect on the business of our Portuguese subsidiary OCP in 2009. The reduction of discounts for pharmacy customers went some way towards compensating for the decrease in discounts offered to wholesalers by manufacturers in 2009.

Norway Our Norwegian wholesaler Norsk Medisinaldepot (NMD) enjoyed excellent operating business in 2009, supported by the positive development of the wholesale market. NMD's earnings were affected by the step price model which was developed further once again in 2009, leading to price reductions for active agents not protected by patents, including generic medicines.

Belgium In October 2009, we acquired the wholesaler Laboratoria Flandria which operates in the Ghent region in order to strengthen the market position of our Belgian wholesale business and exploit synergies. This was possible thanks to the exit from the market of a competitor. With our two subsidiaries, Pharma Belgium and Laboratoria Flandria, we are now the second largest pharmaceutical wholesaler in Belgium. Laboratoria Flandria supplies around 720 pharmacies in northwest Belgium, bringing the total number of pharmacies served by our Belgian wholesale business to around 2,500. The company is included in Celesio's consolidated financial statements with effect as at 1 October 2009.

Denmark We merged our two Danish wholesalers K.V. Tjellesen and Max Jenne into Tjellesen Max Jenne in July 2009. At the same time we implemented a new IT system and started the process of closing two branches to optimise processes. Although we are streamlining our branch structure, we continue to cover the whole of Denmark, providing the same quality supply service to our pharmacies. Our market share remained at the level of the previous year.

Brazil In August 2009 we acquired a 50.1% share in the leading Brazilian wholesaler Panpharma. We have agreed put and call options for the acquisition of the remaining 49.9% of shares still held by the previous shareholders. All shares have therefore already been allocated to Celesio for accounting purposes and Panpharma was fully consolidated for the first time in this annual report with effect from September 2009. As the largest pharmaceutical market in South America with a higher growth rate than Europe, North America or Japan, Brazil is one of the most attractive pharmaceutical markets in the world. The market research institute IMS Health anticipates market growth averaging 9.4% per year in local currency until 2013. A rapidly increasing population and rising life expectancy are the drivers of growth. Per capita spending on pharmaceuticals is also on the increase. Approximately 80% of spending on pharmaceuticals is privately funded and the average disposable income is increasing. Compared to the European market, the Brazilian pharmaceutical market is also less strictly regulated. A further positive factor is the electronic invoicing system introduced by the tax authorities which is increasingly pushing back the existing informal sector in Brazil.

Our majority acquisition of Panpharma is in line with our »Agenda 2015« growth strategy: with an established business, we enter a new geographical market which promises particularly good growth opportunities and is largely unaffected by government reimbursement systems. This acquisition also diversifies our currency portfolio and reduces the significance of the pound sterling for our group earnings. Panpharma is the market leader in Brazil's pharmaceutical wholesale business, with a market share of around 17%. Panpharma's 16 branches supply almost 60% of the around 52,000 pharmacies in Brazil on a daily basis. Its operating business is run by the companies Panarello, American Farma and Sudeste Farma. With our many years' experience in the European wholesale market, we will help Panpharma to expand its service range, leverage synergies and optimise the regional positioning of the company in Brazil.

Ireland Cahill May Roberts launched a large-scale restructuring programme to optimise internal processes in 2009. Following drastic government measures which substantially cut pharmacy margins, numerous Irish pharmacies found themselves under financial pressure. We were comparatively less affected thanks to the well-balanced customer profile of our wholesale business.

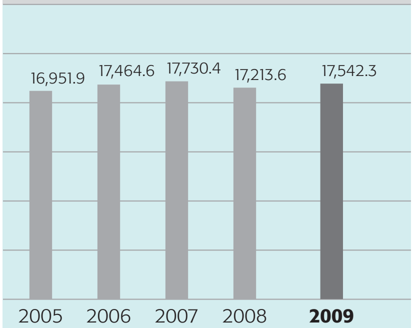
Czech Republic GEHE Pharma Praha developed very well in terms of operations and gained ground in the market. This was possible thanks to the significant increase in capacity available since the opening of our new warehouse in Prague at the end of 2008.

Slovenia We acquired a 51.0% share in the wholesaler Vitapharm, which only operates regionally. We were thus able to improve the market position of our wholesale subsidiary Kemofarmacija.

Italy Our Italian wholesaler, which only operates regionally, developed well, supplying all of our own pharmacies as well as independent ones. The introduction of a new stock management system was completed in 2009.

Other business areas
Rudolf Spiegel Versand for pharmacy and laboratory equipment exhibited strong growth in 2009. It expanded regionally and now operates in Germany, France, Austria, Switzerland, Luxembourg and Belgium. In addition to geographical expansion, we also extended our range to include new product lines such as packaging, including medicine bottles. These were launched under the PharmaProfessional brand.

Revenue Pharmacy Solutions
EUR m



Revenue and earnings development

Revenue

Revenue in the Pharmacy Solutions division was up 1.9% on the previous year at EUR 17,542.3m. The unfavourable exchange rates of the pound sterling and the Norwegian krone curbed the development in euro – in local currency, by contrast, revenue was up 4.0%. The Wholesale business area generated the majority of revenue in this division. In this business area, we saw revenue improve by 1.9% to EUR 17,537.0m (increase of 4.0% in local currency) as a result of the overall good operating business as well as based on the first contributions of the Brazilian wholesaler Panpharma from September to December. After eliminating the effects of acquisitions in the Pharmacy Solutions division in 2009, revenue would have fallen by 0.7% (increase of 1.4% in local currency).

Wholesale development by country	Revenue 2008 EUR m	**Revenue 2009 EUR m**	Change on a euro basis %	Change in local currency %	Branches 31/12/2009
France	7,084.4	6,903.1	–2.6	–2.6	46
Germany	3,501.8	3,677.0	5.0	5.0	20
United Kingdom	2,859.8	2,610.1	–8.7	2.3	19
Austria	981.9	1,004.9	2.3	2.3	7
Portugal	527.1	531.5	0.8	0.8	7
Norway	452.1	455.3	0.7	7.1	3
Belgium[1]	385.1	434.4	12.8	12.8	6
Denmark	392.0	421.5	7.5	7.4	4
Brazil[2]	–	400.5	–	–	16
Ireland	320.6	339.1	5.8	5.8	3
Czech Republic	283.1	312.2	10.3	16.9	3
Slovenia	276.4	297.2	7.5	7.5	2
Italy	145.4	150.2	3.3	3.3	1
Total	**17,209.7**	**17,537.0**	**1.9**	**4.0**	**137**

[1] Including Laboratoria Flandria since 1 October 2009.
[2] Since September 2009.

Revenue in other business areas saw an increase of 34.6% to EUR 5.3m.

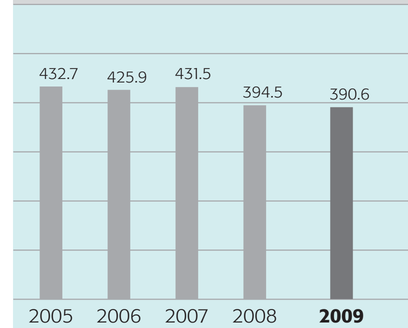
Gross profit

The gross profit of the division increased at a higher rate than revenue, up 3.4% to EUR 1,088.2m (increase of 5.8% in local currency). The gross profit margin climbed from 6.1% to 6.2%. The development was helped by the improvement in the wholesale margin in Germany as well as the higher profit margins in Brazil compared to Europe.

EBITDA

With EBITDA of EUR 390.6m, the Pharmacy Solutions division saw a decrease of 1.0% on the previous year (increase of 1.7% in local currency). The main contributory factor was EBITDA of the Wholesale business area, which decreased by 0.9% to EUR 390.3m as a result of negative currency effects (increase of 1.8% in local currency). In the previous year, non-recurring income in the form of proceeds from the sale of the Norwegian wholesale company Apotekproduksjon had a positive effect on this business area's EBITDA. In 2009, EBITDA was affected by the increase in bad debt allowances for wholesale trade receivables. The other business areas' EBITDA decreased by 38.0% to EUR 0.3m in the reporting period on account of start-up expenses for Rudolf Spiegel Versand's expansion into new markets.

EBITDA Pharmacy Solutions
EUR m



Revenue and earnings development in Pharmacy Solutions		2008		**2009**		Change on a euro basis	Change in local currency
		EUR m	% of revenue	EUR m	% of revenue	%	%
Wholesale	Revenue	17,209.7	100.0	17,537.0	100.0	1.9	4.0
	Gross profit	1,050.8	6.1	1,085.8	6.2	3.3	5.8
	EBITDA	393.9	2.3	390.3	2.2	−0.9	1.8
Other business areas	Revenue	3.9	100.0	5.3	100.0	34.6	34.6
	Gross profit	1.9	47.7	2.4	45.3	24.6	24.6
	EBITDA	0.6	15.9	0.3	6.6	−38.0	−38.0
Total	Revenue	17,213.6	100.0	17,542.3	100.0	1.9	4.0
	Gross profit	1,052.7	6.1	1,088.2	6.2	3.4	5.8
	EBITDA	394.5	2.3	390.6	2.2	−1.0	1.7

Manufacturer Solutions division

With its range of services, the Manufacturer Solutions division targets the pharmaceutical industry and – unlike our pharmacy and wholesale activities – is only indirectly affected by government intervention. Pharmaceutical manufacturers find themselves faced with increasing competition and greater pressure on costs as a result of higher expenses for product innovations, a lower overall number of new products launched as well as the expiry of patents on blockbuster medicines which generate high revenue. Many pharmaceutical manufacturers are thus increasingly focusing on their core competences, relying on external providers of pharmaceutical services at certain points along the value-added chain.

Business areas

Movianto

With our Movianto business area, we offer specialised pharmaceutical logistics and related services such as storage, order picking, transport and packaging in twelve European countries. We count most of the world's largest pharmaceutical manufacturers among our more than 600 customers. Movianto has a total storage capacity for some 175,000 pallets. Movianto's core competences include logistics services for particularly sensitive and premium medicines. An increasing number of pharmaceutical products require special transport logistics such as a delivery chain at a regulated temperature.

pharmexx

pharmexx is a leading international contract sales organisation, providing innovative marketing and sales solutions to pharmaceutical companies, including personnel services, direct marketing for OTC and medical products as well as sales support, for example, for product launches. pharmexx supported over 250 customers in 23 countries in 2009, including the top 25 pharmaceutical manufacturers.

Other business areas

Our subsidiary Evolution Homecare, which is independent since the fourth quarter of 2008, operates in the provision of medical treatment at home (specialty pharmacy) and is included in other business areas. We coordinate treatment using special pharmaceuticals which are brought to the patient at home and administered there. This is particularly useful for diseases which are not medicinally treated at a clinic for reasons of cost or in the interest of patients, but which nevertheless require complex and time-consuming treatment with the need for advice. In 2009, Evolution Homecare operated exclusively in the UK, working on building up the company. We benefit from the overlap with our other UK activities such as wholesale, manufacturer logistics and our network of pharmacies.

Celesio Manufacturer Solutions Sales (CMSS) started operations in mid-2009. CMSS is still in the start-up phase and, as the new sales organisation of Manufacturer Solutions, it is the central point of contact for the pharmaceutical industry. For the first time, CMSS offers services from all three Celesio divisions with a customer-oriented focus following the principle of »one face to the customer«.

Market environment

Movianto

The market environment for the services we offer in the Movianto business area was characterised by an intensification of competition and pressure on costs on the part of pharmaceutical manufacturers in 2009. Numerous manufacturers pressed ahead with the outsourcing of transport and logistics activities, albeit to a lesser extent than in the previous year. In particularly high demand were logistics solutions for products with special requirements, such as temperature regulation and control.

pharmexx

In the area of marketing and sales, demand for sales support for highly complex pharmaceuticals increased in countries with more developed pharmaceutical markets. These include medicines for the treatment of multiple sclerosis, HIV, cancer and severe metabolic disorders. Demand focused on traditional sales services in those pharmaceutical markets which have not yet reached the level of development of industrialised nations in the west.

Other business areas

With our Homecare business area, we operate in a promising segment which is in the very earliest stages of development everywhere but in the UK and the Netherlands.

Business development

Movianto

The Movianto business area was characterised by comprehensive measures to boost efficiency and optimise internal processes in 2009. We have improved the alignment of structures and processes across Europe, enabling us to offer our customers superior cross-border services. This included expanding our network of branches. For instance, we extended out distribution network in Spain to include two new branches in the vicinity of Barcelona and on the Canary Islands. We lost some contracts in the wake of the financial and economic crisis – primarily in the UK. This, combined with one-off expenses for optimisation measures, led to a poorer development of business in the Movianto business area compared to the previous year, especially at the beginning of the year. We were able to improve this situation over the course of the year, however. In the fourth quarter of 2009, contributions to earnings were up on the fourth quarter of 2008.

We took over Dirk Raes in March in a bid to strengthen our position in the growth market for special logistics. This Belgian company is the leading cold chain logistics company for pharmaceuticals in the Benelux countries. The company was renamed Movianto Belgium Dirk Raes at the end of 2009 and the integration process has since been completed. In Germany, we began the expansion of our fully automatic high bay racking warehouse in Neunkirchen, increasing capacity from around 13,000 to 25,000 pallets. This measure addressed the rise in demand for storage capacity in central Europe. Following the foundation of new companies, we have been represented in the Netherlands and Portugal since 2009. We have bundled our Scandinavian presence and now offer our services centrally from Denmark. The Movianto branch in Norway was closed. The development of Movianto services offered to pharmaceutical manufacturers in addition to the logistics business was promising. Additional services include complete processing – from order intake to invoicing, accounts receivable accounting and the distribution of samples for physicians.

pharmexx

In 2009, we increased our shareholding in pharmexx from 30% to 65% and agreed put and call options for the acquisition of all other shares. All shares have therefore already been allocated to Celesio for accounting purposes; pharmexx is thus fully included in Celesio’s consolidated financial statements with effect as at July 2009. Completion of the acquisition marks the start of a process lasting up to two years which will see this formerly private and rapidly growing company integrated into Celesio Group structures and aligned with our corporate governance structures. We started by introducing Celesio’s group standards at pharmexx and performing a detailed efficiency and governance test of the company, looking at the service portfolio and geographic structure. The national companies tended to operate independently in the past, offering different service ranges. In future, they should increasingly provide standardised services in response to demand for uniform solutions across regions.

Other business areas

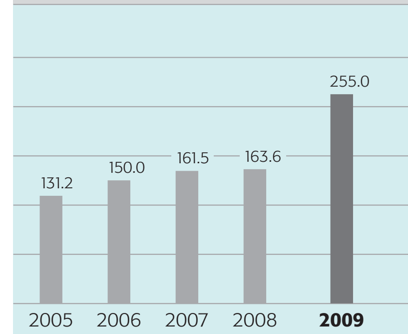
With Evolution Homecare, we coordinated the medical treatment of around 8,800 patients in the UK as at the end of 2009. Although it is still in the start-up phase, the independently operated specialty pharmacy business won important contracts from the industry and from the National Health Service in the UK.

Earnings development

Gross profit[1)]

The gross profit of the Manufacturer Solutions division increased considerably by 55.8% to EUR 255.0m on account of the consolidation of pharmexx for the first time in July 2009. In local currency, the increase comes to 59.7%. pharmexx contributed EUR 86.2m to this division's gross profit as a result of its first-time inclusion in the consolidated financial statements. Our 30% shareholding in pharmexx up to and including June 2009 was previously recognised in the result from associates accounted for using the equity method. We generated gross profit of EUR 167.9m in the Movianto business area, an increase of 2.8% on the previous year (plus 6.6% in local currency). The other business areas saw an increase in gross profit of EUR 0.2m to EUR 0.9m.

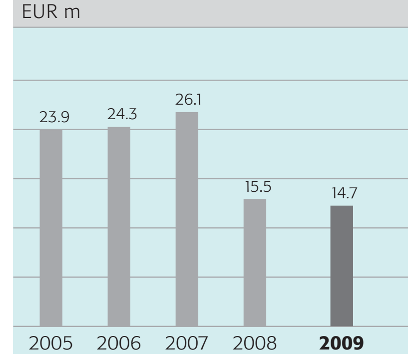
Gross profit Manufacturer Solutions
EUR m



EBITDA

EBITDA of this division decreased by 5.0% to EUR 14.7m (decrease of 4.2% in local currency). This development is mainly attributable to the 10.2% (8.0% in local currency) decrease in EBITDA of the Movianto business area. The loss of individual orders, expenses for the planned start-up of new business activities and the decrease in logistics demand from existing customers all had a negative effect in 2009. We were not able to fully compensate for these effects despite new orders, cost-cutting measures or the contribution to earnings made by Dirk Raes for the first time. By the end of 2009, the earnings situation of Movianto was improving every month, however. Our pharmexx business area made a contribution of EUR 2.0m to EBITDA of this division for the first time; this reflects the results of integration and restructuring expenses. As expected on account of start-up expenses for Evolution Homecare, EBITDA of other business areas came to EUR – 2.9m following EUR – 1.3m in the previous year.

EBITDA Manufacturer Solutions
EUR m



Earnings development Manufacturer Solutions		2008		**2009**		Change on a euro basis	Change in local currency
		EUR m	% of gross profit	EUR m	% of gross profit	%	%
Movianto	Gross profit	163.4	100.0	167.9	100.0	2.8	6.6
	EBITDA	17.3	10.6	15.6	9.3	– 10.2	– 8.0
pharmexx	Gross profit	0.0	–	86.2	100.0	–	–
	EBITDA	– 0.5	–	2.0	2.3	–	–
Other business areas	Gross profit	0.2	100.0	0.9	100.0	202.0	238.5
	EBITDA	– 1.3	–	– 2.9	–	– 117.6	– 138.3
Total	Gross profit	163.6	100.0	255.0	100.0	55.8	59.7
	EBITDA	15.5	9.5	14.7	5.8	– 5.0	– 4.2

[1)] The key performance indicator for Manufacturer Solutions is the absolute gross profit generated instead of revenue. This is because our customers normally pay fees for services and trading revenue is generated only in exceptional cases. The gross profit is calculated as total fee income plus a trading margin. The gross profit margin is not a meaningful figure for the Manufacturer Solutions division due to the specific structure of its revenue.

Financial position

Statement of cash flows

The financial position of the Celesio Group improved considerably on the previous year. In spite of the financial and economic crisis and numerous acquisitions, we saw a clear increase in free cash flow and managed to reduce our non-current liabilities.

Net cash flow from operating activities Despite the decrease in EBITDA on a euro basis, the cash flow from operating activities increased by EUR 41.8m to EUR 578.2m. A major driver behind this development was the cash flow generated as a result of the EUR 144.8m decrease in operating assets (adjusted for currency and acquisition effects) which was brought about by the decrease in inventories as well as factoring of receivables due from the National Health Service in the UK. The decrease in operating liabilities of EUR 105.5m had the opposite effect. These decreased, primarily as a result of legal provisions to reduce payment terms for supplier invoices in France as well as on account of different payment dates in the Movianto business area compared to the previous year.

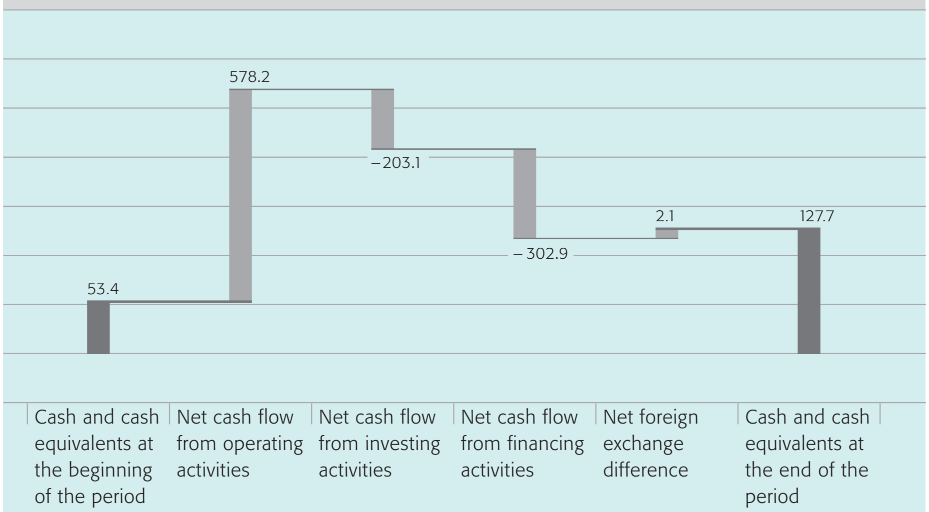
Net cash flow from investing activities The net cash flow from investing activities decreased, by EUR 62.1m to EUR 203.1m. This was mainly as a result of the significant decrease in pharmacy acquisitions compared to 2008. Cash paid for business combinations includes expenses for the majority shareholding acquired in Panpharma, the majority shareholding acquired in pharmexx and the acquisitions of Laboratoria Flandria and Dirk Raes. The Panpharma acquisition was mainly carried out as a capital increase, meaning that there was no significant cash outflow for the Celesio Group. The significant increase in cash flow from isolated pharmacy sales to groom our portfolio in the UK, the sale of our investment in Sapphire Primary Care Developments and the sale of IT hardware as part of measures to outsource the IT infrastructure of the group had the opposite effect.

Free cash flow The free cash flow of EUR 303.9m was up EUR 156.4m on the previous year, a significant increase. In addition to the sharp increase in cash flow from operating activities and low cash flow from investing activities, this was significantly influenced by the fall in interest payments. The EUR 52.5m increase in the net amount of interest paid and received stemmed from the general fall in interest rates in 2009.

Celesio Group statement of cash flows[1]	2008 EUR m	**2009 EUR m**
Net cash flow from operating activities	536.4	578.2
Net cash flow from investing activities	– 265.2	– 203.1
Interest paid and received	– 123.7	– 71.2
Free cash flow	**147.5**	**303.9**
Payments made to shareholders	– 133.1	– 83.8
Cash flow from change in borrowings	34.4	– 147.9
Net change in cash and cash equivalents	**48.8**	**72.2**
Net foreign exchange difference	– 2.5	2.1
Change in cash and cash equivalents	**46.3**	**74.3**

[1] Since the start of 2009 we have presented the Celesio Group statement of cash flows differently, with a view to improving comparability and clarity. Previous year's figures have been restated accordingly. Please refer to the notes on page 178 for further information.

Change in cash and cash equivalents in the 2009 fiscal year

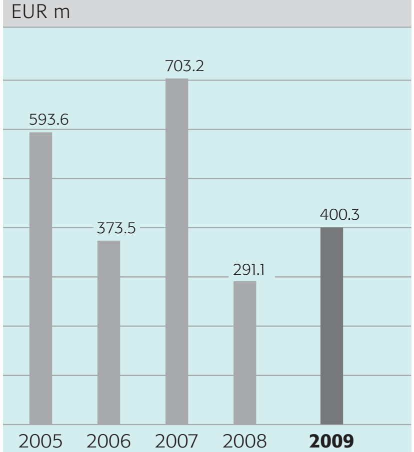


Net working capital

As announced, we successfully managed to significantly reduce our net working capital items as at 31 December 2009 in spite of the challenging economic environment overall. Thanks to our dedicated inventory management, we have seen an improvement from quarter to quarter: after eliminating exchange and consolidation effects, we were able to significantly reduce the items inventories by EUR 29.2m and trade receivables by EUR 173.2m, both of which are significant for net working capital. We benefited from the positive effects of factoring receivables due to Lloydspharmacy from the National Health Service in the UK. The decrease in trade payables had the opposite effect. The cash-related change in operating assets and operating liabilities is derived from the statement of financial position as follows:

Operating assets and liabilities	31/12/2008 EUR m	**31/12/2009** EUR m	Change EUR m	Change after elimination of exchange and consolidation effects EUR m
Inventories	1,453.2	1,624.3	171.1	–29.2
Trade receivables	2,487.1	2,558.2	71.1	–173.2
Trade payables	2,135.9	2,312.4	176.5	–65.6
	1,804.4	**1,870.1**	**65.7**	**–136.8**
Other operating assets	237.7	321.7	84.0	34.7
Other operating liabilities	648.3	873.2	224.9	–10.9
Operating assets and liabilities	**1,393.8**	**1,318.6**	**–75.2**	**–91.2**
Other non-cash changes				51.9
Net cash flow from change in net working capital				**–39.3**

Investments and capital expenditures Celesio Group
EUR m



Investments and capital expenditures[1)]

Investments and capital expenditures recognised in the statement of financial position totalled EUR 400.3m in the 2009 fiscal year, compared to EUR 291.1m in the previous year. In line with internal reporting, we differentiate between investments in acquisitions and opening new pharmacies and capital expenditures on operating business.

Investments in acquisitions and opening new pharmacies With a volume of EUR 254.8m (previous year EUR 150.3m), 63.7% of total investments pertained to acquisitions of entities and pharmacies as well as opening new pharmacies. In addition to the cold chain logistics company Dirk Raes and the pharmaceuticals wholesaler Laboratoria Flandria, we also acquired a majority shareholding in Panpharma, the leading pharmaceutical wholesaler on the Brazilian pharmaceutical market as well as pharmexx, the international marketing and sales services provider in 2009. Pharmacy acquisitions decreased significantly compared to the previous year. We acquired just

1) Pursuant to internal reporting, investments are defined as additions to non-current assets recognised in the financial statements. Deviations from the net cash flows from investing activities recognised in the statement of cash flows stem mainly from future purchase price obligations and current net assets acquired in the course of business combinations, finance lease transactions and other non-cash changes to non-current assets. Since the 2009 fiscal year, additions to non-current financial assets have also been included in investments and capital expenditures. Previous year's figures have been restated accordingly.

13 pharmacies in 2009 (previous year 85 pharmacies). The number of new pharmacies opened remained almost stable compared to 2008 at 15 (previous year 16). This reflects our modified strategy to build and expand our own pharmacy chains mainly by means of new openings, because this conserves capital and goodwill.

Capital expenditures in operating business We made capital expenditures of EUR 145.5m (previous year EUR 140.8m) in operating business, equivalent to 36.3% of the total investment volume. Operating business includes the redesign or relocation of pharmacies, the optimisation of our network of branches as well as IT investments. A significant portion of our capital expenditures on operating business was made in the UK in 2009. In the Manufacturer Solutions division, we invested in the expansion of a high bay racking warehouse for Movianto in Neunkirchen. We focused on improving our IT systems in particular. Following the standardisation of our hardware infrastructure, we began comprehensive measures to extend and update our software infrastructure, which we will continue to implement over the coming years.

Capital expenditures by division	2008 EUR m	**2009** EUR m	Change %
Patient and Consumer Solutions	186.0	88.9	–52.2
Pharmacy Solutions	77.7	142.6	83.7
Manufacturer Solutions	11.7	145.8	–
Other/group holding	15.7	23.0	46.1
Total	**291.1**	**400.3**	**37.5**

Financing

Financing strategy and financial management

Our financing is solid and we pursue a financing strategy with three aims:
1. Safeguarding liquidity
2. Ensuring entrepreneurial flexibility
3. Minimising financing costs

We make use of various sources of financing to achieve these goals and examine new financing options on a rolling basis. Via our finance company, Celesio Finance B.V., the Netherlands, and the group holding company, we ensure that the financing needs of individual Celesio group companies are adequately covered by means of internal as well as external sources of financing.

We successfully diversified our refinancing in 2009, thus improving our entrepreneurial flexibility. The emphasis on a balanced maturity profile for liabilities and a diverse investor base also paid off. We demand trust, reliability and sustainability from the banks we work with. That is why we operate on the basis of fixed standards that give lenders the requisite transparency and fairness. This approach means that we have successful long-term working relationships with our partners.

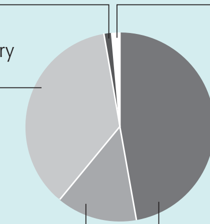
Credit lines The focus of our financial management lies on long-term, secured bilateral credit lines which we agree with selected banks. These credit lines revolve on an annual basis, i.e. the loan commitments are renewed annually. They can be drawn in several currencies and have terms of up to five years. No single bank made more than 10% of all loan commitments at the end of the reporting period. Just 50% of all credit lines were provided by the ten largest lenders (by amount). As in the previous year, we had at our disposal undrawn credit lines in the mid-three-digit million range. We also have an undrawn syndicated loan of EUR 600m which expires in 2013 and provides additional financial leeway.

Promissory notes In addition to liabilities to banks, we regularly issue promissory notes in the course of private placements. These have terms of up to seven years. As at 31 December 2009, our promissory notes had an equivalent value of EUR 788.3m (previous year EUR 789.7m). Of the promissory notes, 44.6% was denominated in pound sterling (previous year 38.1%). In 2009, we deliberately did not conduct any large-scale transactions on the promissory notes market, preferring other financial instruments instead.

Convertible bond We issued the first convertible bond of Celesio AG in October 2009. In addition to safeguarding long-term liquidity with attractive conditions, we were also able to win a large number of new debt investors. The total volume of bond issues came to EUR 350.0m after exhaustion of the options to increase. It has a term of five years with interest charged at a coupon rate of 3.75%. The conversion price of EUR 22.49 fixed on issue corresponds to a premium of 25.0% on the reference price of EUR 17.99.

