Annual Report 2003

celesio
the healthcare group

Tradition

Founder	Franz Ludwig Gehe
Founded	Dresden in 1835
Core business	Pharmaceutical distribution
Head office	Stuttgart, since 1981

Key statistics for 2003

Turnover	€ 18.5 bn
Turnover growth	3.8 %* (0.8 % in €)
EBITDA**	€ 555.6 m
EBITDA growth	8.5 %* (3.1 % in €)
Profit before tax	€ 373.8 m
Profit before tax growth	13.7 %* (8.8 % in €)
Net profit	€ 254.0 m
Net profit growth	11.0 %* (6.0 % in €)
Net profit per share	€ 2.99
Employees***	24,975
Wholesale branches	126
Pharmacies	1,882

* Adjusted for exchange rate effects
** Earnings Before Interest, Tax, Depreciation and Amortisation
*** Converted to full-time equivalents

Group structure

Major operating companies: turnover, employees, branches and pharmacies

Celesio Group

Celesio Wholesale

France
OCP S.A.,
Saint-Ouen

Turnover: € 6,778 m
Employees: 4,569
Branches: 54

Germany
GEHE Pharma Handel GmbH,
Stuttgart

Turnover: € 3,484 m
Employees: 2,128
Branches: 19

United Kingdom
AAH PHARMACEUTICALS
LIMITED, Coventry

Turnover: € 2,977 m
Employees: 3,661
Branches: 20

Austria
Herba Chemosan Apotheker-AG,
Vienna

Turnover: € 919 m
Employees: 822
Branches: 7

Norway
NMD Grossisthandel AS,
Oslo

Turnover: € 420 m
Employees: 333
Branches: 4

Belgium
PHARMA BELGIUM S.A.,
Brussels

Turnover: € 408 m
Employees: 338
Branches: 8

Ireland
CAHILL MAY ROBERTS
GROUP LIMITED, Dublin

Turnover: € 374 m
Employees: 230
Branches: 3

Portugal
OCP PORTUGAL, PRODUTOS
FARMACÊUTICOS, S.A., Maia

Turnover: € 283 m
Employees: 210
Branches: 7

Czech Republic
GEHE Pharma Praha,
spol. s.r.o., Prague

Turnover: € 129 m
Employees: 209
Branches: 3

Italy
AFM – S.P.A.,
Bologna

Turnover: € 115 m
Employees: 124
Branches: 1

Franz Ludwig Gehe
Company founder

Celesio Retail

United Kingdom
LLOYDS PHARMACY LIMITED,
Coventry

Turnover: € 1,833 m
Employees: 8,754
Pharmacies: 1,375

Norway
Vitusapotek AS,
Oslo

Turnover: € 322 m
Employees: 940
Pharmacies: 108

Italy
ADMENTA ITALIA S.P.A.,
Bologna

Turnover: € 186 m
Employees: 700
Pharmacies: 161

Ireland
UNICARE PHARMACY LIMITED,
Dublin

Turnover: € 105 m
Employees: 641
Pharmacies: 54

Netherlands
GEHE Nederland B.V.,
Weesp

Turnover: € 97 m
Employees: 389
Pharmacies: 35

Belgium
Lloydspharmacy Belgium S.A.,
Wavre

Turnover: € 60 m
Employees: 249
Pharmacies: 65

Czech Republic
Lékárny Lloyds s.r.o.,
Prague

Turnover: € 49 m
Employees: 540
Pharmacies: 84

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Celesio Group

Celesio Wholesale

Celesio Retail
















The start of the Celesio era

20 May 2003, group head office, Stuttgart: The company's new name, Celesio, is launched. Numerous guests from at home and abroad take part in the celebrations, hosted by the newsreader Clarissa Ahlers (n-tv). The unveiling of the new logo heralds the start of the Celesio era. The new name stresses the international direction of the company and the spectrum of its business: Celesio – a pharmaceutical wholesaler and retailer operating in eleven European countries. The celebration takes place under the symbol of the ginkgo. The ginkgo is symbolic for Celesio. It is the symbol for durability, health and a long life, as well as for the equality of rank of two components. Two ginkgo trees are planted, representing the business divisions wholesale and retail.














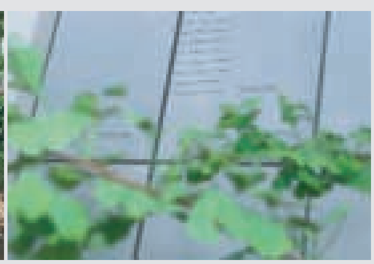

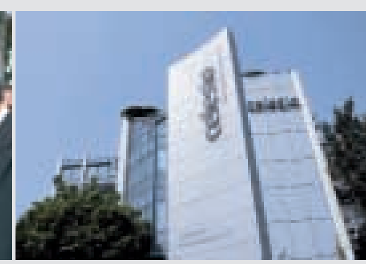

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100 years as a public limited company, 1 year as Celesio

Growth in Germany

1903 Gehe & Comp., the drug and paint business, founded in Dresden in 1835 by the merchant Franz Ludwig Gehe, is opened to the capital market as Gehe & Co. AG.

1904 Shares approved for trading on the Dresden Stock Exchange.

1909 The company continually expands in Dresden where it was founded. Administration, wholesale and pharmaceutical production are combined together in a newly built, easily accessible location.

1910 - 1912 Capital increases lay the financial foundation for the setting up and expansion of the nation-wide sales of "drugs and paints, pharmaceutical and chemical products" in close proximity to customers.

1922 First German branch in Stuttgart.

1943 The company organises trading via seven branches.

Rebuilding from the smallest beginnings

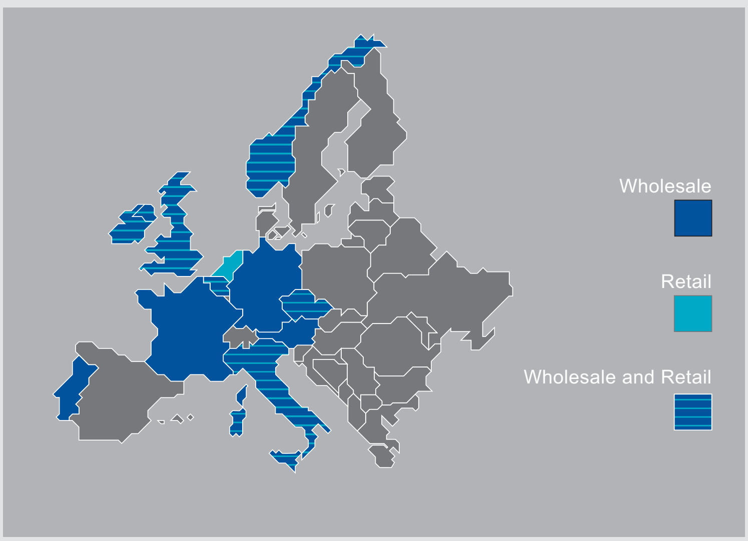
1948 After the division of Germany, the rebuilding of the wholesale business starts from Munich. The head office in Dresden has to be abandoned.

1981 Eleven branches in Germany have so far been set up, acquired or merged. Head office moved to Stuttgart.

1990 After the reunification of Germany, the biggest investment programme since the end of the war starts. Seventeen branches nation-wide guarantee best possible supply to pharmacies.

Growth market healthcare

Growth in Europe



1993 Restructuring: GEHE AG becomes a holding company. Pharmaceutical wholesale business is split out to become GEHE Pharma Handel GmbH, while other business activities form their own corporate entities. Expansion of Czech wholesale business, established in 1991 as GEHE Pharma Praha. Acquisition of a majority holding in the French pharmaceutical wholesaler OCP. The group becomes the largest European pharmaceutical wholesaler with its key operations in Belgium, Germany, France, Portugal and the Czech Republic.

1995 Acquisition of AAH, the largest pharmaceutical wholesaler in the United Kingdom and Ireland, and also the operator of the British Hills pharmacy chain.

1997 Acquisition of Lloyds Chemists, the second-largest pharmacy chain in the United Kingdom.

1999 The largest pharmacy chain in Europe is formed with the merger of 900 Lloydspharmacy and 360 Hills shops in the United Kingdom; in addition, Celesio wins the bidding process for the municipal pharmacies in Bologna, Italy and acquires its first pharmacies in the Czech Republic.

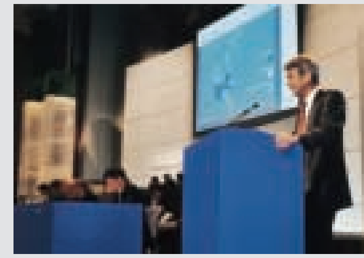
2000 Acquisition of the majority shareholding in Herba Chemosan, the largest Austrian pharmaceutical wholesaler.