Factoring For the first time since 2001, we sold receivables of around EUR 135m in 2009 as part of our efforts to diversify our financing and reduce net working capital. The receivables were due to Lloydspharmacy from the British National Health Service. The master agreement arranged for this has a term of three years. The structure of the contract is such that the receivables are no longer recognised in the statement of financial position.

Structure of liabilities
31/12/2009, %



Financing costs

We rely on the active management of cash available in the cash pool as well as the use of derivatives to mitigate market price risks in order to optimise our financing costs. Thanks to the good credit standing of our company, we are in a position to arrange fixed and long-term conditions with our lenders. At the end of the reporting period our loan and bond agreements were free of financial covenants for the Celesio Group. In light of the global crisis on the financial market, we had to accept higher credit margins in 2009. Despite the fact that liabilities did not change significantly on average, our financing costs decreased compared to the previous year. This is attributable to the sharp fall in base interest rates worldwide in the wake of the financial and economic crisis. By entering into interest derivatives and issuing the convertible bond, we were successful in securing a generally low interest rate for some of our liabilities in the medium term.

On 31 December 2009, Celesio AG and its group companies had met all loan obligations and other obligations arising from financing agreements. More detailed information on our financial liabilities in the 2009 fiscal year is provided on page 163 of the notes to the consolidated financial statements.

Liabilities of the Celesio Group	31/12/2008 EUR m	**31/12/2009** EUR m	Change %
Liabilities to banks	1,388.9	1,022.7	–26.4
Securitised debt instruments	789.7	1,091.8	38.3
Finance lease liabilities	20.6	21.1	2.4
Other liabilities	17.3	32.5	87.9
Total	**2,216.5**	**2,168.1**	**–2.2**

Assets position

Our operating business was once again supported by sound balance sheet ratios in 2009. The acquisitions of Panpharma and pharmexx had a significant impact on the group statement of financial position.

Total assets Total assets of the Celesio Group came to EUR 8,066.5m as at 31 December 2009. The EUR 543.2m increase on the end of the previous reporting period stems primarily from currency translation differences of EUR 232.2m as well as the inclusion of companies acquired in 2009. The gearing decreased from 0.97 to 0.90. This indicator reflects the relationship between net financial debt and equity and measures the debt-equity ratio.

Non-current assets Non-current assets increased by EUR 146.9m to EUR 3,434.0m. This development was primarily driven by the acquisitions of Panpharma and pharmexx as well as the increase in intangible assets caused by currency effects. The impairment losses recognised on goodwill and other intangible assets reduced the increase in intangible assets. In addition, associates accounted for using the equity method fell by EUR 30.5m – an effect of increasing our share in pharmexx to 65% and therefore fully including the company in the consolidated financial statements. Deferred tax assets increased by EUR 66.9m, mainly in connection with the acquisition of Panpharma.

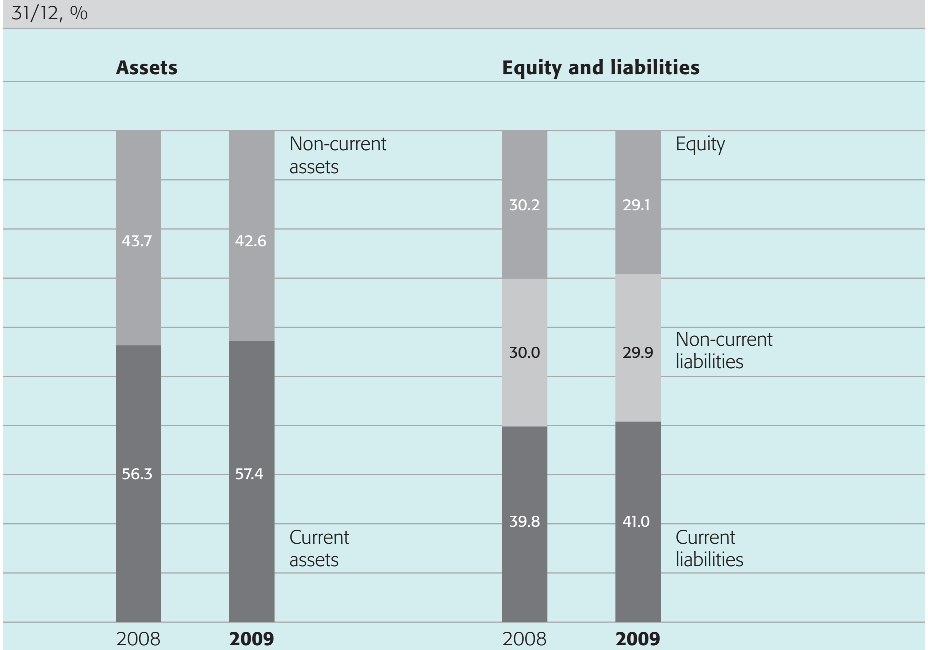
Current assets Current assets increased by EUR 396.3m to EUR 4,632.5m, primarily as a result of our majority shareholding in Panpharma as well as currency effects. Inventories increased by EUR 171.1m, with other receivables and other assets up EUR 61.7m. Trade receivables were up EUR 71.1m on the previous year; the sale of receivables of around EUR 135m due to Lloydspharmacy from the National Health Service in the UK had a positive effect. Cash and cash equivalents increased by EUR 74.3m compared to the end of the previous year's reporting period, mainly due to the acquisition of Panpharma.

Equity Equity of EUR 2,347.4m was up EUR 77.8m compared to the end of the previous year's reporting period. The EUR 32.2m increase in capital reserves following the issue of the convertible bond had a positive effect. Additional factors included the EUR 123.6m increase in reserves recognised in other comprehensive income, which reflects the improvement in the translation reserves. The EUR 82.4m decrease in revenue reserves as a result of dividend payments and the net loss for the year had a negative impact on equity. The equity ratio came to 29.1% (previous year 30.2%) as at 31 December 2009.

Non-current liabilities Non-current liabilities increased by EUR 155.6m to EUR 2,413.1m. This was partly due to the EUR 96.8m increase in other non-current provisions in connection with the acquisition of Panpharma. The EUR 85.4m increase in other liabilities stemming from purchase price obligations from business combinations also had an effect. Non-current financial liabilities decreased by EUR 36.8m. In light of the issue of the convertible bond, the structure of non-current liabilities was changed by repayment of revolving credit lines at banks.

Current liabilities Current liabilities increased by EUR 309.8m to EUR 3,306.0m. This development was due to an increase in other liabilities of EUR 60.0m as well as an increase in other provisions of EUR 61.9m. A further factor was the EUR 176.5m rise in trade payables, which is primarily linked to the Panpharma acquisition as well as currency effects. Trade payables would have actually decreased without these two effects. Current financial liabilities fell by EUR 11.6m.

Structure of the statement of financial position Celesio Group
31/12, %



Celesio AG financial statements (holding)

The financial statements of Celesio AG reflect its activities as a management holding. As a management holding, Celesio AG holds investments in the major operating national companies and national holdings. Financing of working capital required by the operating companies is provided to a large extent via Celesio AG.

Total assets increased by EUR 157.7m to EUR 2,826.9m as at 31 December 2009. Non-current assets decreased by EUR 238.3m, mainly as a result of impairment losses recognised on shares in affiliates as well as the sale of a subsidiary within the group. The capital increase at a subsidiary had the opposite effect. Furthermore, intangible assets increased due to investments in software. Receivables due from affiliates increased mainly as a result of the sale of a subsidiary within the group. Equity also increased owing to the fact that net profit for 2009 significantly exceeded dividends for 2008 of EUR 81.6m. The equity ratio fell slightly to 58.6% (previous year 58.8%). The structure of liabilities changed significantly compared to 2008. Liabilities to banks fell as a result of the issue of the convertible bond. At the same time, liabilities to affiliates increased because the convertible bond was issued by Celesio Finance B.V., the Netherlands. Financial liabilities increased slightly overall. They mainly served to finance funds required by the affiliates.

Compared to 2008, Celesio AG's net profit for the year increased significantly by EUR 142.1m to EUR 167.0m. Net profit mainly comprises investment result, interest result and the holding's expenses.

Investment result comprises the profit transferred or loss absorbed from subsidiaries in Germany as well as profit distributions from foreign subsidiaries and impairment losses recognised on financial assets. The higher investment result compared to the previous year is mainly due to the EUR 203.4m increase in profit distributions from foreign subsidiaries. Impairment losses recognised on financial assets of EUR 186.2m (previous year EUR 111.2m) are included in the investment result. They relate to impairment losses on shares in affiliates in the Netherlands, Italy and Ireland. The interest result improved due to the fall in interest rates.

The holding's expenses primarily consist of personnel expenses as well as other expenses. Since outsourcing the IT infrastructure across Europe in 2009, the corresponding server and infrastructure services have been purchased. Some of these services are invoiced centrally to Celesio AG, which cross-charges the costs to subsidiaries. In connection with this, both other expenses and other income increased significantly in the reporting period. Personnel expenses increased only slightly – this was attributable to the increased average number of employees for the year. In the previous year, non-recurring expenses were also included in this item as a result of adjustments to company pension agreements.

Net profit for the year and the contribution to revenue reserves resulted in profit available for distribution of EUR 85.1m. At the annual general meeting, a proposal will be made to distribute the profit available for distribution as a dividend.

The business and earnings development of Celesio AG as management holding will continue to be closely connected to that of the Celesio Group in future. In 2010 and 2011, the earnings development of Celesio AG will once again depend to a large extent on the distributions of foreign subsidiaries and profits transferred and losses absorbed from German subsidiaries. This also applies to the financing function for the operating companies. For a description of the development of the divisions of the Celesio Group, please refer to the outlook section on page 106.

In the next two years, capital expenditures at Celesio AG will mainly focus on software again. This will include both the introduction of an ERP system for Celesio AG and the development of various applications for use throughout the group.

Based on the current situation, we expect a slight increase in the number of employees in 2010.

Employees

Celesio Group employees
31/12

Number of employees

As at 31 December 2009, 46,095 employees worked for Celesio – an increase of 22.1% on the end of the previous year's period. The significant rise is mainly attributable to the acquisitions of pharmexx, Panpharma, Dirk Raes and Laboratoria Flandria. As a result of these acquisitions, we gained a total of 7,510 employees, of which 3,685 work at pharmexx[1)] and 3,611 at Panpharma. The integration of our new employees into the group was the focus of our personnel work in the 2009 fiscal year.

A total of 23,580 employees were employed in the Patient and Consumer Solutions division at the end of the reporting period, an increase of 4.0% year-on-year. This division accounted for the largest share of employees in the group at 51.1% (previous year 60.0%). The Pharmacy Solutions division had 16,808 employees as at year-end, an increase of 28.0% year-on-year. In our third division, Manufacturer Solutions, the number of employees rose by 218.4% to 5,387. The remaining 320 employees (previous year 249 employees) worked at group level. Most of our employees worked outside of Germany. With activities in 27 countries at the end of 2009 and a 91.9% share of employees located abroad (previous year 92.2%), we are one of the most internationally structured German groups.

Personnel management

As a group with business activities spanning various service areas and countries, we have a decentralised personnel management which affords our subsidiaries room to shape their exact personnel policy based on individual local requirements. Our Corporate Human Resources department sets uniform conditions and standards across the group and is responsible for managing their implementation. Our management development programme is also operated centrally, targeting executive employees and those with high potential at the level of the group and subsidiaries. To ensure that relevant personnel information is available across the group using uniform technological support, we pressed ahead with the further development of our IT systems in 2009.

1) Employees of minority interests as well as freelancers are also included for pharmexx.

Recruitment and staffing

The primary aim of our personnel management is to attract qualified employees to work at Celesio and retain them at the company long-term. This is a challenge in the Patient and Consumer Solutions division in particular, because there is a severe shortage of pharmacy personnel in most European countries. Our pharmacies are excellent employers, as reflected in the various awards that we have received in previous years. In 2009, our Irish pharmacy chain Unicarepharmacy was awarded the title of best employer in the country by the organisation Retail Excellence Ireland as well as the Great Place to Work Institute, a research and consultancy firm. Employees of Lloydspharmacy in the UK also received numerous awards including »Pharmacist of the Year«.

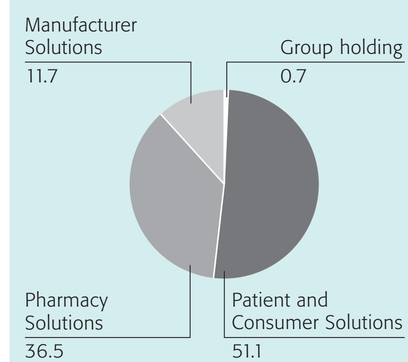
In order to raise our profile as an attractive employer beyond pharmacy circles, we regularly present our group at universities or job fairs and host our own information events for students. We prefer to promote specialists from within the company wherever possible to fill vacant executive positions in the group. This approach ensures that we can conserve and expand on knowledge held in the group. We analyse and manage succession for key positions in annual planning sessions. We were therefore in a position to appoint distinguished external specialists for positions demanding highly qualified staff in 2009 in spite of the challenging economic environment.

Employee development

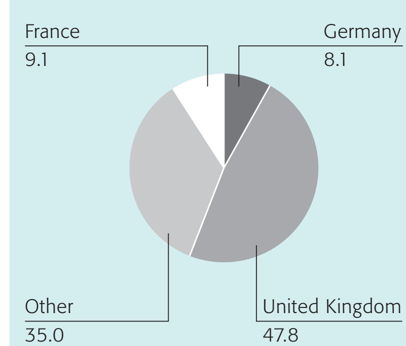
Employee development is one of our priorities. We provide varied education and training programmes to qualify our employees for the roles at the company. We give young people the opportunity to complete a vocational training course at the company, for instance in wholesale and export trade or warehouse logistics. Our trainee programme launched in 2008 prepares selected graduates to work in the group's finance departments: over a period of 18 months, entry-level employees familiarise themselves with various finance-related departments and complete at least one placement abroad as well as attending accompanying seminars. The group employees with the highest potential are promoted by management development programmes aimed at various career levels.

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

Celesio Group employees by division
31/12/2009, %



Celesio Group employees by country
31/12/2009, %



Remuneration

In addition to their salary, which is regulated by collectively bargained agreements or individual employment agreements, employee remuneration also contains other components. These are linked to the duties of the individual employees and usually include performance-related elements. Bonuses are calculated based on personal performance as well as the key performance indicators of the company. To refine the bonus calculation system, the development of net working capital will be given a higher weighting in future.

Research and development

As a trading company and service provider, we have no need to pursue any major research and development activities in the course of our business.

Overall picture of the economic situation

We are one of the leading service providers within the pharmaceutical and healthcare markets worldwide – markets with continuing long-term growth prospects. The increase in the global population as well as rising life expectancy increases both the need and global demand for medicines and healthcare products. Our presence in 27 countries (as at 31 December 2009) puts us in an excellent position to benefit from this trend. On the basis of overall robust operating business and solid financing, we still consider the economic situation of the Celesio Group to be positive.

Risk and opportunities report

As an international company, we face numerous risks and opportunities on a daily basis. These have the potential to affect operating business. We have viable systems in place to identify and evaluate risks and opportunities at an early stage. Taking action in due time enables us to increase our business value long-term. We take entrepreneurial risks consciously and in a controlled manner in order to fully exploit opportunities as they arise. We regularly review the effectiveness of our risk management systems and develop them further as required.

Risk management

Our risk management is embedded in the structural and procedural organisation of the group and therefore an integral part of operating processes in all divisions, business areas and business units. In this way, we can identify risks at an early stage and – as far as possible – implement countermeasures. For this purpose, our employees are provided with an internal risk manual. This provides process guidelines, sets out areas of risk and sets group standards for a methodical, uniform approach to recording and assessing risks. Responsibility for the coordination of this lies with the Corporate Audit, Consulting and Risk Management department. We conduct a risk inventory twice a year in which we evaluate all risks identified in terms of probability and potential losses. The responsible department analyses the results, summarises them and reports them to the Management Board. The risk management system is a component of our regular planning and controlling system, meaning that we are always up to date on new risks as well as the most important market developments. As a result of the ongoing development of our risk management system, we set up a cross-disciplinary Risk Management Committee in 2009. The committee members regularly discuss risks and opportunities in the group.

Opportunity management

Recognising and exploiting trends and opportunities at an early stage is a fundamental entrepreneurial challenge. Opportunity management at Celesio is therefore an important component of the group planning and controlling systems. We identify opportunities at the level of the economy as a whole, the specific industry and the geographic region, not only by continuously monitoring the market but also by entering into active discussion with market participants, opinion leaders and decision makers. The decentralised structure of the Celesio Group promotes the rapid and flexible exploitation of opportunities that only arise locally. Opportunities also stem from the guidelines of our »Agenda 2015«, the growth strategy we first presented at the start of 2009; detailed information on this is given in the section on strategy. In the outlook starting on page 106, we explain which opportunities and risks are expected to impact on the development of earnings in 2010 from a current perspective.

Specific risks and opportunities

Environment and market risks

Economic risks Safely and efficiently supplying people with pharmaceuticals as well as healthcare products and services is at the heart of our entrepreneurial activity. Demand in this area is generally less dependent on economic cycles. Celesio is therefore directly affected by general economic fluctuations to a lesser extent than others. Nonetheless, our business development could be affected by a continuation or deepening of the recession. Generally, low consumer confidence could affect sales of OTC medicines as well as cosmetics and beauty products. Furthermore, there is a risk of new government measures in response to rising national debt and a reduction in funds flowing to state healthcare systems, thus affecting reimbursement policies.

Regulatory risks Pharmaceutical markets are subject to government measures which affect the financing of healthcare systems and therefore also the compensation schemes for service providers. Demographic development boosts demand for pharmaceuticals, leading to increased spending within healthcare systems, irrespective of the economic environment. Numerous governments are therefore keen to reduce this demand-driven higher spending by means of price regulation. The related government measures could influence the development of our business and results of operations. We mitigate this inherent business risk on an ongoing and flexible basis using our cost management system with the aim of balancing out any negative influences. We are also pressing ahead with measures to diversify our business model and tap into new, less regulated markets and business areas. Thanks to our international structure and wide range of products and services for patients and consumers, pharmacies and pharmaceutical manufacturers, we can reduce our dependency on government measures in certain countries. For example, in 2009 we acquired majority shareholdings in Panpharma, a leading Brazilian pharmaceutical wholesaler, as well as pharmexx, an international marketing and sales services provider. The Brazilian pharmaceutical wholesale market is less regulated than comparable markets in Europe. With pharmexx, we have entered a business area which is subject to little direct government intervention. Government measures can affect the development of country-specific regulatory framework, influencing the operation of pharmacies or administration of pharmaceuticals, for example.

Specific market risks Risks relating to changes in the healthcare market are critical to our success. In particular, these include:

- Mergers of pharmaceutical manufacturers. These could potentially weaken our bargaining power when negotiating conditions and discounts in the Wholesale business area, negatively influencing revenue and profitability. We reduce this risk through geographical diversification of our business. In the Manufacturer Solutions division, mergers between pharmaceutical manufacturers could cause us to lose or gain contracts.

- Exclusive wholesale distribution models. Examples include direct-to-pharmacy (DTP) supply by the manufacturer or the reduced wholesale model. Pharmaceutical manufacturers applying the reduced wholesale model work exclusively with a few selected wholesalers. This carries a risk of revenue losses. Given our strong market position in wholesale, however, we will generally apply exclusive sales models and consider the opportunities inherent in any development in this direction to outweigh the risk.
- Competitors' market entry in logistics. Conventional logistics companies are increasingly looking for market niches for their business and aim to break into pharmaceutical distribution as well. For Celesio, this could mean more intense competition in Wholesale and for Movianto. Thanks to our experience, reputation and specialisation, we are well placed to overcome competitive challenges.
- Exemption of medicines from being sold in pharmacies only. Risks could arise if certain non-prescription medicines become exempt from mandatory sale in a pharmacy, meaning that they could be sold at grocery stores or petrol stations as well. We counter this risk by positioning the pharmacy as the correct – i.e. safe – sales channel for pharmaceuticals by political lobbying and through marketing.

Corporate strategy risks

Making acquisitions and starting new activities are important components of our growth strategy. Decisions on these matters are always associated with risks relating to employing and tying up capital. Acquisition and investment plans as well as the associated potential risks are examined in a due diligence process and analysed in terms of return on risks. Complex acquisition plans are prepared by our Corporate M&A and Business Development department, which prepares a detailed analysis of the market and the competition in a preparatory step. For individual aspects, it gathers input from the respective specialist departments, all of which comment on the plan from their perspective as a whole. There is a clearly defined review and authorisation process even for smaller acquisitions, such as individual pharmacies, using local resources and expertise on the market and competition. After completion of a transaction, the acquisition is integrated into the group based on a detailed schedule and action plan as well as clearly defined areas of responsibility. Risks can arise from acquisitions when the business acquired is integrated into the group. Furthermore, changes in the market or environmental conditions could lead to failure to meet original targets in full or in part, despite extensive due diligence and market analyses. We therefore conduct annual impairment tests, which can lead to an adjustment of goodwill, as was the case in the 2009 fiscal year.

Operating business risks

A complex infrastructure consisting of suppliers, transport, storage and dispensing processes, qualified personnel and high-performance IT is necessary in order to guarantee the safety and quality of pharmaceuticals supply in all countries. For Celesio, the risks set out below are particularly relevant to the operating business:

- Interruption of operating business. We have developed comprehensive contingency plans for each of the divisions to safeguard operating business and the supply of pharmaceuticals even in the event of unforeseen circumstances. For example, if a wholesale branch were temporarily unable to operate, customer supply would quickly be secured via neighbouring or regional branches. We also have insurance policies to cover business interruptions.
- Counterfeit pharmaceuticals. Therefore, we have implemented quality control mechanisms. Only products from a validated source of procurement can be distributed. To minimise the risks of counterfeit medicines getting into the distribution chain and reaching patients, we began our »Fight the fakes« programme in 2007. This comprises quality control processes, internal communication measures and dedicated training for employees working in the relevant fields. We develop individual components of this programme on an ongoing basis.
- Dispensing errors. We insist on regular training for our pharmacists and pharmaceutical technicians to minimise the risk of dispensing errors.

Financial risks

Currency risks Currency risks are a significant issue on account of our international presence. We take a systematic approach to minimising these, divided into transaction risks and translation risks:

- Transaction risks arise as a result of changes in the value of future cash inflows from purchases and sales denominated in foreign currency. This risk is low at Celesio because our subsidiaries conduct almost all business within a single currency zone. In the event that transaction risks arise as a result of international supply relationships, we hedge these in full, e.g. by means of forward exchange transactions.
- Translation risks result from the conversion into euro of income generated outside of the euro zone as well as from the conversion of items in the financial statements. At Celesio, this is particularly relevant for the consolidation of subsidiaries. We do not employ derivative financial instruments to secure the risk from translation of income because it does not make good economic sense. The risk from converting items of the financial statements is reduced by using natural hedging. This means that we refinance our subsidiaries in local currency to the extent possible; funds thus originate and are appropriated in the same currency.

Owing to the large share in earnings contributed by our business in the UK, the largest currency risk is in pound sterling. By systematically building up our activities outside of the pound sterling zone, we aim to gradually reduce the effect of this currency on our business. With our majority shareholding in the Brazilian pharmaceutical wholesaler Panpharma we took a decisive step in this direction in 2009.

Measurement risks We hold an equity investment in Andreae-Noris Zahn AG (ANZAG), whose shares are traded on the Frankfurt stock exchange. There is either a positive or negative impact of around EUR 1.3m on the investment result recorded in EBITDA for every fluctuation of EUR 1 in the ANZAG share price – presenting both risks and opportunities. The measurement fluctuations relate purely to changes in carrying amount with no effect – negative or positive – on our liquidity, as long as we hold the investment in ANZAG.

If uncertainty on the international financial and capital markets persists and share prices remain volatile, the measurement of investments held to cover pension obligations could be subject to change.

Interest rate risks Changes in market interest rates affect future interest payments on liabilities with a floating rate of interest. In managing the interest risk, we focus on reducing the fluctuation range of expected interest payments. To this end, we currently make use of both long-term fixed interest agreements and interest rate derivatives with interest caps. We make use of interest swaps to minimise interest rate risks, arranging to exchange interest obligations with another market participant for a certain period of time. Interest hedging measures are reviewed and adjusted as required at least four times a year. As at 31 December 2009, we hedged against an interest rate rise using fixed interest agreements and interest rate derivatives for over half of our financial liabilities. By using interest caps we are also in a position to benefit from falling market interest rates.

Risk of default on receivables Thanks to our highly diversified customer structure in the Pharmacy Solutions division as well as government or equivalent payers in the Patient and Consumer Solutions division, risks from payment defaults are lower than for companies that operate in other industries. We mitigate any remaining risk of default using our strict receivables management. This comprises continuous checks of payment behaviour as well as comprehensive testing of credit standing. In general, the financial situation of the pharmacies being supplied or of the government payer also depends on the development of the economy. A persistently weak economy could contain the risk that receivables outstanding will increase in general, with the quality of individual receivables falling. We recognised trade receivables of EUR 2,558.2m as at 31 December 2009. Bad debt allowances of EUR 122.8m were set up. In addition, trade receivables of EUR 241.7m – for which no bad debt allowance had been recognised – were past due as at year-end.

Liquidity and financing risks We mitigate potential liquidity risks using our systematic liquidity management process. To ensure that Celesio is always in a position to meet its obligations and to afford the company financial flexibility, we maintain a balanced maturity profile for our financial liabilities, with a broad base of fixed income investors and a number of financing sources. We cooperate with carefully selected international banks. By managing maturity dates, we are able to avoid large repayment amounts in individual years. In order to further exploit growth opportunities, we can dispose of committed (unused) credit lines with a total value in the mid-hundreds of millions and can dispose of an undrawn syndicated loan of EUR 600m which matures in 2013. We also issued our first ever convertible bond with a total volume of EUR 350.0m in October 2009. It matures in October 2014. By issuing the convertible bond, we have diversified our sources of financing as well as our fixed income investors base towards the capital market, and extended the maturity profile of our financial liabilities.

Counterparty risks from derivatives Counterparty risk is the term used to describe the possibility of default on the part of a transaction party with whom we have entered into a derivative transaction. In the event that the counterparty were to default, there is a risk that we would have to restore current items to the market at less favourable conditions (replacement risk). We maintain the counterparty risk at a constantly low level by only selecting lending banks with a defined minimum rating as transaction partners and by monitoring the market values of individual derivatives regularly. The risk of default on the date of maturity is considered by limiting the nominal volume of the amount payable in each case. Uniform group guidelines govern the use of hedges and include the segregation of functions for trading, processing and recognition. Only very few qualified employees are authorised in the whole company to trade in financial instruments. The Corporate Audit, Consulting and Risk Management department regularly tests to ensure that guidelines are adhered to. We only enter into derivatives for hedging purposes.

Personnel risks

Celesio's employees and their skills are a critical factor in our success. This carries the risk of losing strategically important employees and therefore know-how or customer relationships. Another risk for us is the shortage of pharmacists which can be observed across most of Europe. The focus of our intensive personnel work is therefore to appeal to qualified specialists and executives and retain them at the company long-term. To this end we offer attractive bonus and incentive systems, promote education and further training and present ourselves as an appealing employer.

Information technology risks

We make use of complex information technologies for the operating and strategic management of the company. In order to ensure smooth operating business, our IT systems need to be fully operational at all times as well as being secured against unauthorised data access and data manipulation. Regular capital expenditure to ensure synchronisation across the group safeguards the maintenance and ongoing development of our IT systems. In addition, numerous data security processes are employed and security tests conducted to safeguard the accessibility of vital business data. The Europe-wide outsourcing of our IT infrastructure to an external service provider started in spring 2009 presents opportunities. We hope that it will release synergy effects from the harmonisation and standardisation of the IT infrastructure.

This complex project carries the risk that predefined goals might not be achieved, which would mean that our IT operating costs would not be reduced as planned. Furthermore, hardware or IT services might not be provided within the necessary timeframe. We counter these risks through ongoing monitoring and by regularly exchanging information with our service provider.

Legal risks

We are not currently aware of any pending legal proceedings which could have a significant impact on our results of operations, financial position and assets position. There are legal and tax risks which could lead to court proceedings in the future. We engaged external experts to estimate the range of possible levels of utilisation and probabilities of occurrence.

Overall assessment of risks and opportunities by management

Management assesses the overall risk based on the risk management system in place. The significant potential risks to our future development mainly stem from government measures in individual healthcare systems. There are also currency risks which primarily take the form of translation risks. Furthermore, Celesio did not escape unscathed from the continuing weak economy in 2009. Compared to other industries, however, we are not as severely affected by economic developments. Thanks to our solid financing and unused financial latitude, we have sufficient options to finance growth. Based on the information currently available, none of the risks described affect our results of operations, financial position or assets position to the extent of jeopardising the company’s ability to continue as a going concern.

Subsequent events

Change to the Supervisory Board

The district court of Stuttgart appointed Prof Dr Jürgen Kluge as member of the Supervisory Board with effect as at 1 January 2010. He succeeded Dr Eckhard Cordes, who stepped down from office with effect as at 31 December 2009. The members of the Supervisory Board voted Prof Dr Kluge as their new chairman on 3 January 2010.

Outlook

Economic environment

Following a stabilisation in the development of the global economy in the second half of 2009, the economic environment is expected to see something of a recovery in 2010. At the beginning of 2010, the International Monetary Fund (IMF) forecasted a 2.3% increase in world gross domestic product (GDP) for 2010 and a 3.4% increase for 2011. Programmes introduced by numerous governments to support the economy and financial markets are also expected to make their mark. The IMF predicts considerably weaker growth for most European countries, however. It does expect an increase in GDP for Brazil, however, with a rise of 3.5% in local currency in both 2010 and 2011. Despite these positive expectations, it is too early to assume that the upswing will be robust and sustainable. Risk factors such as unemployment figures, soaring national debt or restrictive fiscal policies of central banks could negatively impact the development of the global economy.

Economic situation of the industry

The market research institute IMS Health expects annual weighted growth of 3.3% on a euro basis for our European markets until 2013. For Brazil, it forecasts market growth averaging 9.4% per year in local currency until 2013. One consequence of the financial and economic crisis is that it put costs within government healthcare systems under pressure, meaning that government spending on health may be cut over the coming years. Generic medicines will presumably continue to increase in significance as patents for numerous high-revenue medicines expire.

Business development of Patient and Consumer Solutions

Retail Pharmacies

In future, we will set up and expand our own pharmacy chains primarily by opening new branches to conserve capital and goodwill. For the purpose of optimising and rounding off our existing pharmacy portfolio, however, it may also make sense to purchase or sell individual pharmacies in the future. The focus of our expansion drive will be on our DocMorris chain of pharmacies in Sweden, where we plan to open around 20 to 30 of our pharmacies nationwide in 2010, increasing to 100 in the mid-term. The associated start-up costs will have a negative effect on earnings in the Retail Pharmacies business area at first. Government measures will affect earnings in our pharmacy business in 2010, especially in the first half of the year. In the UK, the reduction in reimbursement prices for generic medicines valid since 1 October 2009 as well as the decrease in the practice payment from April 2009 will negatively impact on Lloydspharmacy. In countries in which we operate pharmacies, we will press ahead with expansion of the OTC business and including our own branded non-pharmaceutical products – areas which complement our core business with prescription products. This strategy also has the effect of softening the impact of government measures on our business. In light of the impairment losses that we had to recognise on goodwill in Ireland, Italy and the Netherlands in 2009 as a result of government intervention affecting profitability at our pharmacies, we are examining all options for our future position with respect to patients and end users in these countries.

Mail-order Pharmacies

We will also enjoy growth in our mail-order trade business over the coming years. In addition to Germany, where we are expanding our market position, we are also working on broadening our mail-order activities already in existence in the UK and Norway.

Other business areas

In Germany, our focus will be on expanding business with our DocMorris brand partnerships. To this end, we are fundamentally overhauling the concept in terms of both content and structure. We will then be able to offer further service modules beyond the strong brand and attractive own-brand range of products, which will be available for DocMorris brand partners only.

Business development Pharmacy Solutions

Wholesale

We can expect to see our wholesale business develop well in the 2010 fiscal year thanks to its solid, long-term business model. We expect revenue growth in our European markets to be below the level of 2009, however. The market environment in France will continue to be challenging in 2010, as competitors have set up additional branches. On top of this, the share of generic medicines is increasing on the French market for pharmaceuticals. The integration of Laboratoria Flandria into our existing wholesale business will be our focus in Belgium in 2010. We anticipate high single-digit percentage growth on the Brazilian pharmaceutical market, well above the European level. Among other things, Panpharma will work on optimising business processes and the branch structure as well as expanding the range of products in its portfolio. We expect EBITDA to develop positively with stable revenue, even adjusted for the effects of our 2009 acquisitions.

Other business areas

We intend to continue expanding our business with Rudolf Spiegel Versand for pharmacy and laboratory equipment, and plan to expand into some new international markets.

Business development Manufacturer Solutions

Movianto

In 2010, we intend to complete the measures successfully launched in the reporting period to boost efficiency and optimise internal processes in the Movianto business area – e.g. simplification of warehouse processes or improvement of our transport network – as well as make substantial additions to our service portfolio. We will also continue to grow in new geographical markets. New orders won in 2009 will have a positive effect on Movianto's earnings in 2010.

pharmexx

Our pharmexx business area will continue in 2010 and early 2011 to be characterised by the integration and reorganisation of the rapidly growing and formerly privately-owned company. These activities will concentrate on the international standardisation of services offered as well as the optimisation of the investment portfolio. On the basis of contractual provisions, we will consolidate a former associate in France for the first time in 2010. Although this will have a positive effect on the business area's EBITDA, the contributions allocable to minority interests will also increase.

Other business areas

The Homecare business area will incur start-up expenses once again in 2010. We do not expect this business area to make a positive contribution to earnings yet.

Investments and capital expenditures

Capital expenditures on our operating business in 2010 will be higher than in the previous years, above all due to capital expenditures on the network of branches in our wholesale business. Total capital expenditures should nevertheless be below previous year's figure as we do not currently expect any larger acquisitions in 2010 and want to focus on opening new pharmacies in our efforts to build and expand our own pharmacy chains.

Employees

Based on the current situation, we do not expect the number of employees to change significantly in 2010.

Earnings forecast

In light of our solid core business, we are optimistic for 2010 in spite of continuing uncertainty about the development of the economy as a whole. We expect group EBITDA on a euro basis to exceed the 2009 level. We will benefit from acquisitions made in 2009 for the full year in 2010. Based on these factors, we anticipate an improvement in our key financial indicators.

From our current point of view, the following exogenous factors – over which we have no control – will affect the development of earnings in the 2010 fiscal year:

- Fluctuations in the exchange rates of foreign currencies relevant to us – primarily the pound sterling, Brazilian real and Norwegian krone.
- The government measures we anticipate at present are likely to affect group EBITDA by a figure in the mid-double-digit millions of euro, albeit more than in the 2009 fiscal year.
- Every fluctuation of EUR 1 in the share price of Andreae-Noris Zahn AG (ANZAG) affects the investment result recorded in EBITDA by approximately EUR 1.3m – either positively or negatively. The closing Frankfurt price of the ANZAG share came to EUR 24.80 as at 31 December 2009.

With our »Agenda 2015« we laid the groundwork in 2009 for a new way of approaching the future and enjoy profitable and sustainable growth over the coming years. We will continue to press ahead steadily with this growth strategy in 2010 and 2011. It remains our aim to generate group EBITDA of over EUR 1bn in the 2015 fiscal year.

Consolidated financial statements

Group income statement for the 2009 fiscal year

	Notes No.	2008 EUR m	**2009** EUR m
Revenue	1	[1] **21,166.6**	**21,497.2**
Own work capitalised		1.5	0.9
Total operating performance		**21,168.1**	**21,498.1**
Cost of raw materials, consumables and supplies and of purchased goods		– 18,757.6	– 18,990.9
Gross profit		**2,410.5**	**2,507.2**
Other income	2	181.2	201.9
Other expenses	3	– 712.6	– 834.4
Personnel expenses	4	– 1,208.6	– 1,261.4
Result from associates accounted for using the equity method	5	– 0.1	0.5
Result from other investments	5	– 13.1	13.8
EBITDA		**657.3**	**627.6**
Amortisation of intangible assets and depreciation of property, plant and equipment	6	– 114.1	– 115.7
Impairment losses recorded on intangible assets[2]	6	– 287.0	– 274.3
EBIT		**256.2**	**237.6**
Interest expense	7	– 145.7	– 129.9
Interest income	7	17.2	12.8
Other financial result	7	– 2.5	– 5.2
Profit before tax		**125.2**	**115.3**
Income taxes	8	– 143.7	– 113.0
Net profit/loss		**– 18.5**	**2.3**
Profit attributable to minority interests		2.5	3.1
Profit attributable to shareholders of Celesio AG		**– 21.0**	**– 0.8**
Earnings per share – basic (EUR)	9	**– 0.12**	**0.00**
Earnings per share – diluted (EUR)	9	**– 0.12**	**0.00**

[1] Restated to reflect the change in accounting policies in the Movianto business area.
[2] Since 2009 impairment losses on goodwill and intangible assets with an indefinite useful life have been combined under the line item »impairment losses recorded on intangible assets«.

Group statement of comprehensive income for the 2009 fiscal year

	2008 EUR m	**2009** EUR m
Net profit/loss	**−18.5**	**2.3**
Revaluation in the course of business combinations achieved in stages	0.0	0.9
Gains/losses from marking available-for-sale financial assets to market	−3.3	2.2
Of which income taxes	*0.0*	*0.0*
Gains/losses from derivative financial instruments to hedge cash flows	−47.2	8.7
Of which income taxes	*13.7*	*1.8*
Exchange differences	−339.9	112.0
Of which minority interests	*0.0*	*0.2*
Other comprehensive income	**−390.4**	**123.8**
Comprehensive income	**−408.9**	**126.1**
Share of comprehensive income attributable to minority interests	2.5	3.3
Share of comprehensive income attributable to shareholders of Celesio AG	**−411.4**	**122.8**

For more information please refer to note (10).

Group statement of financial position as at 31 December 2009

Assets	Notes No.	31/12/2008 EUR m	**31/12/2009 EUR m**
Non-current assets			
Intangible assets	11	2,438.1	2,532.6
Property, plant and equipment	12	600.2	607.2
Associates accounted for using the equity method	13	51.2	20.7
Other financial assets	13	146.1	155.4
Income tax receivables		3.8	3.5
Deferred tax assets	14	47.7	114.6
		3,287.1	**3,434.0**
Current assets			
Inventories	15	1,453.2	1,624.3
Non-current assets held for sale	16	0.0	0.2
Trade receivables	17	2,487.1	2,558.2
Income tax receivables		7.5	25.4
Other receivables and other assets		235.0	296.7
Cash and cash equivalents	18	53.4	127.7
		4,236.2	**4,632.5**
Total assets		**7,523.3**	**8,066.5**

Equity and liabilities	Notes No.	31/12/2008 EUR m	**31/12/2009 EUR m**
Equity	19		
Issued capital		217.7	217.7
Capital reserves		1,113.0	1,145.2
Revenue reserves		1,299.9	1,217.5
Revaluation reserves		−369.7	−246.1
Equity attributable to shareholders of Celesio AG		**2,260.9**	**2,334.3**
Minority interests		8.7	13.1
		2,269.6	**2,347.4**
Liabilities			
Non-current liabilities			
Financial liabilities	23	1,982.6	1,945.8
Pension provisions	20	134.4	143.1
Other non-current provisions	21	34.7	131.5
Other liabilities	22	17.5	102.9
Deferred tax liabilities	14	88.3	89.8
		2,257.5	**2,413.1**
Current liabilities			
Financial liabilities	23	233.9	222.3
Trade payables	24	2,135.9	2,312.4
Other current provisions	21	109.4	171.3
Income tax liabilities		54.8	77.8
Other liabilities	24	462.2	522.2
		2,996.2	**3,306.0**
Total liabilities		**5,253.7**	**5,719.1**
Total equity and liabilities		**7,523.3**	**8,066.5**

Group statement of cash flows for the 2009 fiscal year

	2008 EUR m	**2009** EUR m
Profit before tax	125.2	115.3
Financial result	– 131.0	– 122.3
EBIT	256.2	237.6
Amortisation of intangible assets and depreciation of property, plant and equipment	– 114.1	– 115.7
Impairment losses recorded on intangible assets	– 287.0	– 274.3
EBITDA	**657.3**	**627.6**
Net result from the disposal of non-current assets and subsidiaries	– 13.2	– 17.4
Impairment of operating assets	48.6	49.6
Non-cash change in pension provisions	17.5	17.7
Other non-cash income and expenses	– 12.3	0.8
Income taxes paid	– 129.5	– 139.4
Change in operating assets	– 123.1	144.8
Change in operating liabilities	91.1	– 105.5
Net cash flow from operating activities	**536.4**	**578.2**
Proceeds from the disposal of non-current assets	14.1	38.6
Capital expenditure on non-current assets	– 153.5	– 147.2
Proceeds from the sale of subsidiaries	7.3	24.5
Cash paid for business combinations	– 133.1	– 119.0
Net cash flow from investing activities	**– 265.2**	**– 203.1**
Payments made to shareholders	– 133.1	– 83.8
Proceeds from borrowings	493.5	991.4
Repayment of borrowings	– 459.1	– 1,139.3
Interest paid	– 140.9	– 83.5
Interest received	17.2	12.3
Net cash flow from financing activities	**– 222.4**	**– 302.9**
Net change in cash and cash equivalents	**48.8**	**72.2**
Net foreign exchange difference	– 2.5	2.1
Cash and cash equivalents at the beginning of the period	7.1	53.4
Cash and cash equivalents at the end of the period	**53.4**	**127.7**

Cash flows from operating activities include dividend payments of EUR 10.1m (previous year EUR 10.4m).

Further explanations can be found on page 178.

Group statement of changes in equity for the 2009 fiscal year

	Issued capital EUR m	Capital reserves EUR m	Revenue reserves EUR m
As at 01/01/2009	**217.7**	**1,113.0**	**1,299.9**
Change in capital	0.0	32.2	0.0
Dividends	0.0	0.0	−81.6
Changes to consolidated group	0.0	0.0	0.0
Comprehensive income	0.0	0.0	−0.8
As at 31/12/2009	**217.7**	**1,145.2**	**1,217.5**
As at 01/01/2008	**217.7**	**1,113.0**	**1,451.9**
Change in capital	0.0	0.0	0.0
Dividends	0.0	0.0	−131.0
Changes to consolidated group	0.0	0.0	0.0
Comprehensive income	0.0	0.0	−21.0
As at 31/12/2008	**217.7**	**1,113.0**	**1,299.9**

For more information please refer to note (19).

Revaluation reserves				**Equity attributable to shareholders of Celesio AG**	**Minority interests**	**Equity**
Translation reserves	Asset revaluation reserves	Available-for-sale financial assets	Cash flow hedges			
EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
−344.9	**0.0**	**−2.8**	**−22.0**	**2,260.9**	**8.7**	**2,269.6**
0.0	0.0	0.0	0.0	32.2	0.0	32.2
0.0	0.0	0.0	0.0	−81.6	−2.2	−83.8
0.0	0.0	0.0	0.0	0.0	3.3	3.3
111.8	0.9	2.2	8.7	122.8	3.3	126.1
−233.1	**0.9**	**−0.6**	**−13.3**	**2,334.3**	**13.1**	**2,347.4**
−5.0	**0.0**	**0.5**	**25.2**	**2,803.3**	**16.2**	**2,819.5**
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	−131.0	−2.1	−133.1
0.0	0.0	0.0	0.0	0.0	−7.9	−7.9
−339.9	0.0	−3.3	−47.2	−411.4	2.5	−408.9
−344.9	**0.0**	**−2.8**	**−22.0**	**2,260.9**	**8.7**	**2,269.6**

Group segment reporting by business area for the 2009 fiscal year

	Patient and Consumer Solutions			
	Retail Pharmacies EUR m	Mail-order Pharmacies EUR m	Other business areas EUR m	Total Patient and Consumer Solutions EUR m
Income statement				
Revenue	**3,180.0**	**256.7**	**4.8**	**3,441.5**
External revenue	3,180.0	256.7	4.8	3,441.5
Inter-segment revenue	0.0	0.0	0.0	0.0
Gross profit	**1,118.0**	**42.8**	**3.1**	**1,163.9**
EBITDA	**306.7**	**−3.6**	**−3.0**	**300.1**
Of which other significant non-cash income	*1.9*	*0.2*	*0.0*	*2.1*
Of which other significant non-cash expenses	*−1.7*	*−1.1*	*−0.1*	*−2.9*
Impairment losses recorded on intangible assets	−203.3	0.0	−71.0	−274.3
Depreciation and amortisation of segment assets	−49.2	−3.3	−0.1	−52.6
Result from associates accounted for using the equity method	0.0	0.0	0.0	0.0
EBIT	54.2	−6.9	−74.1	−26.8
Assets and capital expenditures				
Segment assets as at 31/12	2,227.9	224.8	33.0	2,485.7
Of which non-current assets held for sale	*0.0*	*0.0*	*0.0*	*0.0*
Of which goodwill	*1,530.7*	*69.1*	*0.0*	*1,599.8*
Of which associates accounted for using the equity method	*4.8*	*0.0*	*0.0*	*4.8*
Capital expenditures[1]	86.3	2.6	0.0	88.9
Employees				
Annual average	22,789	407	23	23,219
As at 31/12	23,165	392	23	23,580

[1] From the 2009 fiscal year, capital expenditures also include additions to non-current receivables. The figures for the previous year have been adjusted accordingly.

Further explanations can be found from page 179 onwards.

Pharmacy Solutions			Manufacturer Solutions				Others	Consoli-dation	Group
Wholesale	Other business areas	Total Pharmacy Solutions	Movianto	pharmexx	Other business areas	Total Manufacturer Solutions			
EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
17,537.5	**5.3**	**17,542.8**	**499.3**	**92.8**	**18.4**	**610.5**	**0.0**	**−97.6**	**21,497.2**
17,537.0	5.3	17,542.3	405.3	92.5	15.6	513.4	0.0	0.0	21,497.2
0.5	0.0	0.5	94.0	0.3	2.8	97.1	0.0	−97.6	0.0
1,085.8	**2.4**	**1,088.2**	**167.9**	**86.2**	**0.9**	**255.0**	**0.1**	**0.0**	**2,507.2**
390.3	**0.3**	**390.6**	**15.6**	**2.0**	**−2.9**	**14.7**	**−77.8**	**0.0**	**627.6**
15.1	*0.0*	*15.1*	*0.2*	*1.5*	*0.0*	*1.7*	*6.2*	*0.0*	*25.1*
−58.8	*0.0*	*−58.8*	*−2.0*	*−1.2*	*−0.1*	*−3.3*	*−4.6*	*0.0*	*−69.6*
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	−274.3
−48.8	0.0	−48.8	−7.1	−2.2	−0.1	−9.4	−4.9	0.0	−115.7
0.1	0.0	0.1	0.0	0.4	0.0	0.4	0.0	0.0	0.5
341.5	0.3	341.8	8.5	−0.2	−3.0	5.3	−82.7	0.0	237.6
4,839.4	1.9	4,841.3	459.4	189.7	6.2	655.3	130.8	−197.3	7,915.8
0.2	*0.0*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.2*
478.8	*0.8*	*479.6*	*95.2*	*123.5*	*0.0*	*218.7*	*0.1*	*0.0*	*2,298.2*
4.7	*0.0*	*4.7*	*0.0*	*11.2*	*0.0*	*11.2*	*0.0*	*0.0*	*20.7*
142.5	0.1	142.6	29.3	116.3	0.2	145.8	23.0	0.0	400.3
14,235	18	14,253	1,651	1,205	11	2,867	288	0	40,627
16,775	33	16,808	1,667	3,685	35	5,387	320	0	46,095

Group segment reporting by business area for the 2008 fiscal year

	Patient and Consumer Solutions			
	Retail Pharmacies EUR m	Mail-order Pharmacies EUR m	Other business areas EUR m	Total Patient and Consumer Solutions EUR m
Income statement				
Revenue	**3,330.5**	**220.7**	**3.7**	**3,554.9**
External revenue	3,330.5	220.7	3.7	3,554.9
Inter-segment revenue	0.0	0.0	0.0	0.0
Gross profit	**1,153.7**	**37.9**	**2.3**	**1,193.9**
EBITDA	**328.5**	**6.6**	**–5.4**	**329.7**
Of which other significant non-cash income	*0.7*	*0.0*	*0.0*	*0.7*
Of which other significant non-cash expenses	*–5.7*	*–0.6*	*–0.2*	*–6.5*
Impairment losses recorded on intangible assets	–278.2	0.0	0.0	–278.2
Depreciation and amortisation of segment assets	–52.9	–4.0	0.0	–56.9
Result from associates accounted for using the equity method	0.1	0.0	0.0	0.1
EBIT	–2.6	2.6	–5.4	–5.4
Assets and capital expenditures				
Segment assets as at 31/12	2,499.4	161.7	93.2	2,754.3
Of which non-current assets held for sale	*0.0*	*0.0*	*0.0*	*0.0*
Of which goodwill	*1,622.9*	*105.0*	*18.5*	*1,746.4*
Of which associates accounted for using the equity method	*0.2*	*0.0*	*0.0*	*0.2*
Capital expenditures[2]	185.4	0.6	0.0	186.0
Employees				
Annual average	22,235	406	23	22,664
As at 31/12	22,249	401	23	22,673

[1] Restated due to a change in accounting policies in the Movianto business area.
[2] From the 2009 fiscal year, capital expenditures also include additions to non-current receivables. The figures for the previous year have been adjusted accordingly.

Further explanations can be found from page 179 onwards.

Pharmacy Solutions			Manufacturer Solutions				Others	Consoli-dation	**Group**
Wholesale	Other business areas	Total Pharmacy Solutions	Movianto	pharmexx	Other business areas	Total Manufacturer Solutions			
EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
17,209.7	**3.9**	**17,213.6**	[1] **482.6**	**0.0**	**4.2**	**486.8**	**0.0**	**−88.7**	**21,166.6**
17,209.7	3.9	17,213.6	394.6	0.0	3.5	398.1	0.0	0.0	21,166.6
0.0	0.0	0.0	88.0	0.0	0.7	88.7	0.0	−88.7	0.0
1,050.8	**1.9**	**1,052.7**	**163.4**	**0.0**	**0.2**	**163.6**	**0.3**	**0.0**	**2,410.5**
393.9	**0.6**	**394.5**	**17.3**	**−0.5**	**−1.3**	**15.5**	**−82.4**	**0.0**	**657.3**
16.9	*0.0*	*16.9*	*0.3*	*0.7*	*0.0*	*1.0*	*0.0*	*0.0*	*18.6*
−55.9	*0.0*	*−55.9*	*−1.8*	*−1.3*	*0.0*	*−3.1*	*−24.5*	*0.0*	*−90.0*
−8.8	0.0	−8.8	0.0	0.0	0.0	0.0	0.0	0.0	−287.0
−48.8	0.0	−48.8	−6.1	0.0	−0.3	−6.4	−2.0	0.0	−114.1
0.3	0.0	0.3	0.0	−0.5	0.0	−0.5	0.0	0.0	−0.1
336.3	0.6	336.9	11.2	−0.5	−1.6	9.1	−84.4	0.0	256.2
4,234.4	1.5	4,235.9	377.3	47.7	4.1	429.1	83.8	−60.2	7,442.9
0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
438.6	*0.8*	*439.4*	*78.6*	*0.0*	*0.0*	*78.6*	*0.1*	*0.0*	*2,264.5*
3.3	*0.0*	*3.3*	*0.0*	*47.7*	*0.0*	*47.7*	*0.0*	*0.0*	*51.2*
77.7	0.0	77.7	8.7	2.5	0.5	11.7	15.7	0.0	291.1
13,161	19	13,180	1,649	0	0	1,649	243	0	37,736
13,110	22	13,132	1,692	0	0	1,692	249	0	37,746

Group segment reporting by country for the 2009 fiscal year

	Germany		France		United Kingdom		Other countries		Group	
	2008 EUR m	**2009** EUR m	2008 EUR m	**2009** EUR m	2008 EUR m	**2009** EUR m	2008 EUR m	**2009** EUR m	2008 EUR m	**2009** EUR m
External revenues[1)]	3,750.7	3,988.8	7,137.0	6,971.5	5,098.3	4,691.0	5,180.6	5,845.9	21,166.6	21,497.2
Segment assets	988.9	1,089.2	1,335.6	1,278.5	2,512.6	2,583.5	2,605.8	2,964.6	7,442.9	7,915.8
Of which non-current assets[2)]	*163.9*	*290.8*	*222.4*	*213.2*	*1,434.0*	*1,549.1*	*1,217.9*	*1,085.5*	*3,038.2*	*3,138.6*

1) Figures for 2008 restated due to a change in accounting policies in the Movianto business area.
2) Non-current assets pursuant to IFRS 8.33 b).

Further explanations can be found from page 179 onwards.

General disclosures

Accounting policies

Celesio is an international service provider in the pharmaceutical and healthcare markets. The consolidated financial statements of Celesio AG and its subsidiaries as at 31 December 2009 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, UK, as endorsed by the European Union and applicable at the end of the reporting period, and supplemented by the provisions of Sec. 315a (1) Handelsgesetzbuch (HGB, German Commercial Code).

The consolidated financial statements have been prepared in euro (EUR) with all figures generally presented in million euros (EUR m).

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

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

The consolidated financial statements were authorised for issue by the Management Board on 22 February 2010.

Basis of consolidation

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

If the risks and opportunities inherent in the options remain with the owner, the entities acquired in the business combination are fully consolidated taking account of the original shares which are reported as minority interests. A purchase price liability is recognised in addition. Later adjustments to the fair value of purchase price instalments that are contingent on future events that constitute an asset or a liability are treated in accordance with IAS 39. No adjustment is made if purchase price instalments which are contingent upon future events are treated as equity.

Pursuant to IAS 28, associates are included in the consolidated financial statements using the equity method at the time a significant influence is acquired. Other investments are recognised at fair value in accordance with IAS 39 or, if no market value is available and fair value cannot be reliably determined, at acquisition cost.

The consolidated financial statements have been prepared from the separate financial statements of the consolidated group entities as at 31 December 2009. These have been prepared in compliance with the group's uniform accounting policies, based on IFRS. All consolidated companies have reported for the same reporting period as that used for the consolidated financial statements.

Consolidation of investments is performed in accordance with the revaluation method pursuant to IFRS 3. This entails revaluing assets, liabilities and contingencies that meet the recognition criteria of IFRS 3 at fair value on the date on which control passes to the group. Interim financial statements were prepared for this purpose. Any difference remaining between the purchase price and the share in the net assets of the company acquired is allocated to the respective assets and liabilities where their carrying amounts differ from their fair values. Purchase price payments that are contingent on future events were considered in the purchase accounting to the extent that they are probable and can be reliably estimated. If the future events do not occur on the scale originally expected, the costs of the business combination and the purchase price liability are adjusted accordingly.

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

Minority interests represent the portion of profit or loss and net assets that is not allocable to the majority shareholder of the group. They are presented separately in the group's income statement and under equity in the group's statement of financial position separately from the parent shareholders' equity.

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

Currency translation

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

The table below shows the changes in exchange rates on the previous year:

Country	Currency	Closing rate		Average exchange rate	
		31/12/2008	**31/12/2009**	2008	**2009**
United Kingdom	**GBP**	0.9525	0.8881	0.7944	0.8903
Norway	**NOK**	9.7500	8.3000	8.1988	8.7198
Czech Republic	**CZK**	26.8750	26.4730	24.9223	26.4053
Denmark	**DKK**	7.4506	7.4418	7.4560	7.4462
Brazil[1)]	**BRL**	3.2436	2.5113	2.6556	2.7562

1) Previous year's figures for comparative purposes.

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

New International Financial Reporting Standards

The IASB and the International Financial Reporting Interpretations Committee (IFRIC) have issued a number of amendments to existing IFRSs and several new standards and interpretations whose application has been mandatory since 1 January 2009. The following standards and interpretations have been applied by the Celesio Group for the first time in this reporting period:

- In the 2009 fiscal year, Celesio has applied »**IFRS 8 (2006)** – Operating Segments« for the first time. This replaces IAS 14 and requires segment reporting that is generally based on the internal reporting of the group (applying the management approach). Due to the application of the new standard, and particularly in light of the new organisational structure of the Celesio Group implemented on 1 January 2009, the segmentation has changed on the previous year. This involves reporting major business areas representing the group's operating segments below the level of the divisions. The figures for the previous year have been presented to match the new structure. The cash-generating units relevant pursuant to IAS 36 for the annual impairment test were correspondingly split and goodwill reallocated as needed.

- In January 2009, the IASB published the amendments to »**IFRS 1** – First-time Adoption of IFRS« and »**IAS 27** – Consolidated and Separate Financial Statements«. The revisions are summarised in a document titled »Cost of an investment in a subsidiary, jointly controlled entity or associate«. This allows entities applying IFRSs for the first time to recognise an investment in their IFRS financial reporting either at its fair value or at the carrying amount under the previously applied national accounting policies. This rule applies to joint ventures, associates and subsidiaries. In addition to this, the obligation to reduce cost when revenue reserves created before the acquisition of the shares are distributed was removed from IAS 27. Dividends from jointly controlled entities, associates and subsidiaries are to be recognised in the income statement irrespectively of whether the distribution stems from results prior to the acquisition or not. First-time application does not result in any material changes to the consolidated financial statements of Celesio.

- Since 1 January 2009, the revised version of »**IAS 1** – Presentation of Financial Statements« requires a separate presentation of changes in equity that arise from transactions with the shareholders in their capacity as providers of equity, and for other changes in equity. Accordingly, the statement of changes in equity includes details on transactions with shareholders, while all other changes in equity are presented in a separate line. In addition, the standard introduces a statement of comprehensive income presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement or in two linked statements. Celesio has adopted the two statement approach and has prepared a separate statement. The consolidated income statement thus remains as a separate element. The group's statement of changes in equity presents comprehensive income in a separate line. The intention of the revision is to improve the analytical possibilities and comparability of financial reporting for users.