2001 Entry into the Norwegian market with the acquisition of the market leader in pharmaceutical wholesale, Norsk Medisinaldepot. Start-up of pharmaceutical retail businesses in Belgium, Ireland, the Netherlands and Norway.

2002 A new group structure is implemented concentrating the business on pharmaceutical wholesale and retail. A capital increase, generating funds of € 462 m, provides scope for successful future growth in markets where opportunities arise.

GEHE AG renamed Celesio AG

2003 The annual general meeting approves the change of name from GEHE AG to Celesio AG by an overwhelming majority. The Celesio name stands for the European market leader in pharmaceutical distribution. The GEHE name will only be used for the wholesale operations in Germany and the Czech Republic.



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Highlights of 2003

- Launch of the new group name Celesio.
- Acquisition of a holding in the German pharmaceutical wholesaler Andreae-Noris Zahn AG, Frankfurt.
- The first-time issue of promissory notes for an amount of € 243.5 m diversifies the financing structure of the Celesio Group.
- New branches opened in Delmenhorst/Germany, Bourg-Achard/France, Lisbon/Portugal.

Letter to Shareholders

Dr Fritz Oesterle
Chairman of the
management board
and chief executive officer

Dear Shareholder

You set the course at the annual general meeting in April 2003 and gave € 18.5 bn* turnover in international pharmaceutical distribution a new name. As a result, GEHE AG was renamed Celesio AG. With the new name, Celesio, we have made our direction clear: Our business activities in pharmaceutical distribution extend beyond wholesale. Celesio stands for European market leadership, for concentration on strong business divisions and for one of the few vertically integrated trading companies.

"With the new name, Celesio, we have made our direction clear: Our business activities in pharmaceutical distribution extend beyond wholesale."

100 years as a public limited company – 1 year as Celesio

"Innovation is our tradition!"

Innovation is our tradition. It all started in 1835 in Dresden when Franz Ludwig Gehe founded the company and put into practice his vision of "satisfying the requirements of pharmacy as far as possible in every respect". In 1903 the company was converted into a public limited company and opened to the capital market, thus paving the way for long-term development of the business. In 2003, we changed the name from GEHE to Celesio and made clear the direction of our group to cover the full range of international pharmaceutical distribution.

20 May 2003 saw the official green light given for the start of the Celesio era in the presence of the Minister President of Baden-Württemberg, Erwin Teufel, the Mayor of Stuttgart, Dr Wolfgang Schuster, and numerous representatives from business and public life. The change of name, which we accomplished in a very short time at comparatively low cost, was positively received by shareholders, analysts, employees and the public alike.

Our new name will mean that confusion between the group and the operational wholesale companies in Germany and the Czech Republic, which have traded and will continue to trade under the name of GEHE, will be a thing of the past. The new name Celesio takes into account the international direction of our company and the spectrum of our business activities.

* 2003 turnover

"We are expanding our distribution activities across Europe in order to be the customer's first choice over the whole range of pharmaceutical distribution in Europe."

Our services: Already more than wholesale and retail

Celesio has been providing services for the pharmaceutical industry, which go far beyond the traditional scope of wholesale and retail, since 1993. As a vertically integrated trading company we have a deep, comprehensive knowledge of the whole supply chain from the manufacturer via the doctor right to the end-consumer at the pharmacy. We draw on this experience and offer our partners tailor-made logistical, administrative, marketing and financial services in seven European countries. We thereby allow pharmaceutical manufacturers to outsource functions which do not relate to their core activities, core products or core markets. In the 2003 financial year the value of the goods handled by the group in this field of business totalled € 1.5 bn. The importance of these business activities for our group is steadily increasing. As a result we are not only combining them across the group, but also expanding them throughout Europe, in order to be the customer's first choice across the whole range of pharmaceutical distribution in Europe.

"The profit for 2003 has once again exceeded the high figure of the previous year."

Group profit significantly above the high figure of 2002

The profit for the 2003 financial year has once again exceeded the previous year's high figure. In a difficult all-round market environment, pre-tax profit, after adjustment for exchange rate effects, exceeded last year's figure by 13.7 %. We are once again more than happy with this result. Over 88 % of profit was achieved outside Germany in ten European countries. Our retail division achieved a profit growth, adjusted for exchange rate effects, of 38.7 %, once again making a significant contribution to the group's positive development, despite a considerable slow-down in external growth compared with previous years. Our strategy of investing in our existing pharmacies, in order to increase their attractiveness, has clearly paid off this financial year.

We would like to take this opportunity to extend our sincere thanks to all group employees. Their hard work and commitment has made it possible to achieve such a strong result in 2003.

The expectations of analysts and investors, and hence the development of the Celesio share price, were heavily influenced by the burdens to which our German pharmaceutical wholesale business was subjected. These included government intervention in the market and the protracted discussions regarding reforms to the German healthcare system along with associated uncertainties. The large proportion of group profit achieved outside Germany is proof, however, that it is wrong to view our group development, and thus the value of our company's shares, through German spectacles.

Innovative and forward-looking business development

"We have long experience of coping with government intervention and regulation."

2003 has shown that we are active in a market which is largely independent of the general economic environment. Being ill or healthy is entirely independent of the economic situation. This makes the pharmaceutical market particularly attractive. However, in times of difficult economic conditions, the pharmaceutical market is particularly prone to government intervention. We have long experience of coping with government intervention and regulation and have demonstrated our ability to minimise the impact of such action through the planned development of our business divisions. We pushed ahead early with the regional diversification of our group, continually improved our network of branches, pharmacies and all work processes, and pro-actively helped to shape the regulatory conditions of our markets. With highly motivated employees, a slimmed down, flexible and efficient group organisation, together with the capital increase carried out in Spring 2002, we are well prepared to meet the challenges and opportunities of the coming years. We will continue with our growth strategy into the future, despite government intervention and regulation.

In 2003 we have once again shown that we can react quickly and effectively when an unexpected opportunity arose to acquire a holding in Andreae-Noris Zahn AG, Frankfurt, Germany's third-largest pharmaceutical wholesaler. In view of the profitability of this company, we could not pass up this opportunity.

"We introduced effective measures long before general political discussions began, so as to ensure a form of management directed towards the interests of our shareholders."

Good, responsible management directed towards the interests of all shareholders

We introduced effective measures long before general political discussions began, so as to ensure a form of management directed towards the interests of our shareholders. The adoption of the German Code of Corporate Governance in 2002 confirmed that this was the right approach. Celesio is conforming to the now codified recommendations with three exceptions.

"In keeping with socially responsible and sustainable company development we are creating continual added value for our shareholders."

Long-term strategy for growth

In keeping with socially responsible and sustainable company development we are creating continual added value for our shareholders. This primarily involves, in addition to conformity with the recommendations of the German Code of Corporate Governance, a long-term business strategy.

As of 31 December 2003 Michael Ward resigned from the management board to take up a post outside the pharmaceutical market. Until the time of his leaving he was a member of the management board with group-wide responsibility for our pharmaceutical retail business. During his period in office Lloydspharmacy became the largest pharmacy chain in the United Kingdom and the expansion of the pharmacy business throughout Europe began. Mr Ward's duties were taken over on 1 January 2004 by Stefan Meister, who was already on the board as chief financial officer. We would like to thank Mr Ward for his many years of successful service to the company.

A glance back at the 2003 financial year shows that we have been able, in a market environment which was far from easy, to continue Celesio's success story and hence fulfil our shareholders' expectations.

Stuttgart, February 2004
The management board

Dr Fritz Oesterle
Chairman of the management board
and chief executive officer

Management board

Dr Fritz Oesterle
Chairman of the
management board,
chief executive officer and
personnel relations officer

Jacques Ambonville
Member of the
management board
and group managing director
wholesale

Stefan Meister
Until 31 December 2003:
Member of the management board
Finance, Controlling and IT
From 1 January 2004:
Member of the management board
and group managing director
retail

Michael Ward
Member of the management board
until 31 December 2003
Retail

Growth market healthcare

Supervisory board

Günther Hülse
Duisburg
Chairman

Ihno Goldenstein
Delmenhorst
Deputy chairman from
24 April 2003

Friedrich Taake
Porta Westfalica
Deputy chairman
until 24 April 2003

Klaus Borowicz
Delmenhorst, from 24 April 2003

Prof med Julius Michael Curtius
Weimar

Dr Hubertus Erlen
Berlin

Dirk-Uwe Kerrmann
Weiterstadt, from 24 April 2003

Jörg Lauenroth-Mago
Magdeburg

Ulrich Neumeister
Stuttgart, from 24 April 2003

Hans-Martin Poschmann
Berlin

Jürgen Puff
Stuttgart, until 24 April 2003

Hans Jürgen Sachse
Halle, until 24 April 2003

Dr Ihno Schneevoigt
Munich

Prof Theo Siegert
Duisburg

Prof Erich Zahn
Stuttgart

Günther Hülse
Chairman of the supervisory board

Supervisory board report

Celesio continued to expand its position during the year 2003 in the European pharmaceutical wholesale and retail markets. The supervisory board monitored all important decisions and developments during another highly successful financial year.