- The IASB released the revised version of »**IAS 23** – Borrowing Costs« in March 2007. According to the amended version, borrowing costs which can be allocated directly to a qualifying asset have to be capitalised. The previous option for the immediate recognition of borrowing costs as an expense has been abolished. The revised standard has been applied for borrowing costs of qualifying assets recognised on or after 1 January 2009. First-time application does not result in any material changes to the consolidated financial statements of Celesio.

- The IASB ratified a revised version of »**IFRS 2** – Share-based Payment« in January 2008. This defines vesting conditions as either performance conditions or service conditions. It also specifies that the same accounting treatment applies to all cancellations, regardless of which party cancelled the plan. First-time application does not result in any material changes to the consolidated financial statements of Celesio.

- IASB published amendments to »**IFRS 7** – Financial Instruments: Disclosures« in March 2009. The amendments include amendments to »**IFRS 4** – Insurance Contracts«. The amendments to IFRS 7 concern disclosures about fair value measurements and liquidity risk. The disclosures required on liquidity risks have been clarified and extended. Celesio has expanded its disclosures on financial instruments by adding a summary that presents the hierarchical classification used to determine the fair value of financial instruments. In addition, the analysis of the maturity bands has been expanded to include information on the highest guarantee assumed for financial guarantees.

– In February 2008, the IASB issued amendments to **IAS 32** and **IAS 1** – »Puttable Financial Instruments and Obligations Arising on Liquidation«. The amendments to IAS 32 require some 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. First-time application has not resulted in any impact on the consolidated financial statements of Celesio.

– In May 2008, IASB published the first **omnibus of amendments** – »Improvements to IFRSs« that contains changes to a number of IFRSs. These include numerous smaller revisions to existing standards which are considered necessary but not urgent. First-time application has not resulted in any material impact on the consolidated financial statements of Celesio.

– »**IFRIC 13** – Customer Loyalty Programmes« deals with the accounting treatment of customer award credits granted to customers as part of a sales campaign and which can be used in future to obtain free or discounted goods or services. According to IFRIC 13 they are accounted for as a multiple element arrangement as defined by IAS 18.13. The interpretation has not had any material impact on the presentation of the consolidated financial statements of Celesio.

The IASB and the IFRIC have issued additional standards and interpretations that are not yet mandatory for the 2009 fiscal year. The application of these standards is contingent upon the European Union recognising those standards which it had not as yet in some cases recognised by the date on which the financial statements were completed. Specifically, the standards and interpretations concerned are:

– The IASB issued »**IFRS 9** – Financial Instruments: Classification and Measurement« in November 2009. This publication is the first part of a three-stage project to replace IAS 39. IFRS 9 introduces new rules on classifying and measuring financial assets. The standard must be applied from 1 January 2013. Celesio is currently reviewing the future impact on the consolidated financial statements from applying the standard.

– The IASB issued amendments to »**IFRS 2** – Share-based Payment« in June 2009 that clarify the accounting of cash-settled share-based compensation within the group. These amendments become effective for annual financial periods beginning on or after 1 January 2010. 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 January 2008, a revised version of »**IFRS 3** – Business Combinations« and an amended version of »**IAS 27** – Consolidated and Separate Financial Statements« under IFRS were issued. 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 a business combination. The treatment of costs incurred in relation to business combinations has also been changed; they are no longer recognised as incidental costs of acquisition but recorded as expenses. An exception is made for the costs of issuing debt and equity instruments which are accounted for in accordance with IAS 39. In the case of business combinations achieved in stages, the revision requires that 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 or 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 apply for fiscal years beginning on or after 1 July 2009, with earlier adoption permitted. Celesio is currently reviewing the future impact of the changes on the consolidated financial statements from applying the standard.

- In July 2009, the IASB published amendments to »**IFRS 1** – First-time Adoption of International Financial Reporting Standards«. The amendments concern the retrospective application of IFRSs in special situations and are designed to ensure that entities in the oil and gas industries do not incur unreasonably high costs when transitioning to IFRS. In addition, entities with existing leases are exempted from the reassessment of these arrangements with regard to the classification required by »IFRIC 4 – Determining whether an Arrangement Contains a Lease« if an assessment of the arrangement had already been made at the end of an earlier reporting period under national accounting principles that are comparable to those of IFRIC 4. The interpretation is applicable for the first time in fiscal years beginning on or after 1 July 2009. The adoption of the amendments does not have any effect on the presentation of the consolidated financial statements.

- By issuing the amendments to »**IAS 39** – Financial Instruments: Recognition and Measurement: eligible hedged items« in July 2008, the IASB clarified, firstly, the issue of under what circumstances inflation risks can be designated as a hedged item for hedge accounting purposes. Secondly, they have clarified the designation of unilateral risks in a hedged item such as an option purchased as a hedging instrument. The amendments are applicable for fiscal years beginning on or after 1 July 2009 with mandatory retroactive effect. The first-time adoption of the amendments does not have a material effect on the presentation of Celesio's consolidated financial statements.

- The IASB published »Amendments to **IAS 32** – Classification of Rights Issues« in October 2009. The changes govern the accounting treatment to be applied by the issuer of subscription rights, options and option certificates to acquire a defined number of equity instruments denominated in a different currency to the functional currency of the issuer. The amendments are effective for fiscal years beginning on or after 1 February 2010. 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 November 2009, the IASB issued amendments to »**IAS 24** – Related Party Disclosures«. The contents of the amendment involve a simplification of the disclosures required of entities that are government controlled. The amendments to IAS 24 also involve a clearer definition of a related party. The amended standard is effective for fiscal years beginning on or after 1 January 2011. The amendments are not expected to have any impact on the consolidated financial statements of Celesio.

- In the second annual **omnibus of amendments** published in April 2009, the IASB issued »Improvements to International Financial Reporting Standards« to make a number of smaller amendments to the IFRSs. Most of the amendments apply retroactively for fiscal years beginning on or after 1 January 2010. Earlier voluntary adoption is permitted. The interpretation affects the consolidated financial statements of Celesio to the extent that it necessitates adjustments to revenue recognition in the Movianto business area. These are described in more detail in the notes on revenue recognition.

- The IASB issued amendments to »**IFRIC 9** and **IAS 39** – Embedded Derivatives« in March 2009. The amendments serve to clarify the accounting of embedded derivatives when reclassifying financial instruments. The amendments are to be applied retroactively for fiscal years ending on or after 30 June 2009. 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-private concession arrangements for public services. It regulates the accounting treatment of the obligations and related rights for the private entity under these agreements. Adoption of IFRIC 12 is mandatory for fiscal years beginning on or after 30 March 2009, but is of no significance for Celesio.

- The IFRIC released an amendment of »**IFRIC 14** – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction« in November 2009. The amendment to IFRIC 14 is relevant in cases where an entity has minimum funding requirements and makes prepayments to meet such minimum funding requirements. The amendment allows entities in these cases to recognise the economic benefit from such prepayment as an asset. The amendments to IFRIC 14 become mandatory from 1 January 2011. The amendments are not expected to have any impact on the consolidated financial statements of Celesio.

- In July 2008, IFRIC published »**IFRIC 15** – Agreements for the Construction of Real Estate«. This interpretation governs the accounting treatment for the sale of real estate where an agreement is reached with the buyer before construction work is complete. This interpretation clarifies the terms under which IAS 11 or IAS 18 should be applied as the relevant standard. Adoption of IFRIC 15 is mandatory for fiscal years beginning on or after 31 December 2009. The amendments are not expected to have any impact on the consolidated financial statements of Celesio.

- »**IFRIC 16** – Hedges of a Net Investment in a Foreign Operation« was published by the IFRIC in July 2008 and deals with accounting issues relating to the hedging of foreign exchange risks for companies when making a net investment in a foreign operation. This interpretation clarifies which risks should be considered in accounting for hedges under »IAS 39 – Financial Instruments: Recognition and Measurement« and where the hedging instrument may be held within the group to hedge the risk. Adoption of IFRIC 16 is mandatory for fiscal years beginning on or after 30 June 2009. The amendments are not expected to have any impact on the consolidated financial statements of Celesio.

- In November 2008, the IFRIC ratified »**IFRIC 17** – Distributions of Non-cash Assets to Owners«. This governs the measurement of dividend obligations that are settled by payment of other assets than cash. The obligation must be recognised if the dividend has been appropriately authorised and payment is no longer at the discretion of the entity. It should be measured at the fair value of the assets transferred to settle the obligation. This interpretation is effective for fiscal years beginning on or after 1 November 2009. Earlier adoption is encouraged. The interpretation does not have any impact on the consolidated financial statements of Celesio.

- The IFRIC issued »**IFRIC 18** – Transfers of Assets from Customers« in January 2009. This interpretation governs the treatment of agreements by which an entity receives property, plant or equipment from a customer which it must use to establish an ongoing supply of goods and services to the customer or incorporate it in the supply network. This interpretation is primarily relevant for the energy sector. The interpretation is applicable for fiscal years beginning on or after 1 November 2009 with early adoption being permitted under certain circumstances. IFRIC 18 has no relevance for the consolidated financial statements of Celesio.

- In November 2009, the IFRIC ratified »**IFRIC 19** – Extinguishing Financial Liabilities with Equity Instruments«. IFRIC 19 explains the accounting treatment under IFRS for when an entity wholly or partly settles a financial liability by issuing shares or other equity instruments. This interpretation is effective for fiscal years beginning on or after 1 July 2009. The amendments are not expected to have any impact on the consolidated financial statements of Celesio.

The group has not availed itself of the option to early adopt the standards and interpretations.

Accounting policies

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

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

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

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

It is assumed that goodwill has an indefinite useful life. This also applies to brands acquired by the group provided that there is an intention to use them for an indefinite period. According to IAS 38, intangible assets with an indefinite useful life are not amortised. Rather, they are reviewed at least once annually in accordance with IAS 36 and, if there is any indication of impairment, subjected to an impairment test. Impairment losses are determined by allocating goodwill or brands at the level of the cash-generating units. The group's cash-generating units were redefined due to the first-time adoption of »IFRS 8 – Operating Segments« and the new customer-oriented organisational structure of the Celesio Group as at 1 January 2009, with goodwill being reallocated accordingly. In the process, the previous cash-generating unit, Apotheke DocMorris, was broken down into the new cash-generating units, Mail-order Pharmacies Germany and Franchise Systems Germany. For the purpose of the annual impairment test, the DocMorris brand acquired by the group was allocated to the new cash-generating units on the basis of the source of its revenue. The cash-generating units in the Retail Pharmacies and Wholesale business areas correspond, as in the previous year, to the business area of the respective country (e.g. Wholesale Germany). Within the Manufacturer Solutions division, Movianto and the pharmexx Group, which was consolidated for the first time in 2009, were each considered as a separate cash-generating unit.

Impairment losses are recognised at the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit concerned and is determined using the discounted cash flow method. This relies on the business planning approved by management for the next five years (detailed planning period). The planning projections are rolled forward to the following years using a constant growth rate. The growth rates after the detailed planning period are based on historical growth rates, external studies on future market developments for the mid-term taking account of the development of Celesio in comparison to the market and the expectation for long-term market growth with a view to demographic developments. The planning is based on past developments and expectations of future market developments. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period. Other significant assumptions include the expected impact of government measures on the healthcare sector for the Retail Pharmacies and Wholesale business areas, the development in the number of brand partnerships for Franchise Systems and the international standardisation in the services portfolio at pharmexx. Cash flows are discounted using the weighted average cost of capital (before tax) which is determined individually for each cash-generating unit. The cost of capital is composed of borrowing costs, which are based on the interest rates obtainable on the capital markets, and the costs of equity, which are calculated from a risk-free basic rate of return, a premium for the industry risk and a country-specific risk premium.

Celesio conducts its annual impairment tests on goodwill and brands in the third quarter of each year. The following overview summarises the parameters for each division used to determine the value in use. The weighted average cost of capital is presented separately for the detailed planning period and the following periods for each significant cash-generating unit.

	Goodwill		Weighted average cost of capital		Growth rate after the detailed planning period	
	2008 EUR m	**2009** EUR m	2008 %	**2009** %	2008 %	**2009** %
Patient and Consumer Solutions	1,746.5	1,599.8	9.1 – 13.4	9.0 – 11.3	3.0	1.5 – 3.0
Of which Retail Pharmacies United Kingdom	*1,062.7*	*1,144.8*	*10.8 / 10.1*	*11.1 / 11.0*	*3.0*	*2.0*
Of which Retail Pharmacies Norway	*106.6*	*123.5*	*10.8 / 10.1*	*11.1 / 11.0*	*3.0*	*3.0*
Pharmacy Solutions	439.3	479.6	9.6 – 12.9	10.6 – 13.0	3.0	2.0
Of which Wholesale France	*134.1*	*134.1*	*11.5 / 10.8*	*12.0 / 11.9*	*3.0*	*2.0*
Of which Wholesale United Kingdom	*131.1*	*140.6*	*10.8 / 10.1*	*11.1 / 11.0*	*3.0*	*2.0*
Manufacturer Solutions	78.6	218.7	10.2	11.3 – 11.9	3.0	2.0 – 3.0
Of which pharmexx	*0*	*123.5*	*–*	*11.9 / 11.8*	*–*	*2.0*

Scenarios for critical calculation parameters such as the weighted average cost of capital and the growth rate after the detailed planning period are carried out to validate the values in use. Management considers an increase of 0.5 percentage points in the weighted average cost of capital and a decrease in the growth rate of 0.5 percentage points after the detailed planning period (terminal phase) to be possible. The scenario analysis did not reveal any need to record impairment losses on the intangible assets of the cash-generating units listed above.

The scenarios of the cash-generating units in which an impairment loss is recorded in the reporting period are presented in note (6) Depreciation and amortisation.

Fair values are calculated, where appropriate, in a second step based on observable comparable market transactions. The costs to make the sale correspond to the best estimate made on past experience.

A weighted average cost of capital of 9.5% (previous year 11.1%) was applied to the detailed planning period in the impairment test of the DocMorris brand (2009: EUR 57.3m, previous year EUR 73.9m) and a weighted average cost of capital of 9.4% (previous year 10.4%) and a growth rate of 3.0% (previous year 3.0%) in the period following the detailed planning period.

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

Pursuant to IAS 20, any government grants or subsidies received for the acquisition or production of an asset (government grants) are deducted from the cost of the subsidised asset. As in the previous 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 of the assets are as follows:

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

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

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

Generally, the leases are for real estate and computer hardware. The leases for real estate have terms of up to nine years and some contain purchase options. The leased computer hardware generally relates to equipment needed to accommodate the outsourcing of IT services that began in the reporting year. The leases have a residual term of up to 48 months. The depreciation methods and useful lives applied correspond to the lower of the term of the lease and the useful life of comparable assets acquired for a consideration.

There are no significant finance leases in place that contain provisions setting the contingent lease instalments or renewal or purchase options.

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 lease payments are recorded through profit or loss on a straight-line basis over the term of the lease. Depending on the type of assets, the leases contain the customary rental conditions and right of first refusal. Celesio reviews agreements that are not structured as leases from a legal perspective but which nevertheless grant a right to use an asset to determine whether they constitute a lease arrangement.

Borrowing costs are capitalised if they are directly related to the acquisition or construction of an asset that needs a substantial period of time to prepare it for its intended use or sale. All other borrowing costs are expensed in the period. Celesio did not capitalise any borrowing costs in 2009.

Investments and **financial assets classified as available-for-sale financial assets** or **financial assets measured at fair value through profit or loss** are allocated to a category on the date they are acquired and measured at fair value in accordance with IAS 39. Acquisitions and sales are recognised on their settlement date. These assets are measured at fair value in following periods, if this can be reliably determined. Fair value is determined from the official listings issued by stock exchanges.

Financial instruments are allocated to the available-for-sale category if they are not loans or receivables and are not financial assets measured at fair value through profit or loss. They are initially recognised at fair value. The unrealised gains and losses from their subsequent measurement are posted to the reserve for available-for-sale financial assets until they are realised, taking account of any deferred taxes. If their fair value falls permanently or significantly below their carrying amount, an impairment loss is recorded through profit or loss. If the reasons for an impairment loss no longer apply, the assets are reinstated accordingly. Reversals of impairment losses recorded on equity instruments are posted to other comprehensive income whereas debt instruments, provided they meet the criteria of IAS 39, are written up through profit or loss. When financial assets are sold, any gains previously recorded in other comprehensive income are reclassified to profit or loss. If no active market exists for the assets and their fair value cannot be determined without incurring an unreasonable expense, these financial assets are reported at historical cost.

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

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

The fair value option was exercised with regard to one investment. This allocation was due to an existing repurchase right of the seller that was in place until the end of 2006. Generally, this kind of seller purchase option is accounted for as a derivative at fair value through profit or loss. However, had the fair value option not been exercised, the financial asset would have been classified as available-for-sale financial assets. Classifying the assets in this way avoids incongruence in their measurement. The purchase option lapsed at the end of 2006. This does not affect the classification of the financial asset at fair value through profit or loss. Consequently, any fluctuations in the fair value of the financial assets are recorded in the income statement.

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

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

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

Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell if their carrying amount is likely to be principally realised from a sale and not from their continued use. This is assumed if the sale is deemed to be highly probable, the asset is available for immediate sale in its present condition, there is an intention to sell the asset and a sale is expected within twelve months.

Receivables and **other assets** are measured at amortised cost, with the exception of financial derivatives, and allocated to loans and receivables in accordance with IAS 39. All discernible specific risks are therefore accounted for by appropriate valuation allowances. The valuation allowances are posted to a separate allowance account. Receivables are written off as soon as a receivable is actually defaulted on. Carrying amounts generally correspond with fair value. Receivables denominated in foreign currency were translated using the mean exchange rate prevailing at the end of the reporting period. Changes in value due to exchange rate fluctuations were posted to profit or loss.

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

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

Cash in hand and at banks has been recognised at face value. Foreign cash reserves have been valued using the mean rate at the end of the reporting period.

All **derivative financial instruments** entered into within the Celesio Group such as forward exchange contracts, options or swaps are used solely to hedge foreign currency exposures, interest exposures and the risks of price fluctuations inherent in our operating business and to reduce the related financing requirements. According to IAS 39 these items are initially recognised at fair value in the statement of financial position and subsequently measured at their market value at the end of the reporting period. Depending on their fair value at the end of the reporting period, derivative financial instruments are reported under other financial assets or other financial liabilities respectively.

Hedges are used to secure both the net realisable value of items in the statement of financial position and future cash flows. This includes exchange rate hedges for intended purchases of merchandise within a twelve-month period.

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

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

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

The market values of derivatives are determined by reference to capital market data at the end of the reporting period and by use of suitable valuation methods such as the discounted cash flow method and other generally accepted option pricing models. If interest rates are needed for the valuation, the market interest rates for the respective residual term of the derivatives are taken.

Deferred tax assets and liabilities are deferred in accordance with IAS 12 using the balance sheet liability method. This involves recognising deferred taxes for all temporary differences between the carrying amounts recognised in the consolidated financial statements and the tax base of assets and liabilities as well as any deferred taxes arising from consolidation. No deferred tax liabilities are recorded for the retained earnings of domestic and foreign subsidiaries if they are expected to remain within the company in the long term. Deferred tax assets are recognised on unused tax losses at the amount at which the associated tax benefits are likely to be realised through future taxable profit and these can be reliably measured. This is based on the tax planning which considers future tax strategies. The calculation of deferred taxes is based on the tax rates valid in the countries concerned at the time they were recognised or which had been enacted for future periods. For the German companies, the average tax rate since 1 July 2007 is 30.7%.

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 at the end of the previous period (corridor method). Any amount above this corridor is amortised over the average remaining period of service of the workforce. The interest portion contained in the pension expense and the estimated return on the plan assets are reported under the interest result.

Pursuant to IAS 37, **other provisions** should be recorded if there is a constructive or legal obligation to a third party based on a past business transaction or event. The flow of economic benefits required to settle the obligation must be probable and reliably measurable. Provisions are measured at the amount needed to settle the obligation taking account of all discernible risks. The most likely amount is taken. Any reimbursement claims are not offset against provisions. If it is not possible to recognise a provision because one of the above criteria is not met, the obligation is disclosed under contingent liabilities. Provisions for onerous contracts are recognised if the contractual obligation is higher than the expected economic benefits. Provisions with a term of more than twelve months are discounted. This involves applying interest rates ranging from 1.8% to 7.5% (previous year 3.0% to 4.3%) depending on the term and currency zone.

Share-based compensation programmes are accounted for in accordance with IFRS 2. The programmes at the Celesio Group qualify as cash-settled share-based payment transactions. The expenses generated by the programmes and the obligations to settle these benefits are recognised over the vesting period. The obligation is remeasured at the end of each reporting period with any changes in fair value recognised through profit or loss. The resulting expense is reported as personnel expenses and the obligation is presented under other provisions.

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

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

Financial liabilities designated as the hedged item 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 end of the reporting period.

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

Current portions of originally non-current assets and liabilities whose residual terms are less than one year are reported on principle as current items in the statement of financial position.

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

Contingent liabilities include present obligations that arise from past events where an outflow of resources embodying economic benefits is not probable or where the amount of the obligation cannot be estimated reliably. Contingent liabilities are recognised at their fair value if they were acquired in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognised. Contingent assets are not recognised. Unless the outflow of economic benefits is remote, disclosures on contingent liabilities are made in the notes. The same applies for contingent assets if it is likely that economic benefits will flow to the group.

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

Upon the sale of merchandise to customers, the date on which the goods are delivered is also the date on which economic title to the merchandise passes to the customer. In this case, the transfer of economic title is not attached to the transfer of legal title. Deliveries of merchandise where past experience shows that returns should be expected are not recognised in income. Rather, an asset is recognised under other assets of an amount equal to the acquisition costs of the delivered merchandise and deducting the costs for handling any returns and potential losses on exploiting the returned goods.

Within the course of its annual improvements process, the IASB published a clarification of revenue recognition in the appendix to »IAS 18 – Revenue«. If Celesio collects amounts in the interest of third parties, these do not represent revenue as they do not represent an inflow of economic benefits for the company. Only the remuneration for arranging the transaction and not the total proceeds are recognised as revenue of the entity. Celesio is only regarded as the principal of such agency transactions if it bears the significant risks and rewards associated with the sale of the goods or the rendering of the services. In this case, all the cash received is recognised as revenue. Due to this clarification, certain trade agreements in the Movianto business area were reassessed in terms of their risks and rewards with the result that only the service fee has been recognised as revenue since 1 January 2009. Owing to the primary business of the Movianto business area as a logistics provider, this change led to a more informative presentation of its results of operations.

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

Income from sale and lease-back transactions is recognised immediately in profit or loss providing the lease qualifies as an operating lease and the sales price corresponds to the fair value of the asset.

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

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

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

Management estimates and judgements

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

Accounting for business combinations
Goodwill (2009: EUR 2,298.2m) is disclosed in the course of business combinations. Upon first-time consolidation, all the identifiable assets, liabilities and contingent liabilities are carried at fair value. The carrying amounts are subject to significant uncertainty. If intangible assets are identified, the fair value of the intangible asset is determined based on the nature of the asset using appropriate measurement methods. These measurements are closely associated with assumptions of management about the future development of the value of the asset and the discount rates used.

Impairment of goodwill

The annual impairment test of goodwill (2009: EUR 2,298.2m) is based on assumptions pertaining to the future. The management planning for the next five years is derived from past developments and the expectations with respect to future market developments and does not include any restructuring activities that the group is not yet committed to or any capital expenditure related to its ordinary business that will enhance the earnings of the cash-generating unit being tested. Significant planning assumptions relate to revenue growth, the development of gross margins and operating margins, the discount rate and the growth rate in the period after the detailed planning period. Other significant assumptions include the expected impact of government measures on the healthcare sector for the Retail Pharmacies and Wholesale business areas, the development in the number of brand partnerships for Franchise Systems and the international standardisation in the services portfolio at pharmexx. The assessment of the cash flows from new business areas, such as building up the mail-order pharmacy business and the implementation of brand partnership models, which are needed to assess the fair value of the cash-generating units, is particularly reliant on management estimates of the future development of these market segments. In these cases historical information is available to a limited extent only. Moreover, unforeseen government measures could have a negative impact on future revenue and cash flows in the Wholesale and Retail Pharmacies business areas. If demand for these products and services does not develop as expected, or if unexpected government measures are introduced, this could reduce income and cash flows and possibly lead to a need to record an impairment loss. These premises and the underlying calculation model can have a material impact on the respective values and ultimately on the amount of a possible goodwill impairment.

Trade receivables and other assets

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

Pension benefits

The cost of defined benefit post-employment plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected returns on plan assets, future wage and salary increases, the mortality rate and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective country with top ratings. The mortality rate, is based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates for the respective country. For more information please refer to note (20).

Provisions

When measuring provisions (2009: EUR 302.8m), particularly relating to property, litigation and tax risks, potential losses and restructuring measures, assumptions and estimates play an important role in assessing the probability of utilisation, the obligation amount and the interest rates used for non-current provisions.

Contingent liabilities

Contingent liabilities related to legal and tax risks that are recognised in the course of a business combination are subject to a high degree of planning uncertainty. At Panpharma a contingent liability was recognised for legal and tax risks (EUR 114.3m). Due to the uncertainty about the expected outflow of economic benefits, the risk was recognised at the amount expected to be incurred. This was determined with the help of external expert's reports. These involved measuring a range of possible levels of utilisation and probabilities of occurrence.

Useful lives of intangible assets with finite useful lives and property, plant and equipment

The useful lives of intangible assets (2009: EUR 155.9m) with a finite useful life and property, plant and equipment (2009: EUR 607.2m) are subject to uniform corporate guidelines that have been set by management.

Measurement of inventories

Inventories (2009: EUR 1,624.3m) are measured at the lower of cost and net realisable value. If the previous assumptions on future market prices or sales opportunities are no longer valid, there may be a need to record impairment losses.

Assessing the economic risks and rewards of leases
The decisive factor when allocating leased assets is to decide which party holds economic title to the risks and rewards inherent in the asset. For this purpose, assumptions need to be made on the market price of the leased asset at the end of the lease and the present value of the minimum lease instalments.

Deferred tax
The measurement of deferred tax assets (2009: EUR 114.6m) and liabilities (2009: EUR 89.8m) requires management to make certain assumptions and estimates. In addition to the interpretation of the tax legislation applying to the respective taxpayer, the calculation of deferred tax assets on temporary differences and unused tax losses involves an assessment of to what extent future taxable income will become available and also how tax strategies will be implemented.

All assumptions and estimates are based on circumstances prevailing at the end of the reporting period. 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 were not expected to be subject to any major changes. Based on the information available today, no significant adjustment of the carrying amounts of the assets and liabilities disclosed in the consolidated financial statements is therefore expected in the 2010 fiscal year.

Consolidated group

The consolidated group comprises 659 fully consolidated domestic and foreign companies (previous year 599). This includes eight (previous year eight) special purpose entities which are consolidated pursuant to »SIC 12 Consolidation – Special Purpose Entities«, even though Celesio AG does not hold the majority of the voting rights. The purpose of these companies is generally to lease properties. Although Celesio does not actually hold the majority of voting rights, a further five (previous year five) entities were consolidated on the basis of put and call options for shares not held by Celesio.

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

As at 01/01/2009	**599**
Acquisition of shares	72
Formations	16
Mergers with other group entities	– 14
Disposals	– 13
Other disposals due to the loss of control	– 1
As at 31/12/2009	**659**
Of which domestic entities	*41*
Of which foreign entities	*618*

15 (previous year ten) associates have been consolidated using the equity method. The complete list of shareholdings in accordance with Sec. 313 (4) HGB is an integral component of the notes to the consolidated financial statements and will be published in the electronic version of the German Federal Gazette together with the consolidated financial statements.

Business combinations and disposals in the 2009 fiscal year

Summary of business combinations

In the 2009 fiscal year, the Patient and Consumer Solutions division acquired and consolidated individual retail pharmacies, primarily in the UK and the Czech Republic, acquiring 100% of the voting rights in each case. In the Manufacturer Solutions division a wholly-owned Movianto entity in Belgium (Dirk Raes NV) and the pharmexx Group were consolidated for the first time. In addition, all the shares in an Irish entity (Alchemy Healthcare (Ireland) Limited) were acquired in the new pharmexx business area. Acquisitions in the Pharmacy Solutions division include the Panpharma Group based in Brazil, in which the group holds 50.1% of the shares, a wholesaler in Slovenia (Vitapharm d.o.o.), in which the group holds 51% of the shares, and a wholesaler in Belgium (Laboratoria Flandria NV) in which the group holds 100% of the shares. First-time consolidations are made on the basis of a preliminary purchase price allocation in those cases where it was not possible to make a definitive allocation of fair value at the end of the reporting period. The purchase price allocations will be concluded within twelve months of the acquisition date.

Total acquisition costs amounted to EUR 350.9m. Acquisition costs include EUR 103.3m for cash and cash equivalents acquired in the respective combinations. The purchase price instalments paid in the reporting period amounted to EUR 202.9m. No equity instruments were issued to settle purchase price liabilities. In accordance with IFRS 3 this does not include additional share purchases in companies that have already been fully consolidated.

The fair value of the identifiable assets and liabilities of the entities acquired in the business combinations as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are presented below:

	Carrying amount before acquisition				Fair value			
	pharmexx EUR m	Panpharma EUR m	Other acquisitions EUR m	**Total** EUR m	pharmexx EUR m	Panpharma EUR m	Other acquisitions EUR m	**Total** EUR m
Intangible assets	0.4	0.5	0.3	1.2	20.7	38.8	4.4	63.9
Property, plant and equipment	1.8	6.2	2.0	10.0	1.8	6.2	2.0	10.0
Deferred tax assets	0.4	58.5	0.3	59.2	1.9	75.1	0.3	77.3
Inventories	2.6	139.0	13.7	155.3	1.6	143.0	13.7	158.3
Trade receivables	20.6	145.8	24.7	191.1	20.6	145.8	24.7	191.1
Cash and cash equivalents	4.1	88.8	10.4	103.3	4.1	88.8	10.4	103.3
Other assets	41.9	41.8	1.4	85.1	28.5	41.8	1.3	71.6
	71.8	**480.6**	**52.8**	**605.2**	**79.2**	**539.5**	**56.8**	**675.5**
Financial liabilities	67.3	27.1	2.2	96.6	67.3	27.1	2.2	96.6
Deferred tax liabilities	0.1	0.0	0.0	0.1	6.1	14.4	1.5	22.0
Trade payables	10.2	141.2	23.3	174.7	10.2	141.2	23.3	174.7
Other liabilities	42.9	51.7	10.3	104.9	47.9	161.9	10.3	220.1
	120.5	**220.0**	**35.8**	**376.3**	**131.5**	**344.6**	**37.3**	**513.4**

Goodwill arising from the business combinations totalled EUR 187.1m. Goodwill primarily represents the positive anticipated future development associated with each acquisition – partly due to the market leadership of the acquiree – as well as the experience of the employees taken over. In the case of pharmexx there is additional earnings potential from expanding the portfolio of services in the Manufacturer Solutions division.

Revenue of EUR 580.3m was generated by the entities acquired in the reporting period and net profit for the year of EUR 10.8m. Had these entities been consolidated from the beginning of the fiscal year, they would have contributed EUR 1,687.4m to group revenue. The contribution to the net profit of the group would have been EUR 35.6m.

Significant business combinations

a) pharmexx In the Manufacturer Solutions division, the pharmexx Group was fully consolidated for the first time on 14 July 2009 subsequent to the acquisition of a further 35% of the voting rights of pharmexx GmbH. Due to the 30% holding already held, pharmexx has been included in the consolidated financial statements of Celesio using the equity method since 2006. pharmexx is one of the world's leading contract sales organisations and offers innovative marketing and sales solutions to pharmaceutical companies. These include, for example, personnel services, direct marketing of OTC and medical products as well as sales support, for example with new product launches. The company is based in Hirschberg, Germany, and has 3,685 employees worldwide.

In addition, there are put and call options for the remaining shares still held by the previous owners that are structured with identical rights on the structure and timing of the exercise. As a result, pharmexx is fully consolidated in the consolidated financial statements, with the outstanding purchase price obligation recognised as a liability. First-time consolidation has been made on the basis of a preliminary purchase price allocation as it was not possible to finish the allocation of fair value by the end of the reporting period. The purchase price allocation will be concluded within twelve months of the acquisition date.

EUR 72.0m of the acquisition cost paid for pharmexx is attributable to the reporting period. This contains the acquisition cost for the 30% participation from the year 2006, the acquisition cost for the additional 35% participation in the year 2009 and the net present value of the expected amount needed to exercise the put and call options plus incidental acquisition costs of EUR 0.4m. The acquisition cost includes EUR 4.1m for cash and cash equivalents acquired in the combination. The purchase price payment for the second stage of the acquisition executed in the 2009 fiscal year amounts to EUR 18.4m.

Goodwill arising from the acquisition totals EUR 122.5m. In the course of the preliminary purchase price allocation of the pharmexx Group, some of the debit difference arising from initial recognition of the business combination was allocated, after taking account of deferred taxes, to brands acquired (EUR 5.5m), contracts with customers (EUR 13.9m) and internally generated software (EUR 0.9m) and was recognised under intangible assets. In addition, hidden liabilities (EUR 19.3m) were identified, primarily for financial assets and legal disputes that are not yet resolved.

The revenue attributable to pharmexx amounts to EUR 92.8m and the net loss of the pharmexx Group comes to EUR 2.6m. Had pharmexx been consolidated from the beginning of the fiscal year, the entity would have contributed EUR 182.5m to group revenue and EUR – 1.7m to the group's net result.

b) Panpharma The Panpharma Group was fully consolidated in the Wholesale business area as at 26 August 2009 after Celesio acquired 50.1% of the shares in Panpharma Participações S.A. Panpharma. With a market share of 17%, it is the leading Brazilian pharmaceuticals wholesaler. As at 31 December 2009, Panpharma had a total of 3,611 employees and 16 sales branches.

In addition, there are put and call options for the remaining shares still held by the previous owners that are structured with identical rights on the structure and timing of the exercise. As a result, Panpharma is fully consolidated in the consolidated financial statements, with the outstanding purchase price obligation recognised as a liability. First-time consolidation has been made on the basis of a preliminary purchase price allocation as it was not possible to finish the allocation of fair value by the end of the reporting period. The purchase price allocation will be concluded within twelve months of the acquisition date.

Acquisition costs of EUR 218.5m are attributable to the business combination with Panpharma. These comprise the acquisition cost for the direct purchase of 2.5% and a capital increase for 47.6% of the voting rights. This acquisition cost for Panpharma also comprises the net present value of the expected purchase price triggered by exercising the put and call options less the expected reimbursement claims for legal and tax risks. In addition, incidental acquisition costs of EUR 2.0m are included. This acquisition cost includes EUR 88.8m for cash and cash equivalents acquired in the combination. The purchase price payment for the acquisition of the Panpharma Group amounts to EUR 124.7m.

Goodwill arising from the acquisition totals EUR 23.6m. In the course of the preliminary purchase price allocation of Panpharma, some of the debit difference arising from initial recognition of the business combination was allocated, after taking account of deferred taxes, to brands acquired (EUR 12.7m) and contracts with customers (EUR 27.0m) and was recognised under intangible assets. In addition, a revaluation of inventories led to write-ups of EUR 4.0m. Moreover, a contingent liability was recognised for legal and tax risks (EUR 114.3m). To cover these legal and tax risks, an agreement has been entered into with the former owners for reimbursements that are limited to a maximum amount; the reimbursements can possibly be offset against future purchase price instalments.

Revenue attributable to Panpharma amounts to EUR 400.5m and its net profit to EUR 10.9m. Had Panpharma been acquired at the beginning of the fiscal year, the entity would have contributed EUR 1,242.0m to group revenue and EUR 32.9m to the group’s net profit.

Disposals

In the reporting period, individual retail pharmacies, primarily in the UK, one British company (Sapphire Primary Care Developments Ltd.) and one Belgian company (Pharmadeal Prodis S.A.) from the pharmexx business area were deconsolidated. The deconsolidated entities generated revenue of EUR 22.3m in the reporting period. Net proceeds from the sale amounted to EUR 34.7m. In the process, assets – mainly inventories and other receivables – totalling EUR 28.6m were sold. The non-cash components of the proceeds from the disposal amounted to EUR 9.9m.

Business combinations and disposals in the 2008 fiscal year

In total, 85 pharmacies were consolidated for the first time in the course of the 2008 fiscal year in the Patient and Consumer Solutions division. In most cases all the shares were acquired. In isolated cases, consolidation was founded on call options that had been vested by the end of the reporting period without the actual majority of voting rights being held. In some cases, there are also put and call options agreed on with the remaining shareholders granting Celesio the right to purchase all the shares not already held by Celesio. Consequently, these were fully consolidated in the consolidated financial statements with a liability recognised for the outstanding purchase price. Acquired entities were initially consolidated on the basis of the preliminary figures and adjusted to the final figures within twelve months in accordance with IFRS 3.62. The purchase price allocation for acquisitions made in the 2008 fiscal year has been completed in the meantime. The final figures are presented below. There were no significant events for the comparable period.

The acquisition cost, including purchase price payments contingent on future events and incidental acquisition costs, amounted to EUR 130.2m. This acquisition cost includes EUR 6.6m for cash and cash equivalents acquired in the combinations. In accordance with IFRS 3, this does not include additional share purchases in companies that have already been fully consolidated. The purchase price obligations were settled in full by cash payments, i.e. no share transfers were involved.

The fair value of the identifiable assets and liabilities of the entities acquired in the business combinations as at the date of acquisition in the previous year and the corresponding carrying amounts immediately before the acquisition are presented below:

	Carrying amount before acquisition EUR m	Fair value EUR m
Intangible assets	18.6	0.0
Property, plant and equipment	5.2	6.7
Deferred tax assets	1.0	1.0
Inventories	6.6	6.3
Trade receivables	5.5	5.5
Cash and cash equivalents	6.6	6.6
Other assets	11.5	11.5
	55.0	**37.6**
Financial liabilities	9.8	9.8
Deferred tax liabilities	0.1	0.7
Trade payables	3.8	3.8
Other liabilities	14.6	15.8
	28.3	**30.1**

Goodwill arising from the business combinations totalled EUR 123.3m. Goodwill mainly represents the anticipated future development associated with each acquisition, as well as the experience of the employees taken over.

Revenue attributable to the entities acquired in the 2008 fiscal year amounts to EUR 90.8m and the net profit to EUR 6.5m. Had these entities been acquired at the beginning of the 2008 fiscal year, the entities would have contributed EUR 120.9m to group revenue and EUR 8.2m to the group's net profit.

Pharmacies in the UK and one entity in the Norwegian Celesio Wholesale business area were sold in the 2008 fiscal year. Total cash proceeds from the sales amounted to EUR 7.4m. Assets of EUR 4.0m and liabilities of EUR 2.5m were sold in the course of the transaction. In the 2008 fiscal year, these entities generated revenue of EUR 3.0m.

Notes to the group income statement

(1) Revenue

A breakdown of revenue by division and country is part of segment reporting. Within the course of its annual improvements process in 2009, the IASB published a clarification of revenue recognition in the appendix to »IAS 18 – Revenue« which is discussed in the section on accounting policies. This resulted in a decrease in revenue (and the corresponding cost of goods sold) of EUR 622.0m for the Movianto business area for the fiscal year. Revenue (and the corresponding cost of goods sold) reported for the previous year of EUR 662.0m were adjusted accordingly.

(2) Other income

	2008 EUR m	**2009** EUR m
Advertising subsidies	66.2	67.4
Income from data sales	17.7	17.6
Reversals of valuation allowances for bad debts	15.7	16.0
Net gain on the disposal of non-current non-financial assets	13.7	19.0
Income from rent and lease agreements	9.9	10.0
Sundry other income	58.0	71.9
Total	**181.2**	**201.9**

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

Reversals of valuation allowances for bad debts comprise income from the reversal of valuation allowances and collections of bad debts written off in previous reporting periods.

(3) Other expenses

	2008 EUR m	**2009** EUR m
Transportation expenses	−194.9	−201.5
Building expenses	−185.6	−191.4
IT and communication expenses	−76.5	−117.7
Promotion and advertising expenses	−60.7	−62.4
Legal and consulting costs	−31.1	−32.9
Third-party personnel services	−23.2	−18.6
Valuation allowances for bad debts	−20.1	−40.1
Net loss on the disposal of non-current non-financial assets	−0.6	−1.6
Sundry other expenses	−119.9	−168.2
Total	**−712.6**	**−834.4**

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

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

Building expenses include rent and lease expenses of EUR 105.3m (previous year EUR 103.2m).

IT and communication expenses rose due to the European-wide outsourcing of the IT infrastructure.

Sundry other expenses relate to the general costs of administration and sales, such as the costs of customer seminars and conferences and office supplies. The net currency result from operations contains exchange rate gains of EUR 1.3m (previous year EUR 1.3m) and offsetting exchange rate losses of EUR 1.5m (previous year EUR 1.1m), in both cases including the revaluation of the allocated derivatives posted through profit or loss. Income from the reversal of provisions related to other expenses has been deducted from sundry other expenses.

In the reporting period, research and development expenses for the development of software of EUR 14.6m (previous year EUR 15.0m) were recorded under sundry other expenses because the criteria for recognising them as assets pursuant to IAS 38 were not satisfied.

(4) Personnel expenses/employees

	2008 EUR m	**2009** EUR m
Wages and salaries	−938.4	−971.7
Social security	−159.6	−171.0
Post-employment expenses	−29.7	−31.1
Personnel services	−73.8	−79.9
Other personnel expenses	−7.1	−7.7
Total	**−1,208.6**	**−1,261.4**

Personnel services essentially consist of expenses for freelance locums used to fill in for absent employees.

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

Personnel expenses include EUR 0.2m (previous year EUR 0.0m) from cash-settled share-based compensation programmes.

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

(5) Investment result

	2008 EUR m	**2009** EUR m
Result from associates accounted for using the equity method	−0.1	0.5
Result from other investments	−13.1	13.8
Total	**−13.2**	**14.3**

The investment result primarily consists of changes in fair value and dividend income from in Andreae-Noris Zahn AG (ANZAG), an investment measured at fair value through profit or loss. As at 31 December 2009, the ANZAG share price stood at EUR 24.80 (previous year EUR 20.15).

(6) Depreciation and amortisation

	2008 EUR m	**2009** EUR m
Depreciation of property, plant and equipment	−97.3	−90.8
Amortisation of intangible assets	−16.8	−24.9
Impairment losses recorded on intangible assets	−287.0	−274.3
Total	**−401.1**	**−390.0**

As in the previous year, the depreciation of property, plant and equipment does not include any impairment losses. The impairment losses recorded on intangible assets relate to impairments recorded on goodwill and other intangible assets with an indefinite useful life.

The impairment losses based on the impairment tests performed during the year relate to the following cash-generating units:

	Impairment of goodwill	**Impairment of other intangible assets**	Weighted average cost of capital	Growth rate after the detailed planning period	Weighted average cost of capital	Growth rate after the detailed planning period
	2009 EUR m	**2009** EUR m	2008 %	2008 %	2009 %	2009 %
Retail Pharmacies Netherlands	86.8	0.0	11.4 / 10.4	3.0	10.0 / 9.9	1.5
Retail Pharmacies Ireland	85.2	0.0	10.1 / 9.1	3.0	9.1 / 9.0	2.0
Retail Pharmacies Italy	31.3	0.0	12.9 / 11.9	3.0	11.2 / 11.1	1.5
Franchise Systems Germany	54.4	16.6	11.1 / 10.4	3.0	9.5 / 9.4	3.0
Total	**257.7**	**16.6**				

The weighted average cost of capital is presented separately for both the detailed planning period and the following period.

As a consequence of drastic government measures in the Netherlands, Ireland and Italy as well as the deterioration in operating business in these regions due to the economic situation, we had to impair the goodwill of these three countries in the course of our annual impairment test.

- The Dutch government did not make any changes to the compensation for pharmacies during 2009. As a result, it was not possible to compensate for the consequences of the preference policy that was unexpectedly tightened dramatically in the same year. Under the preference policy, Dutch health insurers, which are all private, run tenders which have an impact on prices for generic medicines.
- In Ireland, the government made drastic cuts to the prices paid for prescription medicines and the compensation paid to pharmacies in the year 2009, well knowing that these measures are likely to lead to a large number of pharmacy closures. The full extent of this development was not foreseeable in mid-2009 when the Irish minister for health announced the reduction in the compensation elements. The particularly tense economic situation prevailing in Ireland places a further burden on the income generated by pharmacies in the field of OTC products.
- In Italy, new government cost-cutting measures led to a further reduction in the earnings base of pharmacies.
- The cash-generating unit Franchise Systems Germany consists of the brand partnerships of Apotheke DocMorris. In Germany, it became clear in the third quarter of 2009 that the planned expansion of brand partnerships of Apotheke DocMorris was too ambitious in terms of the timeframe. The plan to have 500 brand partnerships with independent pharmacists in Germany by the end of 2011 will not be attainable until 2015 at the earliest, which has led to a revision of the business planning. The impairment losses on other intangible assets relate to the DocMorris brand to which the two cash-generating units, Mail-order Pharmacies Germany and Franchise Systems Germany, are allocated.

The required impairment was determined at all units on the basis of the value in use. The weighted average cost of capital based on specific capital market data was used to discount cash flows for the 2009 detailed planning period and the following periods. Scenarios for critical calculation parameters such as the weighted average cost of capital and the growth rate after the detailed planning period are carried out to validate the values in use and any resulting need to record an impairment. Each negative deviation from the planning and valuation parameters in future would lead to a further need for impairment. The impact of an increase of 0.5 percentage points in the weighted average cost of capital and a decrease of 0.5 percentage points in the growth rate after the detailed planning period, which management considers possible, would lead to a need to record the following impairments:

	Significant assumptions at the time of the impairment test 2009		Amount of the impairment upon	
	Weighted cost of capital %	Growth rate after detailed planning period %	increase of 0.5 percentage points in the weighted cost of capital EUR m	decrease of 0.5 percentage points after detailed planning period EUR m
Retail Pharmacies Netherlands	10.0 / 9.9	1.5	– 3.4	– 3.2
Retail Pharmacies Ireland	9.1 / 9.0	2.0	– 7.8	– 6.5
Retail Pharmacies Italy	11.2 / 11.1	1.5	– 4.0	– 3.1
Franchise Systems Germany	9.5 / 9.4	3.0	– 3.3	– 3.1

Due to the fact that no goodwill has been allocated to the Franchise Systems Germany cash-generating unit, potential impairment would be allocated to other assets.

(7) Financial result

	2008 EUR m	**2009** EUR m
Interest and similar expenses	– 145.7	– 129.9
Of which paid to affiliates	*– 0.1*	*0.0*
Of which for finance leases	*– 1.7*	*– 1.2*
Of which for pensions	*– 4.7*	*– 7.0*
Interest and similar income	17.2	12.8
Of which received from affiliates	*0.0*	*0.0*
Other financial result	– 2.5	– 5.2
Total	**– 131.0**	**– 122.3**

Interest and similar expenses include total interest expenses of EUR 89.7m (previous year EUR 144.1m). Interest and similar income includes total interest income of EUR 12.3m (previous year EUR 17.2m) for financial liabilities and financial assets that are not measured at fair value through profit or loss.

The interest portion in lease agreements that qualify as finance leases under IAS 17 is included in interest and similar expenses.

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

The line item other financial result relates to changes in the fair value of derivatives used to hedge financial liabilities. Marking these instruments to market in the reporting period did not result in any income (previous year EUR 13.0m). The expenses amounted to EUR 21.0m (previous year EUR 0.8m). Moreover, this item contains exchange rate gains of EUR 260.6m (previous year EUR 274.4m) and exchange rate losses of EUR 244.8m (previous year EUR 289.1m) related to non-operating receivables and liabilities denominated in foreign currencies.

(8) Income taxes

	2008 EUR m	**2009** EUR m
Current taxes	– 121.5	– 134.8
Deferred taxes	– 22.2	21.8
Income taxes	**– 143.7**	**– 113.0**

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

Temporary differences of EUR 55.8m (previous year EUR 56.8m) existed for the retained profits of domestic and foreign subsidiaries and associates. However, no deferred taxes were recognised on these temporary differences as the profits are not likely to be distributed in the foreseeable future.

In the fiscal year, the deferred tax expense decreased due to the recognition of deferred tax assets on unused tax losses from previous periods of EUR 2.7m (previous year none). The utilisation of unused tax losses, which in past periods was considered unlikely, resulted in a reduction of EUR 0.1m in the income tax burden in 2009 (previous year EUR 0.2m). In addition, as at the end of the reporting period, the group carried unused tax losses of EUR 298.2m (previous year EUR 107.3m) and interest carried forward of EUR 41.9m (previous year EUR 32.0m), which from a current perspective are unlikely to be utilised. Consequently, no deferred taxes have been recognised on these unused tax losses. In the reporting year, deferred tax assets on unused tax losses of EUR 0.2m (previous year EUR 6.8m) were written down. Of the existing unused tax losses and interest carried forward, a total of EUR 322.4m (previous year EUR 85.1m) can be carried forward for an indefinite period and an amount of EUR 17.7m (previous year EUR 21.9m) lapses within the next ten years. In addition, deferred taxes totalling EUR 45.9m (previous year EUR 8.0m) have been recognised on unused tax losses of EUR 141.6m (previous year EUR 26.6m). EUR 99.0m of the losses (previous year EUR 0m) and deferred tax assets of EUR 33.7m originate from the Wholesale Brazil segment. On the basis of the current business development, Celesio assumes that there will be sufficient taxable income available in future to offset these losses.

The current tax burden includes tax income from other periods of EUR 3.6m (previous year EUR 13.1m). Deferred taxes on temporary differences led to total income of EUR 18.0m (previous year an expense of EUR 11.0m).

The table below shows a reconciliation of the differences between the current taxes reported in the income statement and the theoretical tax expenses arising from applying the tax rate of Celesio AG to the group's profit before tax. The tax rate applying to Celesio AG remains unchanged on the previous year at 30.7%.

	31/12/2008		**31/12/2009**	
	EUR m	%	EUR m	%
Profit before tax	125.2	100.0	115.3	100.0
Expected income tax expense	**38.4**	**30.7**	**35.4**	**30.7**
Effect of differing national tax rates[1)]	8.1	–5.5	13.2	11.4
Tax from previous periods	–13.1	–10.5	–3.6	–3.1
Tax effect of non-deductible expenses and tax-exempt income	3.2	2.5	11.4	9.8
Impact of changes to tax rates on deferred taxes	0.0	0.0	0.1	0.1
Non-recognition, adjustment or utilisation of tax losses	20.6	16.4	12.1	10.5
Impact of tax-neutral amortisation of goodwill[1)]	73.0	70.4	49.4	42.8
Other tax effects	13.5	10.8	–5.0	–4.2
Income tax expense	**143.7**	**114.8**	**113.0**	**98.0**

1) The figures for the year 2008 have been reclassified to improve the presentation of the tax impact from impairment losses recorded on goodwill.

(9) Earnings per share

	2008	**2009**
Profit/loss attributable to shareholders of Celesio AG (EUR m)	– 21.0	– 0.8
Weighted number of no-par shares outstanding	170,100,000	170,100,000
Earnings per share (EUR)	**– 0.12**	**0.00**

Basic and diluted earnings per share were identical in the reporting year.

The basic earnings per share are calculated by dividing the net profit allocable to the shareholders of Celesio AG by the weighted average number of shares outstanding during the fiscal year.

The diluted earnings per share are a result of adding all options to Celesio shares associated with the convertible bond to the average number of shares outstanding. Because the convertible bond was issued during the year, the weighting was performed on a pro rata temporis basis in the reporting period (2.7m options). It is assumed that the convertible bond will be fully exchanged for shares. The net profit for the year is adjusted to eliminate the related interest expense and any tax effect of the bond. Due to the fact that the potential ordinary shares from the convertible bond would increase the earnings per share, no presentation has been made in the reporting year in accordance with IAS 33.41.

(10) Components of other comprehensive income[1)]

Other comprehensive income – presented in the statement of comprehensive income – consists of the following components, without taking account of deferred taxes:

	2008 EUR m	**2009** EUR m
Available-for-sale financial assets		
Gains/losses from the current year	– 3.3	0.7
Less reclassification to profit and loss	0.0	– 1.5
	– 3.3	**2.2**
Derivative financial instruments to hedge cash flows		
Gains/losses from the current year	– 60.9	– 17.8
Less reclassification to profit and loss	0.0	– 25.9
Less gains/losses offset against acquisition cost	0.0	1.2
	– 60.9	**6.9**

1) Not including deferred tax.

Notes to the group statement of financial position

Non-current assets

	2008			
	Intangible assets EUR m	Property, plant and equipment EUR m	Financial assets EUR m	Total EUR m
Accumulated historical cost As at 01/01	**3,063.3**	**1,548.9**	**205.4**	**4,817.6**
Translation differences	−372.3	−128.0	−0.2	−500.5
Changes to consolidated group	0.0	10.7	0.6	11.3
Changes in fair value	0.0	0.0	−27.8	−27.8
Additions	144.1	94.5	46.7	285.3
Reclassifications	0.3	−0.5	−16.4	−16.6
Disposals	−8.3	−67.6	−8.4	−84.3
As at 31/12	**2,827.1**	**1,458.0**	**199.9**	**4,485.0**
Accumulated depreciation and amortisation As at 01/01	**96.8**	**902.8**	**3.5**	**1,003.1**
Translation differences	−4.5	−80.0	0.0	−84.5
Changes to consolidated group	0.0	−1.0	0.0	−1.0
Additions	303.8	97.3	0.6	401.7
Reclassifications	−0.1	−0.2	0.0	−0.3
Disposals	−6.9	−61.1	0.0	−68.0
Write-ups	−0.1	0.0	−1.5	−1.6
As at 31/12	**389.0**	**857.8**	**2.6**	**1,249.4**
Carrying amount as at 31/12	**2,438.1**	**600.2**	**197.3**	**3,235.6**

2009			
Intangible assets EUR m	Property, plant and equipment EUR m	Financial assets EUR m	**Total** EUR m
2,827.1	**1,458.0**	**199.9**	**4,485.0**
107.6	41.1	0.1	148.8
62.2	7.2	17.8	87.2
0.0	0.0	8.4	8.4
226.1	85.8	40.3	352.2
0.9	−6.2	−18.4	−23.7
−2.5	−73.1	−65.4	−141.0
3,221.4	**1,512.8**	**182.7**	**4,916.9**
389.0	**857.8**	**2.6**	**1,249.4**
0.7	23.5	0.0	24.2
0.0	−2.5	0.0	−2.5
299.2	90.8	4.0	394.0
0.4	−4.5	0.4	−3.7
−0.5	−59.5	0.0	−60.0
0.0	0.0	−0.4	−0.4
688.8	**905.6**	**6.6**	**1,601.0**
2,532.6	**607.2**	**176.1**	**3,315.9**

(11) Intangible assets

	2008				
	Concessions, industrial rights and similar rights EUR m	Goodwill EUR m	Other intangible assets EUR m	Payments on account EUR m	Total EUR m
Accumulated historical cost As at 01/01	**128.2**	**2,797.0**	**132.1**	**6.0**	**3,063.3**
Translation differences	−8.6	−363.7	0.0	0.0	−372.3
Changes to consolidated group	0.0	0.0	0.0	0.0	0.0
Additions	17.5	119.1	0.0	7.5	144.1
Reclassifications	3.5	0.0	−2.5	−0.7	0.3
Disposals	−3.4	−0.9	−2.3	−1.7	−8.3
As at 31/12	**137.2**	**2,551.5**	**127.3**	**11.1**	**2,827.1**
Accumulated depreciation and amortisation As at 01/01	**84.6**	**0.0**	**10.5**	**1.7**	**96.8**
Translation differences	−4.5	0.0	0.0	0.0	−4.5
Changes to consolidated group	0.0	0.0	0.0	0.0	0.0
Additions	12.1	287.0	4.7	0.0	303.8
Reclassifications	1.8	0.0	−1.9	0.0	−0.1
Disposals	−2.9	0.0	−2.3	−1.7	−6.9
Write-ups	−0.1	0.0	0.0	0.0	−0.1
As at 31/12	**91.0**	**287.0**	**11.0**	**0.0**	**389.0**
Carrying amount as at 31/12	**46.2**	**2,264.5**	**116.3**	**11.1**	**2,438.1**

2009				
Concessions, industrial rights and similar rights EUR m	Goodwill EUR m	Other intangible assets EUR m	Payments on account EUR m	**Total** EUR m
137.2	**2,551.5**	**127.3**	**11.1**	**2,827.1**
3.5	104.1	0.0	0.0	107.6
0.9	−3.3	64.6	0.0	62.2
17.9	190.8	0.7	16.7	226.1
7.6	0.0	1.6	−8.3	0.9
−2.5	−0.2	−0.2	0.4	−2.5
164.6	**2,842.9**	**194.0**	**19.9**	**3,221.4**
91.0	**287.0**	**11.0**	**0.0**	**389.0**
1.5	0.0	−0.8	0.0	0.7
0.0	0.0	0.0	0.0	0.0
15.9	257.7	25.6	0.0	299.2
−0.6	0.0	1.0	0.0	0.4
−0.7	0.0	−0.2	0.4	−0.5
0.0	0.0	0.0	0.0	0.0
107.1	**544.7**	**36.6**	**0.4**	**688.8**
57.5	**2,298.2**	**157.4**	**19.5**	**2,532.6**

The additions to goodwill in the year 2009 primarily relate to the acquisition of retail pharmacies and pharmexx GmbH. More information on the acquisitions made in the reporting period can be found from page 138 onwards.

Brands with an indefinite useful life of EUR 78.5m (previous year EUR 81.2m) were capitalised in the course of acquisitions and are presented under other intangible assets. This includes EUR 57.3m for the DocMorris brand which was allocated to the Mail-order Pharmacies Germany cash-generating unit and the Franchise Systems Germany cash-generating unit for the impairment test. A further EUR 5.5m was allocated to the pharmexx cash-generating unit, and EUR 8.4m to the Wholesale Brazil cash-generating unit. More information on impairment losses can be found in note (6) Depreciation and amortisation.