The management and supervisory boards worked closely together in the 2003 financial year following the principles of good corporate governance. The supervisory board discussed the strategic alignment of the group with the management board and was kept regularly, fully and promptly informed by the management board in respect of business development, planning, risk assessment and risk management. All important projects and their implementation were followed closely by the supervisory board. The supervisory board was able to fully comply with its supervisory and advisory responsibilities and to take decisions as appropriate.

The chairman of the supervisory board maintained regular contact with the management board, especially with its chairman, and consulted with him about strategy, business development and risk management at Celesio AG and within the group. He was informed promptly of events of essential importance regarding the development and management of the group. When key issues were made known to the chairman outside supervisory board meetings, the whole supervisory board was fully informed of these at the next meeting.

Four regular meetings were held during the 2003 financial year, with a further constitutional meeting after the election of new members. The supervisory board was particularly concerned with the renaming of the holding company as Celesio AG and with the consequences of cost-saving legislation in Celesio's key markets. In addition, the supervisory board members kept themselves informed of both new and existing strategic issues within the Celesio Group and advised the management board accordingly. One important topic was the conversion of group accounting to International Financial Reporting Standards (IFRS), which is planned to take place during 2004. Decisions were taken on acquisitions and also on investments in maintenance and modernisation. Importantly, the necessary steps were also taken to meet the standards of the German Code of Corporate Governance. Important topics here were examining the efficiency of the supervisory board and consultation on the structure of management board remuneration. The chairmen of the committees reported regularly to the supervisory board about the work of their committees.

Dr Ihno Schneevoigt did not attend the meetings in the 1st half-year and therefore attended less than half of the five meetings during the financial year.

The supervisory board formed three committees. The Arbitration Committee, formed pursuant to § 27 Paragraph 3 of the Co-determination Law [Mitbestimmungsgesetz], did not meet during the period. The Audit Committee held two meetings and the Staff Committee held three.

The financial statements for Celesio AG and the group as at 31 December 2003, together with the joint management report for Celesio AG and the group, were examined by the auditors, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft of Stuttgart, who gave their certificate of approval without qualification. These documents, together with the auditors' reports, were issued to all members of the supervisory board and fully discussed at the balance sheet meeting of the supervisory board held after the auditors' report. The supervisory board had no objections to raise after the concluding results of their audit. At the recommendation of the Audit Committee they approved the results of the audit and also the financial statements for Celesio AG and the group as produced by the management board. The financial statements have therefore been signed off. The supervisory board examined the proposal for the appropriation of the net retained earnings and agreed to its adoption.

With regard to the majority holding of Franz Haniel & Cie. GmbH, Duisburg during the period, the management board laid the report before the supervisory board concerning the relationship to affiliated companies during the 2003 financial year pursuant to § 312 of the Companies Act [Aktiengesetz] and also the auditors' report on this point, as produced by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft of Stuttgart, in their role as official auditors pursuant to § 313 of the Companies Act. Based on the audit, which was concluded without objection, the auditors issued the following report:

"Having conducted a proper audit and appraisal, we hereby confirm that:

1. The factual content of the report is correct, and
2. payments by the company in connection with the legal transactions referred to in the report were not unduly high."

The supervisory board examined and approved the report on relations with affiliated companies and the corresponding auditors' report. The supervisory board raised no objections to the final declaration of the management board in this report.

With the conclusion of the annual general meeting on 24 April 2003 the workers' representatives Jürgen Puff, Hans-Jürgen Sachse and Friedrich Taake left the supervisory board of Celesio AG. In accordance with the Co-Determination Act, Klaus Borowicz, Dirk-Uwe Kerrmann and Ulrich Neumeister were voted into the supervisory board. At the constitutional meeting of the supervisory board held after the annual general meeting on 24 April 2003, Günther Hülse was re-elected as chairman of the board. The new deputy chairman is Ihno Goldenstein. We would like to thank the departing members for their good work and support to the company.

Michael Ward left the management board with effect from 31 December 2003. Stefan Meister took over his area of responsibility as of 1 January 2004. Dr Fritz Oesterle and Stefan Meister will be jointly responsible for finance until a successor for Mr Meister has been appointed. The supervisory board would like to thank Mr Ward for his contribution to the company and wishes Mr Meister every success with his new tasks.

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

Stuttgart, March 2004
On behalf of the supervisory board

Günther Hülse
Chairman of the supervisory board

Celesio Group

Key financial figures: A 10-year overview

in € m	1994	1995	1996	1997
Turnover	7,771.9	9,794.5	10,954.4	12,800.6
% increase	49.4	26.0	11.8	16.9
EBITDA	243.9	318.8	586.5	422.6
EBITDA per share in €	4.18	4.37	8.05	5.80
Profit before tax	120.0	171.5	433.2	231.6
Net profit	71.9	108.1	225.0	145.8
Dividend per individual share in €*	0.51	0.51	0.51+0.15	0.66
Cash flow	163.8	213.7	328.4	233.6
Fixed assets	968.1	1,360.1	1,011.2	1,965.0
Shareholders' equity	696.9	1,060.9	1,100.1	1,204.1
Long-term capital	1,130.2	1,631.4	1,242.4	2,311.7
Total assets	2,455.2	3,170.2	2,914.1	4,212.8
% of total assets Fixed assets	39.4	42.9	34.7	46.6
Shareholders' equity	28.4	33.5	37.8	28.6
Long-term capital	46.0	51.5	42.6	54.9
Investments	164.1	486.9	143.7	890.7
Number of employees (converted to full-time equivalents)	11,313	18,764	15,909	23,755

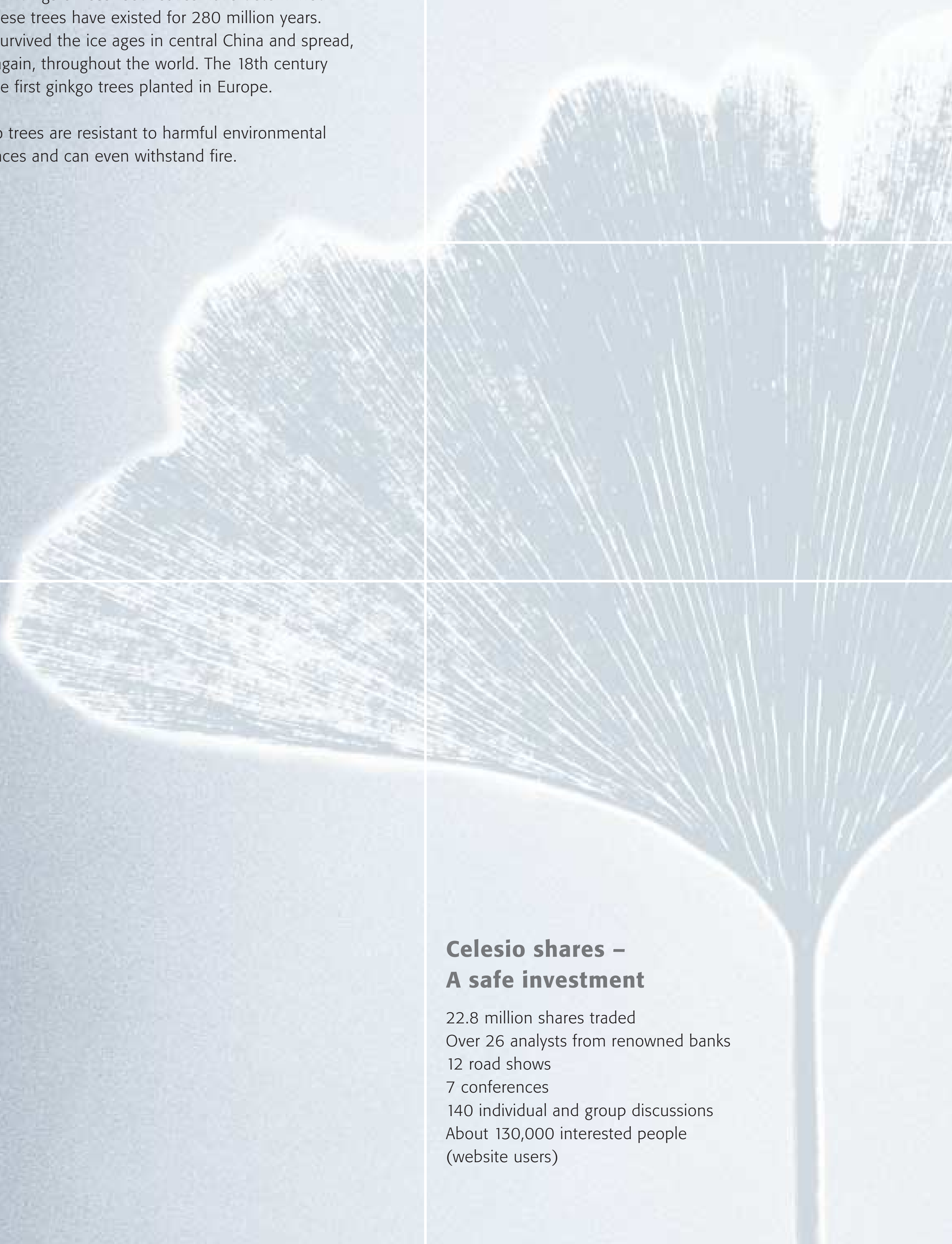
* based on respective number of shares distributed
** adjusted for mail order division and extraordinary result after taxes
*** adjusted for extraordinary result after taxes

	1998	1999	**1999	2000	***2001	2002	**2003**
	12,966.6	13,923.0	13,607.8	15,344.7	16,971.0	18,383.4	**18,539.6**
	1.3	7.4	10.9	10.2	10.6	8.3	**0.8**
	439.4	423.5	385.7	439.5	484.6	539.1	**555.6**
	6.03	5.81	5.29	6.03	6.65	6.34	**6.53**
	252.1	260.9	230.0	255.5	292.1	343.6	**373.8**
	155.8	183.8	146.1	171.5	201.3	239.6	**254.0**
	0.66	0.70 + 0.07	0.625 + 0.07	0.77	0.77 + 0.08	0.85	**0.90**
	248.7	249.0	226.2	255.0	291.6	350.2	**358.0**
	1,844.9	1,867.9	1,867.9	2,020.6	2,320.4	2,334.0	**2,206.6**
	1,155.3	1,185.1	1,185.1	1,153.2	1,220.6	1,639.7	**1,609.0**
	2,065.9	1,967.5	1,967.5	2,169.9	2,506.7	2,590.9	**2,175.7**
	4,114.6	4,352.5	4,352.5	4,506.4	5,241.8	5,509.6	**5,500.8**
	44.8	42.9	42.9	44.8	44.3	42.4	**40.1**
	28.1	27.2	27.2	25.6	23.3	29.8	**29.3**
	50.2	45.2	45.2	48.2	47.8	47.0	**39.6**
	207.5	271.2	269.6	334.5	548.4	392.6	**276.6**
	23,033	21,048	21,048	21,619	23,654	24,978	**24,975**

The ginkgo – A symbol for continuity

The ginkgo is considered to be the ancestor of all trees. Findings of fossilised leaves have determined that these trees have existed for 280 million years. They survived the ice ages in central China and spread, once again, throughout the world. The 18th century saw the first ginkgo trees planted in Europe.

Ginkgo trees are resistant to harmful environmental influences and can even withstand fire.



Celesio shares – A safe investment

22.8 million shares traded
Over 26 analysts from renowned banks
12 road shows
7 conferences
140 individual and group discussions
About 130,000 interested people (website users)

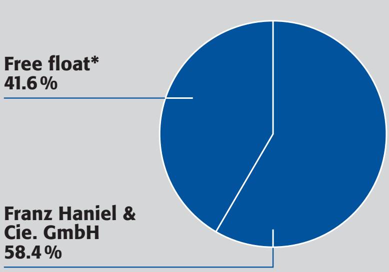
Celesio Shares

Celesio shares

The task of Celesio's management is to continually increase the value of the company for its shareholders. Group profit has continued to increase annually for 17 consecutive years. Shareholders have benefited from this development with a long-term rise in the share price and increased dividends. Celesio shares are viewed by international and long-term orientated investors as an investment from which an above-average growth rate can be expected, and which is largely independent of economic fluctuations.

Clear increase in free floating stock

Shareholder structure



* including Celesio employees

The shareholder structure of Celesio changed during the 2003 financial year. The AXA group held from 1998 the bulk of its Celesio shares in a convertible bond which matured on 12 November 2003. The free floating stock therefore increased by 8.6 % and amounted to 41.6 % of share capital at the end of the financial year. The principal shareholder was Franz Haniel & Cie. GmbH, Duisburg, with a holding of 58.4 % of the 85,050,000 issued shares. Relatives of employees, former employees and pensioners held about 1.3 % of the shares. These shares are part of the free floating stock and were acquired as part of employee share schemes. Some 2,133 employees acquired a total of 16,926 shares in the 2003 financial year. Celesio has supported this form of asset building since 1985 with contributions amounting to € 8.3 m.

Celesio shares listed on important indices

Celesio is listed on the German MDAX Stock Exchange. In market capitalisation terms, Celesio was in 7th place on 30 December 2003 with a weighting of 3.39 %. Celesio's weighting on the Morgan Stanley Capital International Germany index (MSCI) was 0.27 % at the end of the financial year.

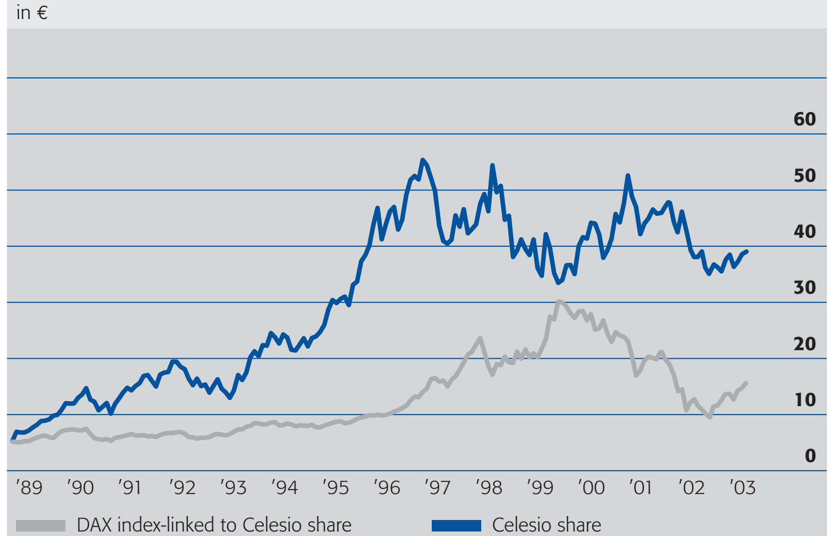
Key financial figures for the Celesio share in € per share	1999	2000	2001	*2002	**2003**
Net profit	2.25	2.33	2.76	2.95	**2.99**
Dividend	0.70+0.07	0.77	0.77+0.08	0.85	**0.90**
Dividend with tax credit (not rounded up)	1.10	1.10	**0.85	**0.85	****0.90**
EBITDA	5.81	6.03	6.65	6.63	**6.53**
Cash flow	3.42	3.50	4.00	4.31	**4.21**
Shareholders' equity	16.26	15.82	16.74	20.16	**18.92**
Share price (30.12.)***	38.50	40.75	43.50	37.10	**38.45**
Number of issued shares (30.12./in m)	72.9	72.9	72.9	85.1	**85.1**
Market capitalisation (30.12./in € m)	2,806.7	2,970.7	3,171.2	3,155.4	**3,270.2**

* weighted average of number of shares
** without tax credit due to change to the half-income system
*** last trading day

Celesio shares

Social responsibility to employees, society and the environment are important factors for the past 17 years of continuous growth of Celesio. The company's attention to these issues is being rewarded by inclusion in important sustainability indices. Celesio has been a member of the Dow Jones STOXX Sustainability Index (DJSI-STOXX) and of the Dow Jones Sustainability World Index (DJSI-World), which is compiled annually according to a strict selection procedure, since 2002. In addition, Celesio has been represented in FTSE4Good Europe since 2001, which helps investors to come to ethically informed decisions.

Performance of Celesio shares
in €



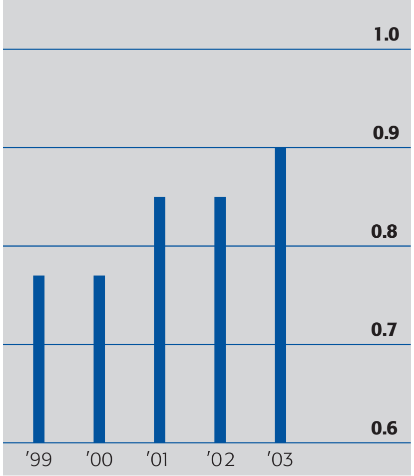
Trading volume of Celesio shares increased again

The capital increase in 2002 and the rise in free floating stock in 2003 were key drivers to the growth in trading volumes of the Celesio shares. A total of 22.8 million shares were traded in the financial year.