(12) Property, plant and equipment

	2008				
	Land, land rights and buildings EUR m	Plant and machinery EUR m	Other equipment, furniture and fixtures EUR m	Payments on account and assets under construction EUR m	Total EUR m
Accumulated historical cost					
As at 01/01	**665.7**	**282.2**	**597.9**	**3.1**	**1,548.9**
Translation differences	–24.0	–19.2	–84.7	–0.1	–128.0
Changes to consolidated group	9.7	0.3	0.7	0.0	10.7
Additions	25.8	16.3	46.6	5.8	94.5
Reclassifications	6.8	–2.6	1.1	–5.8	–0.5
Disposals	–9.0	–16.2	–42.2	–0.2	–67.6
As at 31/12	**675.0**	**260.8**	**519.4**	**2.8**	**1,458.0**
Accumulated depreciation and amortisation					
As at 01/01	**307.2**	**205.3**	**390.3**	**0.0**	**902.8**
Translation differences	–11.6	–13.9	–54.5	0.0	–80.0
Changes to consolidated group	–0.2	0.0	–0.8	0.0	–1.0
Additions	25.5	18.1	53.7	0.0	97.3
Reclassifications	2.2	–1.2	–1.2	0.0	–0.2
Disposals	–5.4	–15.1	–40.6	0.0	–61.1
Write-ups	0.0	0.0	0.0	0.0	0.0
As at 31/12	**317.7**	**193.2**	**346.9**	**0.0**	**857.8**
Carrying amount as at 31/12	**357.3**	**67.6**	**172.5**	**2.8**	**600.2**
Of which finance leases					
Carrying amount as at 31/12	*39.0*	*1.2*	*0.4*	*0.0*	*40.6*

Property, plant and equipment has not been pledged for liabilities nor are there any restrictions on the right of disposal.

	2009				
	Land, land rights and buildings EUR m	Plant and machinery EUR m	Other equipment, furniture and fixtures EUR m	Payments on account and assets under construction EUR m	**Total** EUR m
	675.0	**260.8**	**519.4**	**2.8**	**1,458.0**
	11.2	4.6	25.3	0.0	41.1
	1.4	1.8	3.9	0.1	7.2
	22.7	12.5	33.8	16.8	85.8
	1.2	1.6	−4.1	−4.9	−6.2
	−7.7	−3.4	−61.7	−0.3	−73.1
	703.8	**277.9**	**516.6**	**14.5**	**1,512.8**
	317.7	**193.2**	**346.9**	**0.0**	**857.8**
	5.3	3.2	15.0	0.0	23.5
	−0.4	0.0	−2.1	0.0	−2.5
	26.1	18.6	46.1	0.0	90.8
	0.0	−0.6	−3.9	0.0	−4.5
	−4.3	−3.1	−52.1	0.0	−59.5
	0.0	0.0	0.0	0.0	0.0
	344.4	**211.3**	**349.9**	**0.0**	**905.6**
	359.4	**66.6**	**166.7**	**14.5**	**607.2**
	35.7	*0.9*	*3.6*	*0.0*	*40.2*

(13) Financial assets

	2008					
	Associates accounted for using the equity method EUR m	Available-for-sale financial assets EUR m	Financial assets measured at fair value through profit or loss EUR m	Loans to investments EUR m	Other loans EUR m	Total EUR m
Accumulated historical cost **As at 01/01**	**54.9**	**44.5**	**51.4**	**6.3**	**48.3**	**205.4**
Translation differences	0.0	–0.2	0.0	0.0	0.0	–0.2
Changes to consolidated group	0.0	0.5	0.0	0.0	0.1	0.6
Changes in fair value	0.0	–3.3	–24.5	0.0	0.0	–27.8
Additions	3.0	17.8	0.0	2.3	23.6	46.7
Reclassifications	0.0	1.2	0.0	–0.9	–16.7	–16.4
Disposals	–6.7	–0.9	0.0	0.0	–0.8	–8.4
As at 31/12	**51.2**	**59.6**	**26.9**	**7.7**	**54.5**	**199.9**
Accumulated depreciation and amortisation **As at 01/01**	**0.0**	**2.8**	**0.0**	**0.0**	**0.7**	**3.5**
Translation differences	0.0	0.0	0.0	0.0	0.0	0.0
Changes to consolidated group	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.0	0.0	0.6	0.6
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Write-ups	0.0	–1.5	0.0	0.0	0.0	–1.5
As at 31/12	**0.0**	**1.3**	**0.0**	**0.0**	**1.3**	**2.6**
Carrying amount as at 31/12	**51.2**	**58.3**	**26.9**	**7.7**	**53.2**	**197.3**

Available-for-sale financial assets contain investments in entities that are not listed on the public stock exchange and over which the group has neither control nor the ability to exercise a significant influence.

If there is no active market for these financial assets, they are measured at amortised cost. As at 31 December 2009, investments in entities not listed on a public exchange of EUR 50.7m (previous year EUR 46.8m) were measured at cost for that reason.

Associates accounted for using the equity method consist primarily of the investments in RepscoPharmexx SAS, France.

The share of the net profit of all associates accounted for using the equity method allocable to Celesio, including amortisation of intangible assets identified during the purchase price allocation, amounts to EUR 0.5m. In 2008 the share in net profit amounted to EUR –0.1m. The carrying amount of the associates accounted for using the equity method comes to EUR 20.7m (previous year EUR 51.2m). The goodwill in these associates amounts to EUR 0.0m (previous year EUR 37.7m). These entities generated revenue of EUR 90.3m in the 2009 fiscal year (previous year EUR 270.9m) and net profit of EUR 3.8m (previous year EUR 3.0m). Total assets come to EUR 39.7m (previous year EUR 199.8m) and total liabilities stand at EUR 23.4m (previous year EUR 144.2m).

2009					
Associates accounted for using the equity method EUR m	Available-for-sale financial assets EUR m	Financial assets measured at fair value through profit or loss EUR m	Loans to investments EUR m	Other loans EUR m	**Total** EUR m
51.2	**59.6**	**26.9**	**7.7**	**54.5**	**199.9**
0.0	0.1	0.0	0.0	0.0	0.1
11.3	0.4	0.2	2.6	3.3	17.8
0.0	2.2	6.2	0.0	0.0	8.4
6.2	8.4	0.0	3.4	22.3	40.3
0.0	0.0	0.0	–0.5	–17.9	–18.4
–48.0	–0.2	0.0	–0.6	–16.6	–65.4
20.7	**70.5**	**33.3**	**12.6**	**45.6**	**182.7**
0.0	**1.3**	**0.0**	**0.0**	**1.2**	**2.6**
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
0.0	1.5	0.0	0.0	2.5	4.0
0.0	0.0	0.0	0.0	0.4	0.4
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	–0.4	–0.4
0.0	**2.8**	**0.0**	**0.0**	**3.8**	**6.6**
20.7	**67.7**	**33.3**	**12.6**	**41.8**	**176.1**

(14) Deferred taxes

Depending on their origin, deferred tax assets and liabilities can be allocated to the following items in the statement of financial position:

	31/12/2008		**31/12/2009**	
	Assets EUR m	Liabilities EUR m	Assets EUR m	Liabilities EUR m
Intangible assets	0.7	79.5	0.8	91.2
Property, plant and equipment	3.0	45.5	3.7	48.4
Other non-current assets	3.1	0.3	3.4	0.1
Current assets	18.0	0.9	34.8	16.6
Financial liabilities	5.6	0.3	4.5	12.1
Provisions	30.3	1.4	55.6	0.6
Sundry liabilities	39.0	20.4	48.2	3.1
Sum of deferred taxes on temporary differences	**99.7**	**148.3**	**151.0**	**172.1**
Deferred taxes on unused tax losses	8.0	0.0	45.9	0.0
Less offsetting	– 60.0	– 60.0	– 82.3	– 82.3
Total	**47.7**	**88.3**	**114.6**	**89.8**

This includes deferred tax liabilities totalling EUR 5.8m that have been offset against other comprehensive income (previous year tax liability of EUR 3.6m). These are a result of accounting for the convertible bond, changes without any effect on income in the value of available-for-sale financial assets and derivative financial instruments used for cash flow hedges. More information on deferred taxes can be found in note (8).

(15) Inventories

	31/12/2008 EUR m	**31/12/2009** EUR m
Raw materials, consumables and supplies	4.2	2.2
Finished goods and merchandise	1,448.9	1,621.6
Payments on account	0.1	0.5
Total	**1,453.2**	**1,624.3**

Inventories were written down by EUR 13.0m in the reporting period (previous year EUR 18.0m). These write-downs were offset by utilisations of valuation allowances of EUR 8.5m (previous year EUR 8.6m). The carrying amount of inventories measured at net realisable value came to EUR 40.8m (previous year EUR 77.2m). Other than the customary retention of title clauses, there were no collateral assignments of inventories.

(16) Non-current assets held for sale

In February 2009, a contract was made for the European-wide outsourcing of IT infrastructure effective 1 April 2009. The contract has a term of seven years. The non-current assets held for sale reported at the end of the reporting period relate to computer hardware. A sale is expected within one year. Non-current assets held for sale pertain to the Wholesale segment and amount to EUR 0.2m.

(17) Receivables and other assets

At the end of the reporting period, current receivables and other assets are as follows:

	31/12/2008 EUR m	**31/12/2009** EUR m
Trade receivables	**2,487.1**	**2,558.2**
Income tax receivables	**7.5**	**25.4**
Receivables from affiliates	1.1	7.6
Receivables from associates and other investments	8.0	2.4
Derivative financial instruments	23.5	3.2
VAT and other tax receivables	29.4	41.2
Other assets	173.0	242.3
Other receivables and other assets	**235.0**	**296.7**
Total	**2,729.6**	**2,880.3**

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

Derivative financial instruments are used primarily to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in more detail in note (25, g).

Receivables from affiliates and receivables from associates and other investments were neither impaired nor past due at the end of the reporting period.

Bad debt allowances developed as follows over the reporting period:

	2008 EUR m	**2009** EUR m
As at 01/01	**79.1**	**72.9**
Additions	17.9	32.7
Utilisation	−2.8	−13.7
Reversals	−15.3	−13.0
Currency, consolidated group and other changes	−6.0	43.9
As at 31/12	**72.9**	**122.8**

The aging structure of the receivables that are not impaired but overdue at the end of the reporting period is presented below:

	31/12/2008 EUR m	**31/12/2009** EUR m
Carrying amount of trade receivables	**2,487.1**	**2,558.2**
Carrying amount of impaired trade receivables	65.5	104.8
Carrying amount of trade receivables that are not impaired	2,421.6	2,453.4
Carrying amount of trade receivables that are not impaired or overdue	2,164.4	2,211.7
Carrying amount of trade receivables that are not impaired but are overdue	257.2	241.7
Of which < 3 months	*224.7*	*198.1*
Of which 3 – 6 months	*21.4*	*22.6*
Of which 6 – 12 months	*8.7*	*14.1*
Of which > 12 months	*2.4*	*6.9*

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 development of allowances on other receivables reported under other assets is as follows:

	2008 EUR m	**2009** EUR m
As at 01/01	**10.1**	**10.3**
Additions	0.7	3.0
Utilisation	0.0	−0.9
Reversals	0.0	−0.4
Currency, consolidated group and other changes	−0.5	1.6
As at 31/12	**10.3**	**13.6**

The aging structure of other receivables reported under other assets which were not impaired at the end of the reporting period is presented below:

	31/12/2008 EUR m	**31/12/2009** EUR m
Carrying amount of receivables reported under other assets	**131.3**	**194.7**
Carrying amount of impaired receivables reported under other assets	0.6	1.1
Carrying amount of receivables reported under other assets that are not impaired	130.7	193.6
Carrying amount of receivables reported under other assets that are not impaired and not overdue	113.5	164.2
Carrying amount of receivables reported under other assets that are not impaired but are overdue	17.2	29.4
Of which < 3 months	*11.9*	*22.1*
Of which 3 – 6 months	*2.1*	*2.2*
Of which 6 – 12 months	*1.7*	*2.4*
Of which > 12 months	*1.5*	*2.7*

(18) Cash and cash equivalents

	31/12/2008 EUR m	31/12/2009 EUR m
Cash on hand	4.0	3.7
Cash at banks	49.4	124.0
Total	**53.4**	**127.7**

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

Cash at banks is only maintained at selected banks. To mitigate the risk, deposits are only kept for short periods. No bank deposits have been assigned as collateral, either for existing loans or approved lines of credit.

(19) Equity

The issued capital of Celesio AG is split into 170,100,000 no-par shares. Authorised capital of EUR 43.5m has been approved until 25 April 2012 (authorised capital 2007) and EUR 65.3m until 30 April 2014 (authorised capital 2009). The capital stock can be contingently increased by up to EUR 21.8m, split into 17,010,000 no-par registered shares (contingent capital 2009).

In the reporting period, an ordinary dividend of EUR 0.48 per no-par share was paid for the previous year.

Convertible bond On 20 October 2009, Celesio Finance B.V. issued a convertible bond with a face value of EUR 350.0m guaranteed by Celesio AG. The proceeds from issuing the bond were paid out to Celesio Finance B.V. on 29 October 2009. The bond is split into EUR 50,000 tranches, has a coupon of 3.75% per year – based on the outstanding amount – and matures on 29 October 2014 (maturity date) if not repaid, converted or repurchased in the meantime. The convertible bond grants the investor a right to convert the bond into no-par shares in Celesio AG. The conversion price stood at EUR 22.49, both on the date the bond was issued and at the end of the reporting period. According to the terms of the bond, the conversion price will be adjusted during the term of the bond to account for extraordinary events (capital increase, stock splits etc.). The conversion rights granted by the bond correspond to 15.6m shares to be issued from contingent capital. The conversion rights less the share in transaction costs and the related deferred tax expense increased capital reserves in the reporting period by EUR 32.2m.

Reserves In addition to the reserves carried by Celesio AG, the reserves also contain the retained profits generated by subsidiaries since their first-time consolidation and the effects of consolidation entries. Minority interests are measured on the net assets of the subsidiaries concerned after being adjusted to the accounting policies of the Celesio Group.

Other comprehensive income contains changes to equity arising from marking to market financial instruments used for cash flow hedges. These amount to EUR – 13.3m (previous year EUR – 22.0m). In addition, this item also includes changes in the fair value of securities categorised as available-for-sale financial assets which totalled EUR – 0.6m in the reporting period (previous year EUR – 2.8m). An amount of EUR 27.4m (previous year EUR 0.0) was reclassified from the reserves to the interest expense in profit or loss in the fiscal year.

Capital management The prime objective of the Group's capital management is to ensure that it maintains the company's financial flexibility to allow for investments that will appreciate in value while simultaneously ensuring healthy balance sheet ratios.

The group monitors its capital based on the equity ratio, gearing and the interest coverage ratio. This does not involve any external covenants which the group would have to observe.

	31/12/2008 EUR m	**31/12/2009** EUR m
Equity	2,269.6	2,347.4
/ Total assets	7,523.3	8,066.5
Equity ratio (%)	**30.2**	**29.1**
Net financial debt	2,205.2	2,114.9
/ Equity	2,269.6	2,347.4
Gearing	**0.97**	**0.90**
EBIT	256.2	237.6
/ Financial result	131.0	122.3
Interest coverage ratio	**2.0**	**1.9**

(20) Pension provisions

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

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

	2008 %	**2009** %
Discount rate by currency		
EUR	6.0	5.0 – 5.1
NOK	4.0	4.2
GBP	6.5	5.4
Future salary increases	1.5 – 4.0	1.8 – 4.5
Future pension increases	1.5 – 3.3	1.8 – 3.5
Expected return on plan assets	4.0 – 6.8	3.0 – 8.1

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

	2008 EUR m	**2009** EUR m
Service cost	15.1	16.6
Past service cost	2.7	0.0
Amortisation of actuarial gains and losses	0.2	2.7
Interest expense	28.1	28.3
Expected return on plan assets	−23.4	−21.3
Curtailments/settlements and other changes	−0.5	−1.6
Total	**22.2**	**24.7**

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.

Pension provisions developed as follows in the reporting period:

	2008 EUR m	**2009** EUR m
Provisions for pension liabilities As at 01/01	**136.4**	**134.4**
Pension expenses	22.2	24.7
Pension payments	−16.1	−19.9
Currency changes	−7.5	3.6
Consolidated group and other changes	−0.6	0.3
Provisions for pension liabilities As at 31/12	**134.4**	**143.1**

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

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

	2008 EUR m	**2009 EUR m**
Present value of funded obligations	418.8	506.3
Fair value of plan assets	– 299.2	– 355.8
Funded status	**119.6**	**150.5**
Present value of unfunded obligations	100.5	112.2
Unrecognised actuarial gains/losses (accumulated)	– 85.7	– 119.6
Pension provisions as at 31/12	**134.4**	**143.1**

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

	2008 EUR m	**2009 EUR m**
Defined benefit obligation As at 01/01	**573.4**	**519.3**
Service cost	15.1	16.6
Interest expense	28.1	28.3
Contributions by plan participants	0.3	0.3
Benefits paid	– 20.0	– 24.3
Unrecognised actuarial gains/losses	22.5	25.9
Past service cost	2.7	0.0
Curtailments and settlements	– 0.5	– 1.6
Currency changes	– 100.3	52.7
Consolidated group and other changes	– 2.0	1.3
Defined benefit obligation As at 31/12	**519.3**	**618.5**

	2008 EUR m	**2009 EUR m**
Fair value of plan assets As at 01/01	**412.9**	**299.2**
Expected return on plan assets	23.4	21.3
Contributions by employer	11.1	13.2
Contributions by plan participants	0.3	0.3
Payments from plan assets	– 15.0	– 17.6
Unrecognised actuarial gains/losses	– 45.0	2.5
Currency changes	– 87.5	36.1
Consolidated group and other changes	– 1.0	0.8
Fair value of plan assets As at 31/12	**299.2**	**355.8**

Developments over a five-year period can be summarised as follows:

	2005 EUR m	2006 EUR m	2007 EUR m	2008 EUR m	**2009** EUR m
Defined benefit obligation	569.9	609.2	573.4	519.3	618.5
Fair value of plan assets	401.9	431.5	412.9	299.2	355.8
Deficit	**168.0**	**177.7**	**160.5**	**220.1**	**262.7**

The plan assets consist of the following components:

	2008 EUR m	**2009** EUR m
Equity instruments	85.3	80.9
Fixed-interest securities	189.0	214.2
Real estate	18.8	22.5
Other	6.1	38.2
Fair value of plan assets as at 31/12	**299.2**	**355.8**

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

	2005 EUR m	2006 EUR m	2007 EUR m	2008 EUR m	**2009** EUR m
Expected return on plan assets	21.4	23.7	25.5	23.4	21.3
Actual return on plan assets	48.7	25.9	5.7	– 15.4	23.8

The experience adjustments with regard to the defined benefit obligation and plan assets developed as follows:

	2007 EUR m	2008 EUR m	**2009** EUR m
Experience adjustments of the defined benefit obligation	3.3	2.5	– 5.5
Experience adjustments of plan assets	– 19.8	– 38.8	2.5

For the defined contribution pension plan there were no further obligations for Celesio Group companies at the end of the reporting period other than the payment of the defined contribution to external funds. The expenses from ongoing contributions amounted to EUR 13.4m in the reporting period (previous year EUR 12.2m). In addition, employer contributions were made to state pension funds. The employer's direct contribution amounted to EUR 33.7m (previous year EUR 32.6m).

(21) Other provisions

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

	2008		2009							
	Carrying amount as at 31/12 EUR m	Of which due within 1 year EUR m	Changes in currency and in the consolidated group EUR m	Additions EUR m	Utilisations EUR m	Reversals EUR m	Unwinding EUR m	Reclassifications EUR m	Carrying amount as at 31/12 EUR m	Of which due within 1 year EUR m
Provisions for obligations to personnel	77.0	44.1	60.4	46.2	–44.7	–2.6	2.2	0.0	138.5	71.5
Provisions for litigation and other legal risks	5.5	5.5	62.1	0.9	–0.5	–0.7	1.2	0.0	68.5	20.6
Other provisions	61.6	59.8	29.0	35.9	–28.1	–2.7	0.1	0.0	95.8	79.2
Total	**144.1**	**109.4**	**151.5**	**83.0**	**–73.3**	**–6.0**	**3.5**	**0.0**	**302.8**	**171.3**

Provisions for obligations to personnel relate primarily to short-term bonuses and severance payments as well as long-term claims arising from the German phased retirement scheme (Altersteilzeit) and long-service bonuses. Moreover, provisions include provisions for ongoing litigation and contingent liabilities for pending legal disputes regarding obligations to personnel.

EUR 1.0m of personnel obligations relates to share-based payment programmes. These cash-settled share-based payment transactions consist of performance cash plans for the Management Board and a share-based payment programme in which employees of a subsidiary were offered the opportunity of purchasing shares in entities at face value. At the same time, options were entered into allowing shares to be repurchased or sold back at a predefined price once certain conditions are met. The exercise price of the options rises the longer they are held. This results in a progressive addition at the most likely exercise price. The average residual term of share-based payment programmes is 5.8 years.

The change in personnel obligations from share-based payment programmes is as follows:

	2009 EUR m
As at 01/01/2009	**0.0**
Additions due to changes in the consolidated group	2.2
Granted	0.2
Exercised	– 1.4
Forfaited	0.0
Expired	0.0
As at 31/12/2009	**1.0**
Exercisable	1.0

The provisions for litigation and other legal risks relate to legal expenses for court costs, ongoing litigation and contingent liabilities for pending litigation. They do not include obligations to personnel and income tax liabilities.

Other provisions contain obligations from real estate such as the obligation to restore rented buildings and rooms or pending losses from real estate that is no longer used but rented under non-cancellable rental agreements as well as restructuring measures, related chiefly to the reorganisation of the branch network.

In addition, contingent liabilities for legal and tax risks were recognised primarily in the course of the business combination with Panpharma. These are presented under provisions for obligations to personnel and provisions for litigation and other legal risks in accordance with the underlying issues. Due to the uncertainty about the expected outflow of cash, the risk was recognised at the amount expected to be incurred.

(22) Liabilities

	31/12/2008				**31/12/2009**			
	Due in			Carrying amount	Due in			**Carrying amount**
	1 year EUR m	1 – 5 years EUR m	More than 5 years EUR m	EUR m	1 year EUR m	1 – 5 years EUR m	More than 5 years EUR m	EUR m
Financial liabilities								
Liabilities to banks	115.5	578.0	695.4	1,388.9	120.7	659.5	242.5	1,022.7
Securitised debt instruments	111.4	444.8	233.5	789.7	86.5	980.3	25.0	1,091.8
Lease liabilities	3.4	9.0	8.2	20.6	4.7	10.7	5.7	21.1
Other financial liabilities	3.6	9.9	3.8	17.3	10.4	18.6	3.5	32.5
	233.9	**1,041.7**	**940.9**	**2,216.5**	**222.3**	**1,669.1**	**276.7**	**2,168.1**
Trade payables and other liabilities								
Trade payables	2,135.9	0.0	0.0	2,135.9	2,312.4	0.0	0.0	2,312.4
Income tax liabilities	54.8	0.0	0.0	54.8	77.8	0.0	0.0	77.8
Liabilities to affiliates	1.2	0.0	0.0	1.2	0.4	0.0	0.0	0.4
Liabilities to associates and other investments	1.5	0.0	0.0	1.5	2.6	0.0	0.0	2.6
Other liabilities	459.5	17.5	0.0	477.0	519.2	102.9	0.0	622.1
	2,652.9	**17.5**	**0.0**	**2,670.4**	**2,912.4**	**102.9**	**0.0**	**3,015.3**
Liabilities	**2,886.8**	**1,059.2**	**940.9**	**4,886.9**	**3,134.7**	**1,772.0**	**276.7**	**5,183.4**

(23) Financial liabilities

Collateral for financial liabilities has mainly been assigned to special purpose lease companies for long-term leases of real estate. In these cases, collateral equal to the secured loans of EUR 67.4m (previous year EUR 71.7m) has been assigned.

a) Liabilities to banks Liabilities to banks consist primarily of long-term bilateral credit lines. There is an additional liquidity reserve in the form of a syndicated loan. In addition, special purpose lease entities have arranged fixed-interest loans of EUR 79.9m to finance real estate (previous year EUR 78.8m). The market value of these fixed interest loans is EUR 74.8m (previous year EUR 74.8m). Liabilities to banks are broken down by the term of the financing.

b) Securitised debt instruments In the course of diversifying and optimising its financing structure, Celesio placed promissory notes in previous years and in 2009. It also placed a convertible bond for the first time on 29 October 2009. Explanatory notes on the convertible bond are presented in note (19). As at 31 December 2009 these securitised debt instruments had the following features:

	Promissory notes		Convertible bond	
	31/12/2008 EUR m	**31/12/2009 EUR m**	31/12/2008 EUR m	**31/12/2009 EUR m**
Nominal values	790.7	790.9	0.0	350.0
Of which at fixed interest	*123.5*	*130.5*	*0.0*	*350.0*
Of which at floating rates	*667.2*	*660.4*	*0.0*	*0.0*
Market values	842.8	813.5	0.0	367.2
Of which at fixed interest	*140.3*	*143.4*	*0.0*	*367.2*
Of which at floating rates	*702.5*	*670.1*	*0.0*	*0.0*
Currencies	EUR, GBP	EUR, GBP	–	EUR
Maturities	5 – 7 years	3 – 7 years	–	5 years
Effective interest rates	3.33 – 6.11%	2.12 – 5.42%	–	3.75%

The new borrowed funds were used for general financing purposes.

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

	31/12/2008 EUR m	**31/12/2009 EUR m**
Minimum lease payments	25.7	25.0
Due within 1 year	*4.3*	*5.5*
Due within 2 to 5 years	*12.8*	*12.9*
Due in more than 5 years	*8.6*	*6.6*
Interest portion	– 5.1	– 3.9
Net present value	**20.6**	**21.1**

(24) Trade payables and other liabilities

Trade payables contain payments on account of orders of EUR 44.4m (previous year EUR 50.9m).

Other liabilities comprise:

	31/12/2008 EUR m	**31/12/2009 EUR m**
Personnel liabilities	112.9	138.5
Other tax liabilities	32.8	54.2
Outstanding invoices	123.3	120.0
Derivative financial instruments	66.7	69.2
Interest payable	13.4	8.6
Other liabilities	127.9	231.6
Total	**477.0**	**622.1**

Derivative financial instruments are used to hedge interest rates and foreign exchange rates. Derivative financial instruments are discussed in more detail in note (25, g).

(25) Financial risk management and derivative financial instruments

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

The use of derivatives is subject to uniform group guidelines set by the Management Board, compliance of which is monitored constantly. These include the functional segregation of trading, handling and posting and the authorisation of just a few qualified employees to enter into derivative financial instruments. 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.

Other disclosures on risk concentrations and diversification of risks can be found in the risk and opportunities report of the group management report.

b) Interest rate risks Interest rate risks are understood as the negative impact of fluctuating interest rates on the net profit of the group. A distinction must be made between fixed-interest and floating-rate financial instruments. For fixed-interest financial instruments, a fixed market interest rate is agreed on for the full term of the derivative. The risk is that when market interest rates fluctuate, the market price of the financial instrument will change (fair value risk due to changes in interest rates). The market price is based on the present value of future payments (interest payments plus repayment of principal) discounted using the market interest rate prevailing at the end of the reporting period. The fair value risk due to changes in interest rates will therefore lead to a gain or loss if the fixed-interest instrument is sold before maturity.

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

Interest caps, interest swaps and interest collars were used in the past 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 floating interest rate in the underlying transaction for the entire term of the underlying instrument. In an interest collar, both an upper and a lower limit are agreed on. The decision on whether to use derivative financial instruments is based on the projected interest rate risk and debt. The interest 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 end of the reporting period would have had on the pre-tax profit and on equity. It is assumed here that the exposure at the end of the reporting period is representative of the year as a whole and that the assumed change in the market interest rate at the end of the reporting period was possible.

- A hypothetical increase of one percentage point in the EUR-market interest rate as at 31 December 2009 would have resulted in a lower pre-tax profit of EUR 1.9m (previous year EUR 6.6m). A hypothetical decrease of one percentage point in the EUR-market interest rate as at 31 December 2009 would have resulted in a higher pre-tax profit of EUR 2.1m (previous year EUR 6.9m). An increase of one percentage point in the EUR-market interest rate as at 31 December 2009 would have led to a rise in equity of EUR 6.8m (previous year EUR 7.7m). A decrease of one percentage point in the EUR-market interest rate would have led to a decrease in equity of EUR 6.8m (previous year EUR 6.9m).
- A hypothetical increase of one percentage point in the GBP-market interest rate as at 31 December 2009 would have resulted in a lower pre-tax profit of EUR 3.3m (previous year EUR 2.0m). A hypothetical decrease of one percentage point in the GBP-market interest rate would have resulted in a higher pre-tax profit of EUR 3.3m (previous year EUR 2.0m). An increase of one percentage point in the GBP-market interest rate as at 31 December 2009 would have led to a rise in equity of EUR 11.1m (previous year EUR 12.3m). A decrease of one percentage point in the GBP-market interest rate would have led to a decrease in equity of EUR 12.2m (previous year EUR 13.7m).