At the end of the year 2002 the Celesio share price was € 37.10. In 2003 the share price fluctuated between € 32.05 and € 39.69 and was € 38.45 on 30 December 2003. This represents a growth in value of 3.6 % compared with the year-end of 2002.

Although an all-round positive market attitude was predominant in the stock exchanges and the DAX showed a clear positive trend, Celesio shares did not fully benefit from this development as they do not follow market cycles. However, the increasing share price during the past 15 years is evident that long-term orientated investors are greatly interested in a sound company with a sustainable profit growth. In this time period the Celesio shares clearly outpaced the DAX.

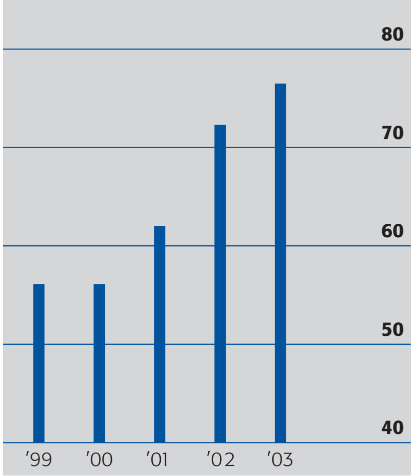
Cash dividend per share
in €



Shareholders participating in Celesio's success

The management and supervisory boards will propose to the annual general meeting that the dividend be increased from € 0.85 to € 0.90. The group will thus maintain its dividend policy and allow its shareholders to benefit from the successful business performance in 2003. The proportion of the net profit being distributed amounts to 30.1 %. The dividend value therefore increases to € 76.5 m. The increase in the cash dividend per share of 5.9 % represents a dividend yield of 2.3 %. Profit per share, after adjustment for exchange rate effects, improved by 8.73 % (4.02 % in €) despite the dilution effect from the capital increase in April 2002. This reflects a very successful year in the development of the business.

Dividend value
in € m



Celesio shares

Comprehensive communication with investors and banks

The main focus of the investor relations work has been on prompt, comprehensive and reliable communication with private shareholders, institutional investors and analysts. An important role here, especially for private shareholders, is played by our website www.celesio.com as the first port of call in all enquiries about Celesio shares. For institutional investors and analysts 140 individual and group discussions, seven conferences and 12 road shows offered a forum for information and discussions on Celesio's strategy and results.

More than 20 analysts from reputable banks followed Celesio with much interest and published regular reports about the company's shares. This is proof of the considerable interest of the capital market in Celesio and guarantees continuous flow of information about Celesio and its relevant markets.

The conference for investors and analysts in Birmingham, England in March 2003 was attended by analysts and investors from Europe and North America. Talks, discussions and a tour of Celesio pharmacies and a wholesale branch gave participants an insight into the group's two business divisions.

Celesio complemented its dialogue with investors and analysts with its creditor relations work, including active and comprehensive communication with the lending banks. The company organised the "Celesio International Bankers Day" in Frankfurt in 2003 for the first time, replacing the nationally organised events of the previous years, in which representatives of numerous international credit institutions participated.

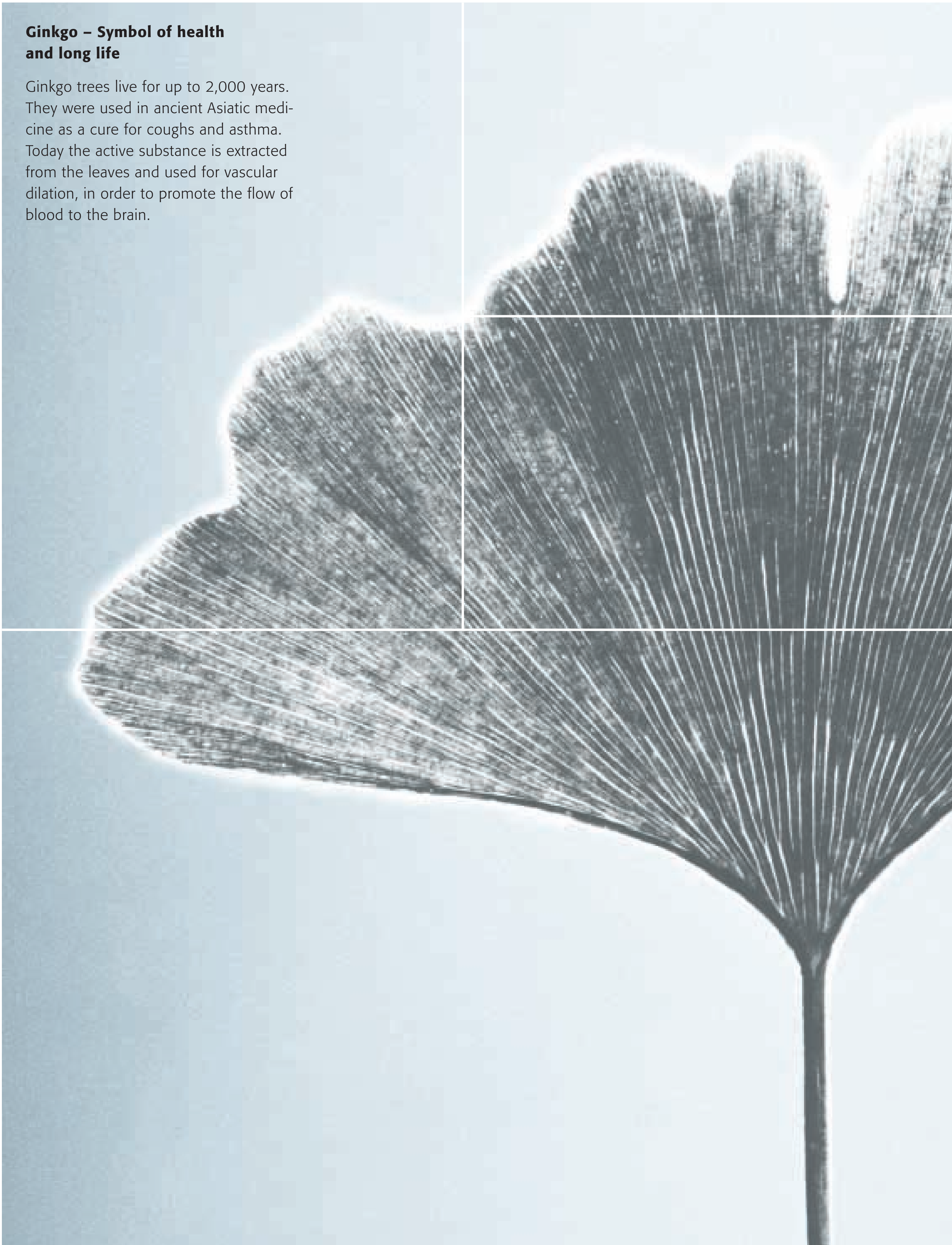
New capital market financing

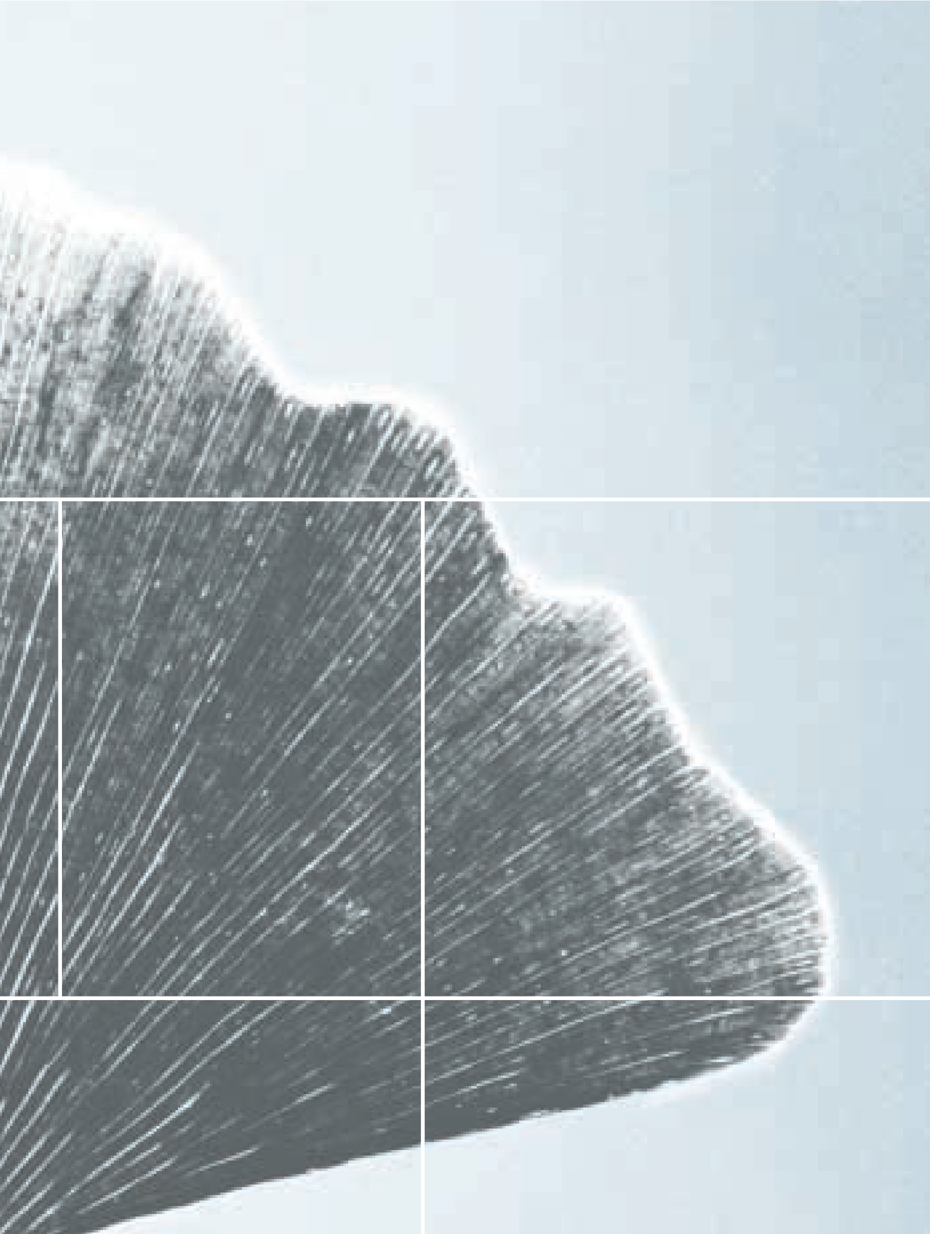
At the end of the 2003 financial year, Celesio issued its first promissory notes. The issue of the promissory notes was arranged jointly by three German national banks. It was the first time that three national banks had worked together in this way. Celesio presented to interested subscribers at individual road shows the attractiveness of the conditions of the five-year notes and of Celesio as a borrower. Due to Celesio's stability and quality, combined with the notes' attractiveness for the markets, the original target sum for the issue of € 175.0 m was markedly oversubscribed and increased to € 243.5 m. Celesio is one of the major European issuers of this type of financing instrument.

With the first-time issue of these promissory notes, Celesio continued to diversify the financing structure of the group. At the same time Celesio opened up a new circle of investors. The company's investor relations work will be increasingly concerned in the future with this new circle of outside investors.

Ginkgo – Symbol of health and long life

Ginkgo trees live for up to 2,000 years. They were used in ancient Asiatic medicine as a cure for coughs and asthma. Today the active substance is extracted from the leaves and used for vascular dilation, in order to promote the flow of blood to the brain.

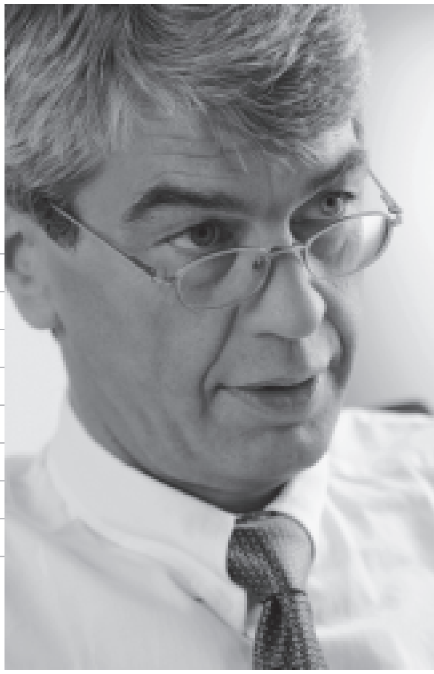




Growth market healthcare

European market leader
Pharmaceutical wholesale
Pharmaceutical retail
11 countries
8 languages
24,975 employees

Celesio Group



Dr Fritz Oesterle
Chairman of the
management board
and chief executive officer

Management report for the Celesio Group and Celesio AG 2003

Corporate strategy

In the 2003 financial year, Celesio significantly exceeded last year's record profit and continued to grow. This is proof that the company has taken the right decisions about its strategic direction. The group's success factors are: Concentration on pharmaceutical distribution, expansion, the seamless integration of new companies, flexibility and innovation, helping to shape market conditions, and open and trustworthy communication. This puts the group in the optimum position to continue on its path of sustainable growth.

Celesio's strength is its concentration on pharmaceutical distribution

Celesio's core business is pharmaceutical distribution which is characterised by the distribution of medicines, the supporting of other companies with the distribution and the supplying of end-users, all in an optimal and customer-orientated manner. Distribution is a comprehensive, wide-ranging service which cannot be considered on a par with normal, exchangeable distribution or sales services. Celesio is an expert in all facets of this business due to over 160 years of experience.

Celesio's strength lies in the concentration on the entire spectrum of pharmaceutical distribution. This makes it possible to achieve group-wide synergies and economies of scale between business divisions and within each business division. This generates potential for organic growth.

Concentration on pharmaceutical distribution is by no means a static process. It also includes the innovative development of new business models both within and outside the group's existing business divisions. This allows Celesio to adapt quickly to changes in the regulatory frameworks, and secure the group's position for the future.

Corporate strategy

Expansion only under strict assessment criteria

The early, Europe-wide orientation of business activities and the use of tried-and-tested business models adapted to new markets have put Celesio at the forefront of European pharmaceutical distribution. The geographical diversification of the Celesio Group has, to a considerable extent, mitigated the impact on profit caused by government intervention in national markets.

Celesio's position as a leading European company allows the business to make its expansion dependent on the fulfilment of strict acquisition criteria. Economic and political stability are essential in target countries, as is the feasibility, combined with clear return expectations, to achieve a strong market position, a reliable business environment and strong management of the target company. It should be noted that in existing wholesale markets, opportunities for further acquisitions have become more limited due to advanced consolidation processes and competition rules. In retail, opportunities for acquisition in 2003 were characterised by a very limited range of attractive available pharmacies. The prospect of unstable international capital markets offer few profitable alternatives for investment for pharmacists ready to sell. In addition, when ascertaining prices the group took into account likely changes to market conditions in individual countries. Celesio's acquisition policy can be summed up in three words: "Quality not quantity".

Whilst bearing these factors and criteria in mind, Celesio takes every attractive opportunity for expansion, in order to continually expand its pre-eminent position in Europe and increase the long-term value of the company.

The integration of acquired companies is part of Celesio's culture

With tried and tested processes, the group integrates new companies speedily and unobtrusively. This is only possible if the cultural identity and individuality of the acquired company are preserved as far as possible. Necessary changes are only made when awareness and acceptance on the part of the employees have been achieved. This guarantees that the customer relationships of the acquired company are not disturbed. Maintenance of customer relationships enjoys the highest priority in every acquisition, since a large part of the value of an acquired company usually resides in this very area.

Celesio and the acquired company jointly benefit from speedy and unobtrusive integration. Where there is a mutual process, synergies can be achieved, best practice standards established and quality standards transferred. This form of integration is part of Celesio's culture and ensures the lasting business success of both partners.

Flexibility and innovation in new market situations

Celesio regards its role as the best customer-focussed supplier of medicines to the population on behalf of all the customers – the pharmacists, industry and other market participants. This role is taken by the company in all the markets in which it operates. At the same time, Celesio adapts its business activities to the legal framework, market conditions and customers' needs in each country.

It is customary at Celesio to recognise changes in market conditions and additional growth potential early on and to further develop business activities in a forward-looking, flexible and innovative fashion. As a pharmaceutical wholesaler, Celesio has supplied a full range of goods to pharmacists ever since its foundation. Since the company's expansion, Celesio is also an experienced partner in numerous countries for supplies to hospitals and doctors. In countries where the legal framework permits, Celesio has developed innovative retail concepts and can ensure immediate supplies to patients with its own pharmacies. In addition, Celesio today offers tailor-made services to the pharmaceutical industry in several countries. These industry-orientated activities exist independently of the wholesale and retail businesses.