The sensitivity analysis with regard to the interest risk as at 31 December 2009 is not representative of the interest risk during the fiscal year. The convertible bond of EUR 350.0m issued on 29 October 2009 reduces the exposure to floating interest rates and therefore also the sensitivity to changes in interest rates.

c) Currency risks Currency risks refer to the possible write-down of items in the statement of financial position and any forward transactions due to fluctuations in exchange rates. The majority of the foreign exchange risks are a result of the development of the euro against the pound sterling.

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

Forward exchange contracts and currency swaps were used in the 2009 fiscal year to hedge against foreign exchange exposures. 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 basis for the sensitivity analysis of currency risks includes the primary financial instruments at the end of the reporting period which group entities hold in currencies other than the functional currency.

The Celesio Group has concentrated its mid-term and long-term borrowings at Celesio Finance B.V. based in the Netherlands. This entity takes out loans in currencies other than euro and extends them to other entities in the group in accordance with their financing requirements. According to IFRS 7.40 these loans must be included in the assessment of the currency risk as they are not denominated in the functional currency of the group, even though from the perspective of Celesio Finance B.V. or even from the group as a whole there is no currency risk involved.

Without adjusting for loans denominated in currencies other than the functional currency, a 10% appreciation or depreciation of pound sterling against the euro would have increased pre-tax profit by EUR 59.4m or decreased it by EUR 59.3m respectively (previous year increased or decreased respectively by EUR 72.5m).

Adjusted for these loans, a 10% appreciation or depreciation of pound sterling against the euro would have increased or decreased the pre-tax profit by EUR 14.0m or EUR 14.1m respectively (previous year an increase or decrease of EUR 0.1m).

A significant portion of this adjusted currency risk sensitivity analysis results from the possible market price fluctuations of currency swaps. Celesio uses currency swaps to eliminate the economic currency risk associated with intercompany loans denominated in a different currency.

A 10% appreciation or depreciation of the pound sterling against the euro as at 31 December 2009 would have increased or decreased the translation reserves recognised in other comprehensive income by EUR 1.0m (previous year EUR 0.6m).

The indirect impact of foreign exchange fluctuations on operating activities is not considered in the sensitivity analysis.

This analysis assumes that the exchange rates change by the percentage stated at the end of the reporting period. Movements over time and the changes in other market parameters observed in reality are not considered in this analysis.

d) Credit risk Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Due to its current customer structure, the bad debt risk in the Celesio group can be classified as relatively low as the largest customers are the state-run healthcare systems and therefore enjoyed a very high credit standing in the past. Due to the large number of business relationships there is no significant concentration of risk either. The theoretical maximum credit risk corresponds to the carrying amounts of the receivables and financial assets presented in note (17) and in the table allocating the assets to the IAS 39 categories on page 170. Celesio mitigates the credit risk from financial instruments by only entering into such contracts with selected partners. The maximum theoretical risk of default on current derivative financial instruments equals the positive fair values of the instruments. At the end of the reporting period these came to EUR 3.2m (previous year EUR 23.5m).

e) Liquidity risk Liquidity risk is understood as the risk of the Celesio Group not being in the position to meet its ongoing payment obligations at any time. The liquidity risk is managed by means of centralised financial planning which provides the required finance for operations and capital expenditures. Liquidity management takes the form of rolling liquidity planning taking existing lines of credit into account. The Celesio Group has a significant number of unused long-term confirmed lines of credit and bank guarantees and can make use of these at any time. In addition, the group has a syndicated credit line of EUR 600m on which it can draw. This line of credit, which expires on 11 February 2013, had not been drawn on at the end of the reporting period. The Celesio Group seeks to have appropriate free credit lines in reserve in relation to the group's indebtedness.

f) Other price risks The risk of share price fluctuations primarily relates to the investment in Andreae-Noris Zahn AG (ANZAG). A hypothetical increase (decrease) of 10% in the share price of ANZAG would lead to an increase (decrease) of EUR 3.3m (previous year 2.7m) in the pre-tax profit and an increase (decrease) of EUR 0.4m in other comprehensive income (previous year EUR 0.4m). Other than the above, the Celesio Group is not exposed to any material risks from other price fluctuations.

g) Hedges Hedges are used by the Celesio Group to secure both the net realisable value of items in the statement of financial position and future cash flows. This includes currency hedges to secure the planned purchase of merchandise as well as capital expenditures and disposals.

Cash flow hedge The Celesio Group obtains its finance primarily from long-term bilateral lines of credit, promissory notes and a convertible bond. The bilateral lines of credit are generally drawn on a revolving basis with the interest rate fixed for the short term. As at 31 December 2009 the contractual due dates of the bilateral lines of credit and promissory notes that had been drawn on and constituted the hedged items in a hedge relationship were as follows:

	2008		**2009**	
	Nominal value EUR m	Due	Nominal value EUR m	Due
	78.4	15/09/2009	112.6	15/12/2010
	10.5	15/03/2010	39.9	31/01/2011
	63.0	15/12/2010	100.0	15/06/2012
	16.0	15/09/2011	28.2	15/12/2012
	25.0	31/01/2012	25.5	31/01/2013
	100.0	15/06/2012	160.0	31/01/2013
	300.6	31/01/2013	67.6	15/03/2013
	63.0	15/03/2013	50.0	15/12/2013
	50.0	15/12/2013	176.3	31/01/2014
	252.5	31/01/2014	25.0	15/03/2014
	184.0	15/06/2014	100.0	15/06/2014
	68.6	31/01/2015	174.5	31/01/2015
			25.0	15/03/2016
Total	**1,211.6**		**1,084.6**	

Losses of EUR 17.8m were made in the reporting period in connection with cash flow hedges (previous year losses of EUR 55.6m) which have been recorded under other comprehensive income. During the fiscal year losses of EUR 25.9m (previous year EUR 0.0m) from previous years were transferred from equity to interest expenses in the income statement. Of this amount EUR 4.2m was recorded in interest expenses due to the dedesignation of hedge instruments following the extinguishment of the underlying. In addition, EUR 1.2m was reclassified from other comprehensive income by offsetting it against the cost of an investment in an affiliate (previous year EUR 0.0m).

Fair value hedge No fair value hedges were in place in the 2009 fiscal year. In the previous year 2008, there was an impact on earnings of EUR – 0.6m from adjusting the carrying amount of the hedged items that was posted to the other financial result. The contrary changes in the fair value of the hedging instruments amounted to EUR 0.6m, which was also posted to the other financial result.

Summary of derivative financial instruments

Derivative financial instruments breaks down as follows:

	31/12/2008			**31/12/2009**		
	Nominal value EUR m	Fair value EUR m	Of which cash flow hedges EUR m	**Nominal value** EUR m	**Fair value** EUR m	**Of which cash flow hedges** EUR m
Assets						
Interest instruments	570.0	2.0	2.0	570.0	1.2	1.2
Currency instruments	260.6	21.5	0.0	207.0	2.0	0.0
Total assets	**830.6**	**23.5**	**2.0**	**777.0**	**3.2**	**1.2**
Liabilities						
Interest instruments	1,022.4	66.6	66.4	995.3	69.0	63.8
Currency instruments	55.2	0.1	0.0	50.4	0.2	0.1
Total liabilities	**1,077.6**	**66.7**	**66.4**	**1,045.7**	**69.2**	**63.9**

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. As at 31 December 2009 the values were as follows:

	Cash flows 2010 EUR m	**Cash flows 2011** EUR m	**Cash flows 2012 – 2014** EUR m	**Cash flows 2015 – 2019** EUR m	**Cash flows 2020 onwards** EUR m
Primary financial liabilities and financial guarantees					
Liabilities to banks	–235.0	–115.5	–653.5	–200.8	0.0
Securitised debt instruments	–116.3	–51.2	–1,073.8	–29.6	0.0
Trade payables	–2,312.4	0.0	0.0	0.0	0.0
Liabilities to affiliates	–0.4	0.0	0.0	0.0	0.0
Liabilities to associates and other investments	–2.6	0.0	0.0	0.0	0.0
Lease liabilities	–5.4	–4.5	–7.9	–5.9	0.0
Other financial liabilities	–10.6	–10.4	–7.6	–4.3	–1.4
Financial guarantees[1)]	–103.0	–46.1	–64.5	–37.4	–15.0
	–2,785.7	**–227.7**	**–1,807.3**	**–278.0**	**–16.4**
Derivative financial assets					
Derivatives designated for hedge accounting	0.0	0.0	0.0	0.0	0.0
Derivatives not designated for hedge accounting	2.6	0.0	0.0	0.0	0.0
	2.6	**0.0**	**0.0**	**0.0**	**0.0**
Derivative financial liabilities					
Derivatives designated for hedge accounting	–29.9	–25.9	–48.5	–32.3	0.0
Derivatives not designated for hedge accounting	–4.2	–2.8	–0.5	0.0	0.0
	–34.1	**–28.7**	**–49.0**	**–32.3**	**0.0**

[1)] The financial guarantees have been disclosed in 2009 for the first time owing to an amendment of IFRS 7.

As at 31 December 2008 the values were as follows:

	Cash flows 2009 EUR m	Cash flows 2010 EUR m	Cash flows 2011 – 2013 EUR m	Cash flows 2014 – 2018 EUR m	Cash flows 2019 onwards EUR m
Primary financial liabilities					
Liabilities to banks	–235.7	–49.9	–626.7	–743.4	–1.5
Securitised debt instruments	–140.3	–100.5	–420.9	–239.3	0.0
Trade payables	–2,135.9	0.0	0.0	0.0	0.0
Liabilities to affiliates	–1.2	0.0	0.0	0.0	0.0
Liabilities to associates and other investments	–1.5	0.0	0.0	0.0	0.0
Lease liabilities	–4.4	–4.2	–8.8	–8.6	0.0
Other financial liabilities	–4.3	–0.7	–30.4	–3.3	–1.5
	–2,523.3	**–155.3**	**–1,086.8**	**–994.6**	**–3.0**
Derivative financial assets					
Derivatives designated for hedge accounting	0.3	0.6	2.1	0.3	0.0
Derivatives not designated for hedge accounting	22.4	0.0	0.0	0.0	0.0
	22.7	**0.6**	**2.1**	**0.3**	**0.0**
Derivative financial liabilities					
Derivatives designated for hedge accounting	–5.3	–3.9	–12.2	–17.1	0.0
Derivatives not designated for hedge accounting	–0.4	–0.3	–0.8	0.0	0.0
	–5.7	**–4.2**	**–13.0**	**–17.1**	**0.0**

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

The gross cash flows have been presented for derivatives that are to be settled on a gross basis in cash. However, from an economic perspective, the derivatives will be settled on a net basis.

Reconciliation of financial instruments to IAS-39 categories

	2008							
	Financial assets measured at fair value through profit or loss EUR m	Financial assets held for trading EUR m	Loans and receivables EUR m	Available-for-sale financial assets EUR m	No IAS 39 category EUR m	Outside the scope of IFRS 7 EUR m	Carrying amounts EUR m	Fair value EUR m
Assets								
Available-for-sale financial assets	0.0	0.0	0.0	58.3	0.0	0.0	58.3	58.3
Financial assets measured at fair value through profit or loss	26.9	0.0	0.0	0.0	0.0	0.0	26.9	26.9
Loans to investments	0.0	0.0	7.7	0.0	0.0	0.0	7.7	7.7
Other loans	0.0	0.0	53.1	0.0	0.1	0.0	53.2	53.2
Other financial assets	**26.9**	**0.0**	**60.8**	**58.3**	**0.1**	**0.0**	**146.1**	**146.1**
Trade receivables	**0.0**	**0.0**	**2,487.1**	**0.0**	**0.0**	**0.0**	**2,487.1**	**2,487.1**
Receivables from affiliates	0.0	0.0	1.1	0.0	0.0	0.0	1.1	1.1
Receivables from associates and other investments	0.0	0.0	8.0	0.0	0.0	0.0	8.0	8.0
Derivative financial instruments	0.0	21.5	0.0	0.0	2.0	0.0	23.5	23.5
Other assets	0.0	0.0	136.5	0.0	2.8	63.1	202.4	202.4
Other receivables and other assets	**0.0**	**21.5**	**145.6**	**0.0**	**4.8**	**63.1**	**235.0**	**235.0**
Cash and cash equivalents	**0.0**	**0.0**	**53.4**	**0.0**	**0.0**	**0.0**	**53.4**	**53.4**

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

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 on closing date.

The development of impairments on loans and receivables is presented in note (17). For information about the impairments recorded on available-for-sale financial assets, please refer to note (13).

2009							
Financial assets measured at fair value through profit or loss EUR m	Financial assets held for trading EUR m	Loans and receivables EUR m	Available-for-sale financial assets EUR m	No IAS 39 category EUR m	Outside the scope of IFRS 7 EUR m	**Carrying amounts** EUR m	**Fair value** EUR m
0.0	0.0	0.0	67.7	0.0	0.0	67.7	67.7
33.3	0.0	0.0	0.0	0.0	0.0	33.3	33.3
0.0	0.0	12.6	0.0	0.0	0.0	12.6	12.6
0.0	0.0	41.7	0.0	0.1	0.0	41.8	41.8
33.3	**0.0**	**54.3**	**67.7**	**0.1**	**0.0**	**155.4**	**155.4**
0.0	**0.0**	**2,558.2**	**0.0**	**0.0**	**0.0**	**2,558.2**	**2,558.2**
0.0	0.0	7.6	0.0	0.0	0.0	7.6	7.6
0.0	0.0	2.4	0.0	0.0	0.0	2.4	2.4
0.0	2.0	0.0	0.0	1.2	0.0	3.2	3.2
0.0	0.0	203.8	0.0	2.6	77.1	283.5	283.5
0.0	**2.0**	**213.8**	**0.0**	**3.8**	**77.1**	**296.7**	**296.7**
0.0	**0.0**	**127.7**	**0.0**	**0.0**	**0.0**	**127.7**	**127.7**

	2008					
	Financial liabilities held for trading EUR m	Other financial liabilities EUR m	No IAS 39 category EUR m	Outside the scope of IFRS 7 EUR m	Carrying amount EUR m	Fair value EUR m
Liabilities						
Liabilities to banks	0.0	1,273.4	0.0	0.0	1,273.4	1,269.5
Securitised debt instruments	0.0	678.3	0.0	0.0	678.3	728.5
Lease liabilities	0.0	0.0	17.2	0.0	17.2	17.2
Other financial liabilities	0.0	13.7	0.0	0.0	13.7	13.7
Non-current financial liabilities	**0.0**	**1,965.4**	**17.2**	**0.0**	**1,982.6**	**2,028.8**
Other non-current liabilities	**0.0**	**0.0**	**0.0**	**17.5**	**17.5**	**17.5**
Liabilities to banks	0.0	115.5	0.0	0.0	115.5	115.5
Securitised debt instruments	0.0	111.4	0.0	0.0	111.4	114.4
Lease liabilities	0.0	0.0	3.4	0.0	3.4	3.4
Other financial liabilities	0.0	3.6	0.0	0.0	3.6	3.6
Current financial liabilities	**0.0**	**230.5**	**3.4**	**0.0**	**233.9**	**236.9**
Trade payables	**0.0**	**2,135.9**	**0.0**	**0.0**	**2,135.9**	**2,135.9**
Liabilities to affiliates	0.0	1.2	0.0	0.0	1.2	1.2
Liabilities to associates and other investments	0.0	1.5	0.0	0.0	1.5	1.5
Personnel liabilities	0.0	0.0	0.0	112.9	112.9	112.9
Other tax liabilities	0.0	0.0	0.0	32.8	32.8	32.8
Outstanding invoices	0.0	123.3	0.0	0.0	123.3	123.3
Derivative financial instruments	0.3	0.0	66.4	0.0	66.7	66.7
Interest liabilities	0.0	13.4	0.0	0.0	13.4	13.4
Other liabilities	0.0	22.8	0.0	87.6	110.4	110.4
Other current liabilities	**0.3**	**162.2**	**66.4**	**233.3**	**462.2**	**462.2**

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

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

2009					
Financial liabilities held for trading EUR m	Other financial liabilities EUR m	No IAS 39 category EUR m	Outside the scope of IFRS 7 EUR m	**Carrying amount** EUR m	**Fair value** EUR m
0.0	902.0	0.0	0.0	902.0	896.9
0.0	1,005.3	0.0	0.0	1,005.3	1,093.6
0.0	0.0	16.4	0.0	16.4	16.4
0.0	22.1	0.0	0.0	22.1	22.1
0.0	**1,929.4**	**16.4**	**0.0**	**1,945.8**	**2,029.0**
0.0	**0.0**	**0.0**	**102.9**	**102.9**	**102.9**
0.0	120.7	0.0	0.0	120.7	120.7
0.0	86.5	0.0	0.0	86.5	87.1
0.0	0.0	4.7	0.0	4.7	4.7
0.0	10.4	0.0	0.0	10.4	10.4
0.0	**217.6**	**4.7**	**0.0**	**222.3**	**222.9**
0.0	**2,312.4**	**0.0**	**0.0**	**2,312.4**	**2,312.4**
0.0	0.4	0.0	0.0	0.4	0.4
0.0	2.6	0.0	0.0	2.6	2.6
0.0	0.0	0.0	138.5	138.5	138.5
0.0	0.0	0.0	54.2	54.2	54.2
0.0	120.0	0.0	0.0	120.0	120.0
5.3	0.0	63.9	0.0	69.2	69.2
0.0	8.6	0.0	0.0	8.6	8.6
0.0	33.5	0.0	95.2	128.7	128.7
5.3	**165.1**	**63.9**	**287.9**	**522.2**	**522.2**

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

	2008 EUR m	**2009** EUR m
Financial assets measured at fair value through profit or loss	– 22.6	7.7
Financial assets held for trading	16.7	– 20.8
Available-for-sale financial assets	9.5	6.2
Loans and receivables	12.8	– 14.2
Other financial liabilities	– 157.0	– 72.6
Financial liabilities held for trading	0.0	0.0
Total	**– 140.6**	**– 93.7**

The net gains/losses from financial assets measured at fair value through profit or loss are primarily composed of dividends and the results of marking these financial instruments to market.

The net gains or losses from financial assets held for trading include the net gains or losses from changes in fair value as well as interest income and expenses from these financial instruments.

Among other things, net gains and losses from available-for-sale financial assets contain the investment result and any gains on the sale of these shares.

The net gains or losses from loans and receivables chiefly include the net result of impairment losses and write-ups as well as interest income.

The net gain or loss on other financial liabilities that are not measured at fair value through profit or loss generally consists of interest expenses and exchange rate gains and losses from measuring loans denominated in foreign currency.

Measurement gains of EUR 0.7m on available-for-sale financial assets were recorded in other comprehensive income in the reporting period (previous year EUR 3.3m). Losses of EUR 1.5m (previous year none) were reclassified from other comprehensive income to the other investment result.

Fair value hierarchy of financial instruments

Celesio applies the following fair value hierarchy to define and present its financial instruments measured at fair value:

Level 1: Quoted prices in active markets for identical financial instruments.

Level 2: Quoted prices in active markets for similar financial instruments or other valuation techniques, the inputs of which are based on the observable market data.

Level 3: Valuation techniques in which all the relevant inputs are not based on observable market data.

As at 31 December 2009 the following financial instruments were carried at fair value:

Assets measured at fair value

	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	**Total** EUR m
Available-for-sale financial assets	17.0	0.0	0.0	17.0
Financial assets measured at fair value through profit or loss	33.3	0.0	0.0	33.3
Derivative financial instruments	0.0	3.2	0.0	3.2

Liabilities measured at fair value

	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	**Total** EUR m
Derivative financial instruments	0.0	69.2	0.0	69.2

There were no reclassifications between level 1 and level 2 in the reporting period and no reclassifications to or from level 3.

Measurement of the financial instruments held as at 31 December 2009 at fair value gave rise to the following total gains and losses.

	Level 1 EUR m	Level 2 EUR m	Level 3 EUR m	**Total** EUR m
Recognised through profit and loss				
Available-for-sale financial assets	6.2	0.0	0.0	6.2
Financial assets at fair value through profit or loss	7.7	0.0	0.0	7.7
Derivative financial instruments (assets and liabilities)	0.0	–51.3	0.0	–51.3
Recognised in other comprehensive income				
Available-for-sale financial assets	2.2	0.0	0.0	2.2
Derivative financial instruments (assets and liabilities)	0.0	11.8	0.0	11.8

The gains and losses from the fair value measurement of financial assets at fair value through profit or loss are presented under the other investment result. This also applies to gains and losses from measuring available-for-sale financial assets at fair value, which are also recognised in the income statement. Gains and losses from derivative financial instruments, which are likewise recognised through profit or loss, are reported under the financial result.

(26) Contingent liabilities and other financial obligations

At the end of the reporting period the group had issued guarantees of EUR 346.1m (previous year EUR 377.6m).

The guarantees were mainly issued in the Celesio Wholesale business area, particularly in the UK where they amount to EUR 298.8m (previous year EUR 289.7m) and Austria where they amount to EUR 29.1m (previous year EUR 28.5m).

Provisions of EUR 4.5m (previous year EUR 6.0m) have been recognised for some of the warranties and guarantees at Celesio Wholesale. These have been included under other provisions.

As at 31 December 2009 Celesio AG had issued the following guarantees for the benefit of its Irish subsidiaries (Wholesale and Pharmacies): »Pursuant to Article 17 (1) (b) of the Companies (Amendment) Act 1986 of the Republic of Ireland, Celesio AG has irrevocably guaranteed the liabilities of its group companies, AAH Ireland (including its subsidiaries) and Unicare Pharmacy Ltd. (including its subsidiaries) originating in the fiscal year.« In the opinion of the Management Board of Celesio AG it is unlikely that a substantial risk will result from this guarantee. Consequently, these subsidiaries were exempted from certain disclosure requirements.

	31/12/2008 EUR m	**31/12/2009** EUR m
Rental agreements and operating leases	**822.9**	**1,137.8**
Due within 1 year	103.7	211.7
Due within 2 to 5 years	295.2	418.1
Due in more than 5 years	424.0	508.0
Purchase commitments for capital expenditures	**16.1**	**13.4**
Property, plant and equipment	3.5	2.6
Intangible assets	6.2	5.6
Other assets	6.4	5.2
Total	**839.0**	**1,151.2**

Of the total obligations from rental agreements and leases, an amount of EUR 557.6m relates to the Celesio Wholesale and the Celesio Retail Pharmacies business areas in the UK (previous year EUR 476.3m) and an amount of EUR 129.2m to Retail Pharmacies in Ireland (previous year EUR 129.5m). In addition, future rental income from sub-leases of property is expected to amount to EUR 62.3m (previous year EUR 53.0m).

Due to the outsourcing of all the group's IT infrastructure by virtue of an agreement concluded in February 2009 and effective 1 April 2009, the group has a financial obligation to pay service fees and future lease instalments expected to amount to EUR 338.0m over the next seven years. The amount of the obligation can change depending on the services availed of under the agreement. In addition, there are other financial obligations from communication services agreements amounting to EUR 28.2m and data services agreements amounting to EUR 38.4m. Here too, the agreements have been concluded for seven years.

Contingent liabilities of EUR 114.3m were recognised for legal and tax risks associated with the business combination with Panpharma. Based on their maturity, these have been divided into current and non-current provisions. The contingent liabilities include income tax liabilities of EUR 7.2m.

Notes to the group statement of cash flows

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

Since 1 January 2009 the consolidated statement of cash flows begins the indirect calculation of the change in cash flows from operating activities with a reconciliation of the pre-tax profits to EBITDA, which is the primary controlling indicator of the Celesio Group. Changes in cash flows from operating activities are calculated indirectly. This involves eliminating all non-cash income and expenses from consolidated EBITDA and considering 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 interest-free liabilities. The non-cash changes in net working capital primarily contain valuation allowances on inventories and receivables and the non-cash changes in pension provisions.

In accordance with IAS 7.33, interest received and paid of EUR – 71.2m (previous year EUR – 123.7m) has been allocated to the cash flow from financing activities since 2009 and no longer to the cash flows from operating activities. Since 1 January 2009, the group has opted not to make a voluntary presentation of »cash flow« as a sub-total. The change in presentation delivers more reliable and more relevant information as it facilitates comparison with other capital-market-oriented companies, increases the transparency and verifiability of the change in cash and cash equivalents and secures consistency in the indicators used by management to steer the group. The previous year's figures were restated accordingly.

Cash flows from investing activities comprise payments for capital expenditures, receipts from the sale of non-current assets, and the cash effects of acquiring and disposing of companies. Cash paid for business combinations corresponds to the purchase prices paid of EUR 223.7m less the cash and cash equivalents acquired of EUR 104.7m. This also contains cash paid for the purchase of additional shares in companies that are already fully consolidated and purchase price payments for business combinations in previous years. These amounted to EUR 20.8m. The corresponding disclosures are contained in the notes on business combinations. The cash inflows from disposals correspond to the proceeds of the sales of EUR 24.5m less the cash and cash equivalents of EUR 0.3m disposed of in the transactions. Non-cash investments of EUR 0.7m were made in non-current assets in the reporting period (previous year EUR 0.4m) by means of finance leases.

Cash flows from financing activities contain dividends paid to the shareholders of Celesio AG and minority shareholders of subsidiaries, plus receipts from new loans taken out and repayments of existing loans, as well as equity contributions from the shareholders, if any. In addition, interest paid and received has been allocated to cash flow from financing activities since 1 January 2009. Proceeds from borrowings contain the proceeds from the convertible bond of EUR 350.0m less the transactions costs of EUR 4.7m.

Notes to the group segment reporting

Since 1 January 2009, the segment reporting complies with »IFRS 8 – Operating Segments«. The same accounting standards as for the Celesio Group have been used in segment reporting.

Segmentation mirrors the internal reporting and controlling structure and has changed in comparison to the previous year due to the restructuring by customer group implemented on 1 January 2009.

Celesio's internal reporting structure is based on the subdivision of the Patient and Consumer Solutions, Pharmacy Solutions and Manufacturer Solutions divisions into several business areas. These business areas form the basis for internal controlling by the Management Board and thus correspond to the reportable segments. The Management Board of Celesio AG is the chief operating decision maker as referred to in IFRS 8.7. In addition to separate information for each business area, the Management Board also receives condensed information for each division. Therefore, these subtotals are also disclosed in the segment reporting.

- The Patient and Consumer Solutions division is aimed at patients and consumers. It essentially consists of the two business areas, Retail Pharmacies and Mail-order Pharmacies, which represent separate reporting segments. In addition, this division consists of franchise systems such as Apotheke DocMorris, these are presented in the other business areas of the Patient and Consumer Solutions division.
- The Pharmacy Solutions division offers solutions for pharmacies. Its focus is on the pharmaceutical wholesale business, which is a separate segment. One component of the Pharmacy Solutions division is Rudolf Spiegel Versand which is contained in the other business areas of the Pharmacy Solutions division.
- The Manufacturer Solutions division targets manufacturers of pharmaceuticals. On the one hand, this division consists of the Movianto business area. Movianto is a specialist for pharmaceutical logistics and related services such as storage, transport and packaging and represents a separate reporting segment. On the other, it also consists of the pharmexx business area. pharmexx is the leading marketing and sales services provider for the pharmaceutical industry and has been, in addition to Movianto, a separate reporting segment in the Manufacturer Solutions division since the third quarter of 2009. In the Homecare business area Evolution Homecare coordinates the medical treatment of patients in the home. The Homecare business area is contained in the other business areas of the Manufacturer Solutions division.

In the Retail Pharmacies and Wholesale business areas the operating segments were combined at country level.

The Other segment is used to report the activities of the parent, Celesio AG, and other non-operating companies. Consolidation of inter-division activities is shown separately.

Intercompany transactions are performed at arm's length.

The Management Board takes EBITDA under IFRS as a measure of the success of the segments. EBITDA stands for earnings before interest, taxes, depreciation and amortisation. In addition, information on the gross profit and EBIT is disclosed voluntarily.

The definition of segment assets is unchanged compared to 31 December 2008. Segment assets consist solely of operating assets. Income tax receivables are not included. The DocMorris brand is an asset allocable to a number of segments. For segment reporting purposes, it is split between the Mail-order Pharmacies segment and Other segments.

Capital expenditures have been derived from the internal reporting system and include non-cash additions to non-current assets.

There are no customers individually accounting for more than 10% of revenue.

With regard to the information on countries, segment revenues are allocated to the country in which the revenues are generated and the segment assets to the country in which the asset is located.

Reconciliation of segment revenue	2008 EUR m	**2009** EUR m
Revenue of reportable segments	**21,255.3**	**21,594.8**
Consolidation	−88.7	−97.6
Group revenue	**21,166.6**	**21,497.2**

Reconciliation of segment earnings	2008 EUR m	**2009** EUR m
EBITDA of reportable segments	**657.3**	**627.6**
EBITDA of the group	**657.3**	**627.6**
Amortisation of intangible assets and depreciation of property, plant and equipment	−114.1	−115.7
Impairment losses recorded on intangible assets	−287.0	−274.3
EBIT	**256.2**	**237.6**
Interest expense	−145.7	−129.9
Interest income	17.2	12.8
Other financial result	−2.5	−5.2
Profit before tax	**125.2**	**115.3**

Reconciliation of segment assets	31/12/2008 EUR m	**31/12/2009** EUR m
Segment assets of reportable segments	**7,503.1**	**8,113.1**
Consolidation	−60.2	−197.3
Segment assets of the group	**7,442.9**	**7,915.8**
Deferred tax assets	47.7	114.6
Interest-bearing financial assets	0.0	0.0
Current and non-current income tax receivables	11.3	28.9
Derivative financial instruments	21.4	3.2
Other assets	0.0	4.0
Total assets	**7,523.3**	**8,066.5**

Other notes

Related parties

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

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

There are ongoing business relationships with associates for deliveries of goods and services originating from the sale of merchandise.