Corporate strategy

Helping to shape the market conditions

In all countries, the health market is characterised by continuous political debate. However, many links are frequently not recognised and interactions overlooked. This leads to the wrong political decisions. Celesio sees it as its task to participate actively in the formulation of political opinion. Jointly with associations, market participants or sometimes alone, Celesio brings new, pragmatic ideas into the political dialogue and helps to form the political environment of healthcare. This is not only in the interest of the company, its shareholders and employees, but also in the interest of the public to assure a long-term health service.

The 2003 financial year was characterised in some countries by sometimes drastic savings measures in the health services. These measures were frequently concentrated on cost savings in medicines. This approach, although very simple and convenient for politicians, is neither in the interest of patients nor capable of producing lasting solutions to the structural problems under which the individual healthcare systems are suffering. This, along with other counterproductive repercussions from intervention in the medicines market, has been increasingly publicised by Celesio over the previous financial year. It should be clear, however, that Celesio's increased public relations work can only bear fruit in the future if other opinion formers are also involved.

Celesio's French wholesaler, OCP, expanded its nationwide campaign *Parce que la Santé n'attend pas [Because health won't wait]* which began in 2002, with an end-user-orientated element. In addition to pharmacists, the majority of whom recognise OCP as a spokesman for pharmaceutical distribution in France, the company has made end-users aware, in a more targeted fashion, of the existing quality of the supply of medicines and of the threat posed to quality from improperly thought-out State intervention. Celesio's Norwegian wholesaler, NMD Grossisthandel, and the Norwegian Ministry of Health reached agreement on a close dialogue between market participants and the politicians, with the aim of working out joint proposals for the further development of the health system.

Communication as the key to trust, motivation and efficiency

Open and convincing communication both internally and externally is one of Celesio's key success factors. Good communication creates trust in customers, investors, banks and analysts, ensures motivated, committed employees and is an essential component of a transparent and efficient organisational structure.

Celesio's external communication has shown over many years that it is absolutely reliable. Above all, in times of uncertain capital markets, early information on possible risks, together with openness with regard to all issues and ideas, is of particular importance.

Celesio's employees also contribute to credible external presentation. To enable them to do so, they are kept regularly informed throughout the group by a whole range of communication tools such as employee journals, the intranet and e-mail. This active internal communication raises motivation and employee commitment. But, above all, it strengthens the awareness of belonging to a European company and promotes the growing together of group companies.

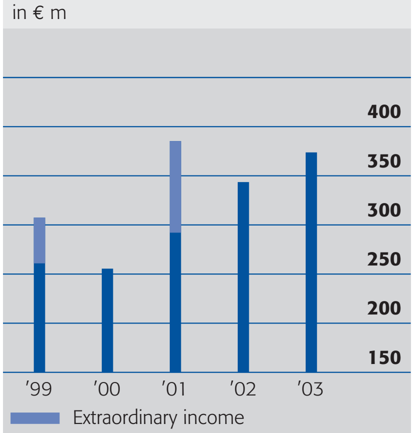
The divisional group structure, which has existed since early 2002, has noticeably helped internal communication and made it more effective. In order to transfer knowledge and experience between countries, the management teams of the individual operating units meet regularly at divisional level. These meetings of senior European management ensure that opportunities are recognised and taken throughout the group, and that risks are discovered, controlled and avoided.

Business review

Despite difficult market conditions, the Celesio Group once again achieved record results in the 2003 financial year and continued to grow. Turnover, adjusted for exchange rate effects, increased only slightly in the 1st half-year due to the marked slowdown in market growth in some markets. In the 2nd half-year, however, growth clearly accelerated and for the full financial year turnover, adjusted for exchange rate effects, grew by 3.8 %. The clear fall in profit in the German wholesale business was more than compensated for by the positive development in wholesale and retail in other countries. Profit, adjusted for exchange rate effects, increased by 13.7 %.

Celesio well placed despite a difficult market environment

Profit before tax
Group
in € m



Celesio achieved a sound increase in turnover and a high profit growth in the 2003 financial year despite several influences inhibiting growth. These were essentially extraordinary items negatively impacting on turnover growth amounting to € 314.6 m, a slowdown in market growth in almost all European markets and drastic government intervention in the German health system. In addition, turnover and profit were adversely affected by the weakness of the pound sterling (GBP). The company's geographical and vertical diversification, customer-friendly and innovative services in wholesale and retail and a strong market position in individual markets enabled Celesio to compensate for these effects.

Through strict, on-going cost control and earnings management Celesio managed to increase profit before tax significantly in excess of turnover growth.

The share of turnover achieved outside Germany in the 2003 financial year was 81.2 % (previous year 81.8 %), and the corresponding share of profit was 88.4 % (previous year 82.9 %).

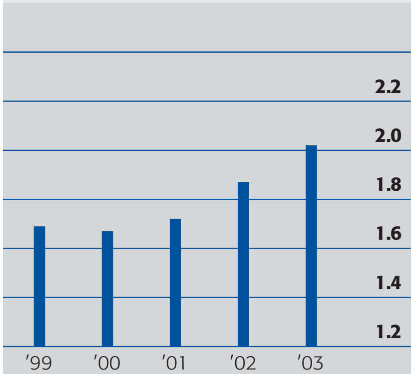
Turnover and profit again at record levels

Adjusted for exchange rate effects and extraordinary items, Celesio increased its turnover by 5.5 % to € 18.5 bn. Including the extraordinary items, turnover increased, adjusted for exchange rate effects, by 3.8 % (0.8 in €). Profit before tax rose, adjusted for exchange rate effects, by 13.7 % (8.8 % in €) to € 373.8 m. Return on sales, measured on pre-tax profit, improved significantly and reached 2.02 % compared with 1.87 % for the previous year. Profit before tax per share increased, taking the dilution effect of the capital increase into account, from € 4.23 in the previous year to € 4.40. Celesio not only achieved record results in 2003 but even surpassed its own targets.

In wholesale Celesio clearly accelerated its turnover growth in the 2nd half of 2003 compared with the 1st half-year, and achieved for the full year an increase of 4.5 % over the previous year, after adjustment for extraordinary items and exchange rate effects. Without taking the extraordinary items into account, turnover increased by 2.5 % (0.4 % in €) after adjustment for exchange rate effects. Market growth was below the average values of the previous years. Pre-tax profit, adjusted for exchange rate effects, increased by 4.5 % (1.9 % in €) to € 275.0 m. Return on sales, measured on pre-tax profit, increased to 1.73 % compared with 1.71 % last year.

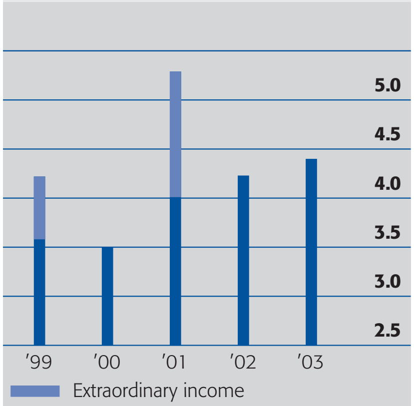
In retail the pharmacies' market-leading services, continued optimisation of locations and the successful development of newly opened pharmacies and acquisitions had a positive effect on Celesio's business development. Turnover reached € 2,652.2 m, corresponding to growth, adjusted for exchange rate effects, of 11.7 % (3.6 % in €) which was clearly above comparable market growth. The increased turnover and improved gross margin led to a strong disproportionate increase in pre-tax profit of 38.7 % (26.1 % in €) to € 99.0 m, after adjustment for exchange rate effects. Celesio significantly improved its return on sales by 66 basis points to 3.73 %.

Return on sales*
Group
in %



* based on profit before tax

Profit before tax per share
Group
in €



Business review

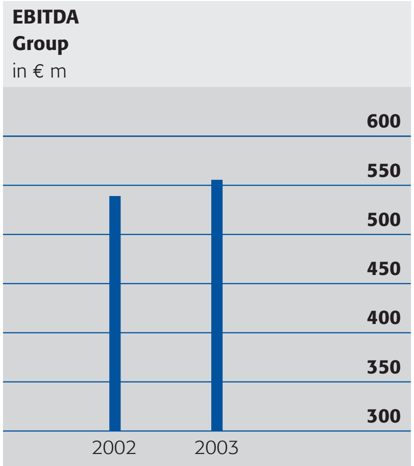
Strict evaluation criteria for pharmacy acquisitions

Retail acquisitions in 2003 were restricted by a lack of suitably attractive pharmacies. The prospect of unstable international capital markets offered those pharmacists willing to sell, few profitable alternative investment opportunities. In addition, expected government measures and an assessment of their likely effect on the profitability of pharmacies led to differing ideas about prices for buyers and sellers. Celesio adhered to its strict and diligent evaluation criteria for pharmacies, and when negotiating acquisition prices took into account likely changes in state health services, and also the danger that no agreement would be possible with vendors on this basis.