The items from related-party transactions are presented below:

	Franz Haniel & Cie. GmbH, Duisburg		Subsidiaries of Franz Haniel & Cie. GmbH		Associates	
	2008 EUR m	**2009** EUR m	2008 EUR m	**2009** EUR m	2008 EUR m	**2009** EUR m
Loans and receivables	0.7	4.6	0.4	3.0	7.0	2.9
Liabilities	1.0	0.1	0.2	0.3	0.0	0.0
Income	0.0	0.0	0.0	0.0	12.3	11.0
Expenses	0.3	0.5	0.6	0.4	0.2	0.0

Total remuneration and the structure of compensation paid to Members of the Management Board and Supervisory Board is presented in the following sections.

Audit fees

The annual financial statements of Celesio AG, the German subsidiaries and the consolidated financial statements were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Ernst & Young Germany), Stuttgart, Germany. In the fiscal year, expenses for services rendered by Ernst & Young Deutschland totalled EUR 1.1m (previous year EUR 0.5m). Of this amount, EUR 0.6m (previous year EUR 0.4m) is for the audit of the financial statements, EUR 0.1m for other attest services, EUR 0.2m for tax advisory services and EUR 0.2m (previous year EUR 0.1m) for other services.

Exemption pursuant to Sec. 264 (3) and Sec. 264b HGB

The following entities are exempted under Sec. 264 (3) HGB from the duty to publish their financial statements:
ABG Apotheken-Beratungsgesellschaft mbH, Stuttgart, Admenta Deutschland GmbH, Stuttgart, 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 Apotheke DocMorris Holding GmbH, Stuttgart, CentroPharm GmbH, Aachen, DocMorris Apotheken Management GmbH, Stuttgart, DocMorris Kooperationen GmbH, Stuttgart, DocMorris Pharma GmbH, Aachen, Celesio Manufacturer Solutions Deutschland Vertriebsgesellschaft mbH, Stuttgart, Celesio Manufacturer Solutions Europe Distributors GmbH, Stuttgart, and Rudolf Spiegel GmbH, Grafschaft-Gelsdorf.

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

Notices from shareholders

According to a notice pursuant to Sec. 41 (2) Sentence 1 Wertpapierhandelsgesetz (WpHG, Securities Trading Act) Franz Haniel & Cie. GmbH, Duisburg on 2 April 2002, held a total of 60% of the voting rights in Celesio on 1 April 2002. Franz Haniel & Cie. GmbH prepares consolidated financial statements containing Celesio AG and its subsidiaries. These consolidated financial statements are published in the electronic version of the German Federal Gazette. According to Celesio AG, the shareholding of Franz Haniel & Cie. GmbH, Duisburg, came to 54.6% (previous year 55.8%) at the end of the reporting year.

On 13 May 2009 AXA S.A., Paris, France, AXA Financial, Inc., New York, NY, USA, AXA Equitable Financial Services, LLC, New York, NY, USA, AXA Equitable Life Insurance Company, New York, NY, USA, Equitable Holdings LLC, New York, NY, USA, AllianceBernstein L.P., New York, NY, USA, and AllianceBernstein Corporation, New York, NY, USA, informed us by notice in accordance with Sec. 21 (1) WpHG of the following:

- The voting share of AllianceBernstein L.P., New York, NY, USA, in Celesio AG exceeded the threshold of 3% on 11 May 2009 and now amounts to 3.08% (5,230,640 voting rights). This 3.08% (5,230,640) share in the voting rights is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- The voting share of AllianceBernstein Corporation, New York, NY, USA, in Celesio AG exceeded the threshold of 3% on 11 May 2009 and now amounts to 3.08% (5,230,640 voting rights). This 3.08% (5,230,640) share in the voting rights is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.
- The voting share of Equitable Holdings LLC, New York, NY, USA, in Celesio AG exceeded the threshold of 3% on 11 May 2009 and now amounts to 3.08% (5,230,640 voting rights). This 3.08% (5,230,640) share in the voting rights is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.
- The voting share of AXA Equitable Life Insurance Company, New York, NY, USA, in Celesio AG exceeded the threshold of 3% on 11 May 2009 and now amounts to 3.08% (5,230,640 voting rights). This 3.08% (5,230,640) share in the voting rights is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.
- The voting share of AXA Equitable Financial Services, LLC, New York, NY, USA, in Celesio AG exceeded the threshold of 3% on 11 May 2009 and now amounts to 3.08% (5,230,640 voting rights). This 3.08% (5,230,640) share in the voting rights is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.
- The voting share of AXA Financial, Inc., New York, NY, USA, in Celesio AG exceeded the threshold of 3% on 11 May 2009 and now amounts to 3.08% (5,230,640 voting rights). This 3.08% (5,230,640) share in the voting rights is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.
- The voting share of AXA S.A., Paris, France, in Celesio AG exceeded the threshold of 3% on 11 May 2009 and now amounts to 3.09% (5,253,997 voting rights). This 3.09% (5,253,997) share in the voting rights is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

On 26 January 2010 BlackRock Financial Management, Inc., New York, NY, USA, BlackRock Holdco 2, Inc., Delaware, USA, and BlackRock, Inc., New York, NY, USA, informed us by notice in accordance with Sec. 21 (1) WpHG in conjunction with Sec. 24 WpHG of the following:

– The voting share of BlackRock Financial Management, Inc. in Celesio AG exceeded the threshold of 3% on 20 January 2010 and amounted to 3.01% on that date (5,116,420 voting rights). These voting rights are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.
– The voting share of BlackRock Holdco 2, Inc. in Celesio AG exceeded the threshold of 3% on 20 January 2010 and amounted to 3.01% on that date (5,116,420 voting rights). These voting rights are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.
– The voting share of BlackRock, Inc. in Celesio AG exceeded the threshold of 3% on 20 January 2010 and amounted to 3.10% on that date (5,274,461 voting rights). These voting rights are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 and Sentence 2 WpHG.

Corporate governance

The Management Board and Supervisory Board last issued a declaration of compliance with the recommendations of the German Corporate Governance Codex pursuant to Sec. 161 Aktiengesetz (AktG, German Stock Corporation Act) on 21 December 2009 and published this permanently on their website at www.celesio.com.

Remuneration report

This remuneration report is in line with the recommendations of the German Corporate Governance Code and contains disclosures pursuant to the requirements of the Handelsgesetzbuch (HGB, German Commercial Code) as well as the International Financial Reporting Standards (IFRSs).

Total remuneration and compensation structure of the Management Board

Since the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG, German Act on the Appropriateness of Executive Board Compensation) came into force on 5 August 2009, the legislator set new requirements regarding the determination of management board remuneration. The aim of the legislator is that remuneration of executive boards be conducive to sustainable and long-term corporate governance. This aim is consistent with the principles on which the remuneration system for Celesio's Management Board is based. In determining management board remuneration the provisions of Aktiengesetz (AktG, German Stock Corporation Act) and the German Corporate Governance Code were observed. By resolution of the annual general meeting on 27 April 2006, the Management Board was exempted from disclosing the remuneration of its individual members. Celesio therefore discloses the remuneration of the Management Board in total, broken down into individual components.

The total remuneration of the members of the Management Board comprises both performance-related and non-performance-related components. The compensation structure is conducive to the sustainable development of the company on account of remuneration components with a long-term incentive. In determining the remuneration of members of the Management Board, we take into account the size and complexity of the company, its economic and financial position and the amount and structure of remuneration of Management Boards of comparable companies, as well as the compensation structure in place otherwise at the company. We also consider the responsibilities and performance of each member of the Management Board. The Supervisory Board regularly reviews the structure of the remuneration system at the instigation of the Personnel Committee, including the appropriateness of remuneration amounts for the Management Board.

Non-performance-related remuneration components

The non-performance-related components consist of a fixed basic component, additional benefits and pension contributions. The fixed basic component is paid as a monthly salary. The additional benefits received by the Management Board comprise the use of company cars, accident insurance, health insurance abroad, legal protection 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 contributions plan. An annual contribution of 16% of the fixed basic component plus standard bonus is made. The contribution is made for the period of office as Management Board member. The contributions bear minimum interest. Pensions can be claimed after leaving the company and from the age of 60 years. In the case of invalidity or death, the contributions that would have been due until the age of 63 are credited to the pension account which is then paid out.

Performance-related remuneration components
The performance-related components consist of bonuses which are paid out annually as well as a rolling remuneration component as a long-term incentive, currently in the form of the performance cash scheme. The performance cash scheme was set up for the first time with effect as at 1 January 2008 for the period from 2008 to 2010 (2008 tranche). The second performance cash scheme was set up with effect as at 1 January 2009 for the period from 2009 to 2011 (2009 tranche).

The basis for assessment of the bonus in the Celesio Group is EBITDA. 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 predefined threshold. Bonuses are capped. If, in its best judgement, the Supervisory Board deems the extraordinary service or success of a Management Board member to be worthy of special payments including special remuneration, it is entitled to award these. The same applies in the case of mutual agreement to terminate contracts.

The performance cash schemes are each payable in cash after three years upon achievement of targets. The amount of cash payment for each of the two schemes started so far depends on the target set for each member of the Management Board as well as fulfilment of several performance targets. These include an increase in the share price compared to a defined reference share price, the accumulated Celesio value-added and, in the case of the 2009 tranche, the implementation of operating measures to improve profitability over the term of the scheme. The share-based component is classified as a cash-settled share-based payment transaction in the meaning of IFRS 2 and is measured using a binominal option pricing model. The expenses for the benefits received or the debt to settle these benefits are recognised over the vesting period. The debt is remeasured at each reporting date and on the settlement date. Changes in fair value are recognised in the income statement. The Celesio value-added is a key performance indicator which serves our value-based corporate management. The ratio of earnings before interest and taxes (EBIT) to capital employed is compared with the weighted average costs of capital. The remuneration is thus conducive to a sustainable increase in the company value. The implementation of operating measures to improve profitability relates to the effect on earnings of cost-cutting measures and growth initiatives. The performance cash schemes are also capped at a maximum payout.

The claim for payout from the performance cash scheme is valid only if the claimant held office in the performance period. A payment is made pro rata temporis upon reaching retirement age or stepping down from the Management Board. A transitional arrangement is in place until the date that the rolling system is fully in force, i.e. three tranches have been granted. If a member of the Management Board leaves before 2010, the full target value will be granted for all tranches set up by then.

Total remuneration The total remuneration of the Management Board pursuant to German Accounting Standard 17 stood at EUR 5,493k in 2009 (EUR 6,286k). This breaks down into EUR 2,251k for the annual basic component including additional benefits (previous year EUR 2,202k), EUR 2,969k for bonuses (previous year EUR 3,620k) and EUR 273k for the value of the performance cash plan for the years 2009 to 2011 (2009 tranche) as at the date of issue (previous year EUR 464k). Of the bonuses, an amount of EUR 781k (previous year EUR 656k) was guaranteed.

Disclosures pursuant to IAS 24 (related parties)
The cost of short-term benefits as defined by IAS 24.16 a) amounted to EUR 5,220k in 2009 (previous year EUR 5,822k). For the company pension scheme as defined by IAS 24.16 b) a service expense of EUR 774k was incurred in 2009 (previous year EUR 3,372k). A non-recurring special contribution from the reversal of a former pension commitment was included in this amount in the previous year. Expenses for other long-term employee benefits pursuant to IAS 24.16 c) came to EUR 80k (previous year EUR 0k). Expenses for termination benefits pursuant to IAS 24.16 d) came to EUR 1,190k (previous year EUR 0k). Share-based payments as defined by IAS 24.16 e) gave rise to an expense of EUR 56k (previous year EUR 12k) based on the valuation of the performance cash scheme at the end of the reporting period. The provision for these components of the performance cash schemes amounts to EUR 68k in total (previous year EUR 12k).

Other disclosures Former members of the Management Board and their surviving dependents received remuneration of EUR 1,749k in the reporting period (previous year EUR 286 k). Celesio has set up pension provisions of EUR 4,796k (previous year EUR 3,853k) for this group of persons. In the 2009 fiscal year, no loans were granted to members of the Management Board, nor did the company enter into any contingent liabilities in favour of these persons.

Total remuneration and compensation structure of the Supervisory Board

The remuneration paid to the Supervisory Board is defined in Art. 5 of the articles of association of Celesio AG. In addition to reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive fixed remuneration of EUR 5,000 annually and an additional payment of EUR 800 for each half percentage point of dividends distributed to shareholders in the past fiscal year that is in excess of 4% of issued capital entitled to dividends. These payments are net of VAT. The chairman receives twice the standard amount paid to the other members of the Supervisory Board and the deputy chairman receives one and a half times the standard. Each member of a committee – with the exception of the committee founded to satisfy Sec. 27 (3) Mitbestimmungsgesetz (MitbestG, Codetermination Act) – receives EUR 2,000, with the chairman of a committee receiving EUR 4,000.

The total remuneration of the Supervisory Board came to EUR 761k in 2009 (previous year EUR 794k). Of this, EUR 68k (previous year EUR 68k) pertained to fixed remuneration for membership of the Supervisory Board. The variable components pegged to dividend pay-outs for membership of the Supervisory Board came to EUR 669k (previous year EUR 702k). The variable components pegged to dividend payouts for serving on committees came to EUR 24k (previous year EUR 24k).

In the 2009 fiscal year, no loans were granted to members of the Supervisory Board, nor did the company enter into any contingent liabilities in favour of these persons.

Proposal of the Management Board for the appropriation of profits

The profit available for distribution of Celesio AG amounts to EUR 85,050,000 (previous year EUR 81,648,000). The Management Board proposes distributing the entire profit available for distribution as a dividend for the 2009 fiscal year. On the basis of this proposal for the appropriation of profits, the dividend for a no-par share will be EUR 0.50 (previous year an ordinary dividend of EUR 0.48).

Stuttgart, 22 February 2010

The Management Board

Other appointments held by members of the Management Board in the 2009 fiscal year

	Membership in other Management Boards and comparable bodies	Membership in other Supervisory Boards and comparable bodies
Dr Fritz Oesterle Chairman	Member of the Management Board, Franz Haniel & Cie. GmbH (until 31 December 2009)	■ Herba Chemosan Apotheker-AG, Deputy Chairman of the Supervisory Board ■ Untertürkheimer Volksbank eG, Member of the Supervisory Board
Dr Christian Holzherr		■ none
Wolfgang Mähr		■ GEHE Pharma Handel GmbH, Chairman of the Supervisory Board ■ Herba Chemosan Apotheker-AG, Member of the Supervisory Board ■ OCP S.A., Chairman of the Supervisory Board
Stefan Meister (until 15 August 2009)		■ none

Other appointments held by members of the Supervisory Board in the 2009 fiscal year

	Occupation	Membership in other Supervisory Boards and comparable bodies
Dr Eckhard Cordes Chairman (until 31 December 2009)	Chairman of the Management Board, METRO AG Chairman of the Management Board, Franz Haniel & Cie. GmbH (until 31 December 2009)	■ Galeria Kaufhof GmbH, Chairman of the Supervisory Board ■ Real Holding GmbH, Chairman of the Supervisory Board ■ TAKKT AG, Deputy Chairman of the Supervisory Board ■ Tertia Handelsbeteiligungsgesellschaft mbH, Chairman of the Supervisory Board
Ihno Goldenstein[1)] Deputy Chairman	Employee, goods-in department, GEHE Pharma Handel GmbH	■ none
Klaus Borowicz[1)]	Head of Branch Office, GEHE Pharma Handel GmbH	■ none
Prof Dr Julius Michael Curtius	Cardiologist in private practice	■ none
Dr Hubertus Erlen	Deputy Chairman of the Supervisory Board, Bayer Schering Pharma AG	■ Bayer Schering Pharma AG, Deputy Chairman of the Supervisory Board
Dirk-Uwe Kerrmann[1)]	Commercial employee, GEHE Pharma Handel GmbH	■ none
Jörg Lauenroth-Mago[1)] (since 19 June 2009)	Trade Union Secretary responsible for the trade division in Saxony, Saxony-Anhalt and Thuringia, ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	■ GEHE Pharma Handel GmbH, Member of the Supervisory Board
Susan Naumann[1)]	Trade Union Secretary, ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	■ GEHE Pharma Handel GmbH, Member of the Supervisory Board
Ulrich Neumeister[1)]	Logistics employee, GEHE Pharma Handel GmbH	■ none
W.M. Henning Rehder (since 8 May 2009)	Senior Vice President of Category Finance, Unilever UK Central Resources Limited	■ none
Hanspeter Spek	Member of the Management Board, Sanofi-aventis S.A.	■ Merial Ltd., Member of the Supervisory Board ■ Sanofi-Aventis Deutschland GmbH, Chairman of the Supervisory Board ■ Sanofi-aventis S.A. (Switzerland), Member of the Supervisory Board ■ Sanofi-aventis S.A. (Spain), President ■ ZENTIVA N.V., Member of the Supervisory Board
Prof Dr Klaus Trützschler	Member of the Management Board, Franz Haniel & Cie. GmbH	■ Bilfinger Berger AG, Member of the Supervisory Board ■ TAKKT AG, Chairman of the Supervisory Board ■ Wilh. Werhahn KG, Member of the Advisory Board
Prof Dr Erich Zahn (until 8 May 2009)	Professor Emeritus of Business Studies, University of Stuttgart	■ Fraunhofer Institute for Production Technology and Automation (IPA), Member of the Board of Trustees
Regina Zimmerling[1)] (until 22 June 2009)	Trade Union Secretary, ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	■ none

1) Employee representative

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 fiscal year.

Stuttgart, 22 February 2010

The Management Board

Dr Fritz Oesterle

Dr Christian Holzherr

Wolfgang Mähr

Audit opinion

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

»We have audited the consolidated financial statements, comprising the group income statement, the group statement of comprehensive income, the group statement of financial position, the group statement of cash flows, the group statement of changes in equity as well as the notes to the financial statements – as well as the combined group management report and the management report of the company prepared by Celesio AG, Stuttgart, for the fiscal year from 1 January to 31 December 2009. The preparation of the consolidated financial statements in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB (Handelsgesetzbuch, German Commercial Code) is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, 23 February 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Prof Dr Pfitzer
Wirtschaftsprüfer
(German Public Auditor)

Matischiok
Wirtschaftsprüfer
(German Public Auditor)

Glossary

Convertible bond	A bond issued by a corporation that has an attached right to convert the bond into a predefined number of shares of the company. Convertible bonds generally have lower interest rates than non-convertible bonds as they can rise in value in line with the underlying share price thereby combining the advantages of shares and bonds.
Corporate governance	The term stands for responsible management and control of a company. For German companies, these standards are collated in the German Corporate Governance Code. There is a legal obligation for all publicly listed companies in Germany 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 tradable – asset. These financial instruments are also generally themselves tradable. Examples are interest swaps, forward exchange contracts or currency options.
DTP	Direct to pharmacy. This abbreviation refers to the direct delivery of pharmaceuticals to pharmacies via some wholesalers or providers of logistics services.
Earnings per share	Pursuant to IAS 33, earnings per share are calculated by dividing the net profit attributable to the shareholders of Celesio AG by the weighted average number of shares outstanding during the fiscal year.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
Equity method	A method of accounting for associates in the consolidated financial statements. The investment in the associate is initially measured at cost and this carrying amount is adjusted subsequently to reflect any developments in the equity of the associate.
Financial statements	Are prepared by the management board of a stock corporation with their compliance audited by an external auditor whereupon they are reviewed and ratified by the supervisory board. The financial statements consist of the balance sheet, the income statement, the notes and the management report of a company.
Gearing	A financial indicator for displaying the debt-equity ratio. It is calculated by dividing net financial debt by equity.
Generics	Imitations of original pharmaceuticals that have lost their patent protection.
Goodwill	An intangible asset. It generally represents the consideration paid for the anticipated future success of an acquisition, as well as the experience of the employees taken over in the acquisition. It is measured as the difference between the purchase price and the fair value of the net assets acquired at the time of the acquisition.
Gross profit	Difference between revenue and the cost of goods sold.

Hedging	Hedging interest, currency and exchange rate risks by use, for example, of derivative financial instruments which limit the risk of the underlying transaction.
IFRS	International Financial Reporting Standards. Issued by the International Accounting Standards Board (IASB) with the aim of harmonising international financial reporting and improving the comparability of financial statements.
Interest rate swap	An agreement between two parties to exchange interest payments on the basis of different interest rates. In this way, variable interest rates can be swapped with fixed interest rates.
Market capitalisation	Reflects the current market value of a company. It is calculated by multiplying the share price by the number of shares. 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 particularly when the free float is high.
Market value	The measurement of some items in the balance sheet at the amount that could be realised on the market, e.g. a stock exchange, as at the end of the reporting period.
MDAX	The mid-cap index, in which Celesio AG is listed, issued by the Frankfurt stock exchange. The index comprises the 50 most important shares on the market after the 30 DAX shares.
Net working capital	Financial indicator to measure the capital employed and the liquidity structure of a company. Calculated as the difference between current operating assets (inventories, trade receivables and other assets) and current operating liabilities (trade payables, provisions and other liabilities).
OTC	Over the counter. An abbreviation used for non-prescription products in the healthcare sector.
Reduced wholesale model	When manufacturers supply to a limited number of wholesalers. Generally used for the distribution of certain products or product categories.
Transaction risk	Exchange rate risk associated with the exchange of currency, existing for balance sheet items in foreign currencies from creation until payment due to uncertainty regarding the future exchange rate development.
Translation risk	Exchange rate risk associated with the valuation of balance sheet items, resulting from the valuation and accounting principles applied to the translation of items stated in foreign currencies.
WACC	Abbreviation for Weighted Average Cost of Capital, consisting of costs of both equity and debt capital.

Financial calendar

(excerpt)	
Analyst and investor conference 2010	23 March 2010
Annual general meeting 2010	6 May 2010
Interim report, 1st quarter 2010	12 May 2010
Interim report, 1st half year 2010	12 August 2010
Interim report, 1st – 3rd quarter 2010	11 November 2010
Annual report 2010	March 2011

Subject to amendment. Other dates and updates can be found at www.celesio.com under Investor Relations/Financial Calendar.

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This annual report was published on 23 March 2010. It is available in German and English and can be downloaded from www.celesio.com under Investor Relations. Alternatively, a printed version can be ordered from the same website. The German version of the annual report is legally binding.

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Forward-looking statements
This annual report contains forward-looking statements that are based on the latest estimates made by the management of future developments. Such statements are subject to inherent risks and uncertainties. It lies beyond the powers of Celesio to control or precisely estimate these risks and uncertainties which can include future market conditions and economic environment, state intervention, the behaviour of other market players or the successful integration of corporate acquisitions and realisation of expected synergies. Should one of these or another uncertainty or risk factor eventuate or should the assumptions on which these forward-looking statements are made prove to be incorrect, then the actual events could diverge significantly from the explicit or implied events contained in the statements. Celesio does not intend, nor does it assume any special obligation, to update forward-looking statements to reflect events or developments occurring after this report went to press.

Brands and countries

Our brands

Patient and Consumer Solutions

- ADMENTA
- lékárny Lloyds
- Lloydspharma
- Unicarepharmacy
- DocMorris
- LLOYDS Apotheken
- Lloydspharmacy Healthcare for life
- vitus apotek

Pharmacy Solutions

- AAH
- Herba Chemosan
- OCP
- AfM servizi per la farmacia
- inten
- Grupo panpharma
- apointerim
- KEMOFARMACIJA
- Pharma Belgium A Celesio company
- CMR
- Laboratoria FLANDRIA NV
- Rudolf Spiegel Versand
- GEHE
- NMD NORSK MEDISINALDEPOT ASA
- tmj tjellesen max jenne

Manufacturer Solutions

- evolution homecare healthcare direct to you
- movianto
- pharmex

Countries in which we operate[1]

Belgium	Lloydspharma	Netherlands	Lloyds Apotheken
Czech Republic	Lékárny Lloyds	Norway	Vitusapotek
Germany	Apotheke DocMorris	Sweden	DocMorris Apotek
Ireland	Unicarepharmacy DocMorris Pharmacy	United Kingdom	Lloydspharmacy
Italy	Admenta Italia		

Austria	Herba Chemosan Rudolf Spiegel Versand	Portugal	OCP Portugal
Belgium	Pharma Belgium Laboratoria Flandria Rudolf Spiegel Versand	Slovenia	Kemofarmacija
Brazil	Panpharma	Switzerland	Rudolf Spiegel Versand
Czech Republic	GEHE Pharma Praha	United Kingdom	AAH
Denmark	Tjellesen Max Jenne		
France	OCP Rudolf Spiegel Versand		
Germany	Apo Interim GEHE Pharma Handel Inten Rudolf Spiegel Versand		
Ireland	Cahill May Roberts		
Italy	AFM		
Luxembourg	Rudolf Spiegel Versand		
Norway	Norsk Medisinaldepot		

Argentina	pharmexx	Ireland	Movianto pharmexx
Austria	Movianto pharmexx	Latvia	pharmexx
Belgium	Movianto pharmexx	Lithuania	pharmexx
Brazil	pharmexx	Netherlands	Movianto pharmexx
Canada	pharmexx	Norway	pharmexx
Czech Republic	Movianto pharmexx	Portugal	Movianto pharmexx
Denmark	Movianto pharmexx	Slovenia	Movianto
Estonia	pharmexx	Spain	Movianto pharmexx
Finland	pharmexx	Sweden	pharmexx
France	Movianto pharmexx	Turkey	pharmexx
Germany	Movianto pharmexx	United Kingdom	Movianto pharmexx Evolution Homecare
India	pharmexx		

[1] As at March 2010.

Five-year summary of the Celesio Group

		2005	2006	2007	2008	**2009**
Earnings position						
Revenue	EUR m	20,491.1	21,569.1	22,349.5	[1] 21,166.6	21,497.2
Gross profit	EUR m	2,235.5	2,431.6	2,523.7	2,410.5	2,507.2
EBITDA	EUR m	745.9	803.7	842.5	657.3	627.6
EBIT	EUR m	648.2	685.8	727.7	256.2	237.6
adjusted[2]	EUR m	648.2	685.8	727.7	543.2	511.9
Profit before tax	EUR m	554.5	590.1	608.8	125.2	115.3
adjusted[2]	EUR m	554.5	590.1	608.8	412.2	389.6
Net profit/loss	EUR m	[3] 386.0	425.6	435.4	– 18.5	2.3
adjusted[2]	EUR m	[3] 386.0	425.6	435.4	268.5	268.7
Earnings per share	EUR	[3] 2.24	2.49	2.53	–0.12	0.00
adjusted[2]	EUR	[3] 2.24	2.49	2.53	1.56	1.56
Financial position						
Cash inflow from operating activities[9]	EUR m	460.7	733.1	170.7	536.4	578.2
Cash outflow from investing activities	EUR m	–499.5	–325.2	–528.0	–265.2	–203.1
Assets position[4]						
Total assets	EUR m	7,511.7	7,926.5	8,343.2	7,523.3	8,066.5
Equity	EUR m	2,284.2	2,628.1	2,819.6	2,269.6	2,347.4
Equity ratio	%	30.4	33.2	33.8	30.2	29.1
Non-current assets	EUR m	3,225.1	3,446.8	3,866.9	3,287.1	3,434.0
Current assets	EUR m	4,286.6	4,479.7	4,476.2	4,236.2	4,632.5
Non-current liabilities	EUR m	2,110.0	1,962.8	2,325.0	2,257.5	2,413.1
Current liabilities	EUR m	3,117.5	3,335.6	3,198.6	2,996.2	3,306.0
The share						
Closing share price (Xetra)[5]	EUR	36.33	40.64	42.50	19.40	17.80
Dividend per share[5]	EUR	[6] 0.70	0.75	0.77	0.48	[7] 0.50
Dividend yield[8]	%	1.9	1.8	1.8	2.5	[7] 2.8
Employees[4]		35,407	36,442	37,516	37,746	46,095
Retail pharmacies[4]		2,045	2,100	2,273	2,337	2,296
Wholesale branches[4]		138	135	123	120	137

1) Restated to reflect the change in accounting policies in the Movianto business area.
2) Adjusted for impairment losses recognised on intangible assets consisting of impairment losses on goodwill and brand names. The tax impact of the impairment losses is also included in the 2009 figure.
3) Adjusted for trade tax reimbursements.
4) Closing figures as at 31 December.
5) Adjusted for the 1:2 share split carried out on 24 July 2006.
6) This includes a special dividend of EUR 0.03.
7) Proposed by the Management Board and Supervisory Board to the 2010 annual general meeting.
8) Related to closing share prices (Xetra).
9) Since 2008: interest paid and received is allocated to cash flow from financing activities.

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