In the 2003 financial year Celesio acquired only 57 pharmacies and opened eight new ones. As part of its portfolio optimisation programme, Celesio sold or closed 30 pharmacies. At 31 December 2003 the group was operating 1,882 pharmacies in seven European countries.

Profitability statistics reflect success

The structure of the profit and loss account for the 2003 financial year was characterised by improved return on sales in both wholesale and retail and the increasing share of the pharmacy business in turnover and in profit, in particular.



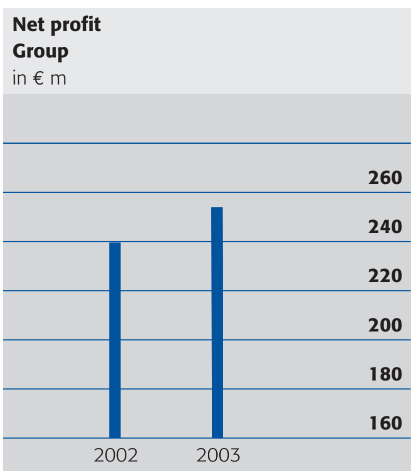
The gross margin of the group rose by five basis points to 10.07 %. This development was due to the retail division increasing its gross margin by 113 basis points to 31.30 %. Government measures and rising discounts brought about a reduction in gross margin of 25 basis points to 6.52 % for the wholesale division.

Other operating income rose slightly by € 4.9 m to € 156.1 m. Income from the disposal of fixed assets and write back of provisions, unrelated to this accounting period, contributed € 19.1 m to this, compared with € 20.4 m the previous year.

Due to the greater personnel concentration in the retail division, personnel expenses rose in the 2003 financial year to the same extent as turnover. The group-wide cost-cutting measures in the 2003 financial year and the weakness of the GBP led to a reduction in costs.

EBITDA, adjusted for exchange rate effects, rose by 8.5 % (3.1 % in €) to € 555.6 m. The EBITDA ratio increased by seven basis points and reached 3.00 % at the end of the financial year. In wholesale, the negative effects of the fall in the gross margin were largely offset by reduced costs. Retail improved its profitability and achieved an EBITDA ratio of 8.76 %.

Business review



In terms of fixed assets, investments of the previous years led to a slight increase in depreciation of tangible assets and amortisation of intangible assets, adjusted for exchange rate effects, of 1.4 % to € 99.9 m. Without taking account of exchange rate effects, depreciation and amortisation fell by 3.5 %. This is due to the strength of the €. Goodwill amortisation increased by € 0.9 m to € 19.3 m due to pharmacy acquisitions where individual assets were acquired (asset deals).

Net interest has continuously improved. This is attributable to the low rate of interest, the funds generated from the capital increase in the 2nd quarter of 2002, the positive development of free cash flow before acquisitions and change in the net working capital, and the optimisation of the average net working capital during the year. Interest coverage (EBIT in relation to interest paid) improved considerably compared to the previous year, from 4.7 to 5.6.

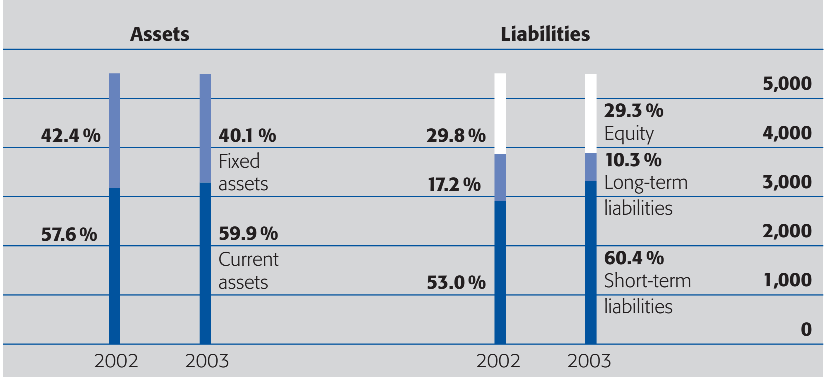
Profit before tax showed a rise of 13.7 % (8.8 % in €) from the previous year, after adjustment for exchange rate effects, to € 373.8 m. Return on sales, measured on profit before tax, improved from 1.87 % in the previous year to 2.02 %, exceeding the 2 % mark for the first time. The amount of tax due compared with the previous year rose from 30.3 % to 32.1 %. This was essentially due to the abolition of corporation tax credits in Germany. Net profit, adjusted for exchange rate effects, rose by 11.0 % (6.0 % in €) to € 254.0 m. Net profit per share, taking account of the dilution effect of the increase in capital and adjusted for exchange rate effects, rose by 6.11 % (1.35 % in €) to € 2.99, compared with € 2.95 the previous year.

Balance sheet structure continues to be very stable – Equity ratio at 29.3 %

The group balance sheet as at 31 December 2003 continues to show a very stable structure. With an equity ratio of 29.3 % and a gearing of 0.79, Celesio is very well prepared for further growth. In addition to the diversification of the financing structure through the issue of promissory notes for the first time, the weaker GBP also affected the structure of the group balance sheet. The balance sheet total fell slightly as compared with the previous year by € 8.8 m.

Fixed assets reduced by € 127.4 m to € 2,206.6 m. Taking the effect of the weaker GBP into account, depreciation of tangible assets and the offset of goodwill relating to intangible assets were much greater than corresponding additions in the 2003 financial year. In contrast, financial assets rose by € 48.4 m to € 108.6 m resulting mainly from the acquisition of a holding in Andreae-Noris Zahn AG. Investments were largely funded from cash flow.

Structure of balance sheet
Group
in € m and %



Business review

Change in net working capital Group	31.12.2002 in € m	**31.12.2003 in € m**	**Change in € m**
Stocks	1,380.4	1,401.6	21.2
Trade debtors	1,586.6	1,690.3	103.7
Other assets	118.0	124.4	6.4
Prepaid expenses	70.8	63.9	(6.9)
Operational assets	**3,155.8**	**3,280.2**	**124.4**
Trade creditors	1,520.1	1,573.0	52.9
Bills payable	188.2	229.8	41.6
Other short-term liabilities	382.0	347.9	(34.1)
Deferred income	3.4	7.8	4.4
Operational liabilities	**2,093.7**	**2,158.5**	**64.8**
Net working capital	**1,062.1**	**1,121.7**	**59.6**
adjusted for exchange rate effects			44.0
adjusted for change in the scope of consolidation			7.6
adjusted for other non cash items			(7.9)
Change in net working capital affecting cash flow			**103.3**

Current assets increased by € 125.6 m to € 3,230.3 m due to positive business development, particularly towards the end of the 2003 financial year. Whilst during the 2003 financial year levels of stocks fell noticeably, they rose towards the year-end to ensure supply capability in December – a month with very high turnover in 2003. In some countries, favourable purchasing conditions were used in a targeted way, which also led to an increase in stocks. Trade debtors also showed a steep seasonal increase due to the high December turnover. Therefore net working capital rose by € 44.0 m compared with 31 December 2002 after adjustment for exchange rate effects.

Equity at 31 December 2003 was € 1,609.0 m, amounting to 29.3 % of the balance sheet total. The net profit of € 254.0 m was reduced by the dividend payment of € 72.3 m, the offset of goodwill of € 176.3 m and a negative translation effect of € 33.8 m. Not including the temporary increase in stocks and trade debtors at the end of the 2003 financial year, the equity ratio was 30.3 %.

Pension provisions rose slightly by € 1.3 m to € 86.4 m, constituting only 1.6 % of the balance sheet total. Expenses relating to pensions represented only 2.2 % of wages and salaries. This demonstrates the secondary importance of liabilities from pension commitments for Celesio. Other provisions increased by € 47.1 m to € 374.9 m.

Liabilities decreased by € 31.0 m to € 3,422.7 m at 31 December 2003. Celesio Finance B.V., Weesp, Netherlands – founded in July 2003 for the long-term guarantee of external financing of the companies in the Celesio Group – issued promissory notes for the sum of € 243.5 m in the 4^{th} quarter of 2003. As a result, liabilities to banks were reduced. The build up of stocks at the end of 2003 led to an increase in trade creditors including bills payable.

Business review

Investments in the extension and modernisation of pharmacies and branches

In 2003, Celesio invested a total of € 276.6 m. The volume of investments was spread across investments in intangible assets (€ 112.6 m), tangible assets (€ 94.1 m) and financial assets (€ 69.9 m). Of total investments, € 106.9 m related to investments in the underlying business and € 169.7 m to acquisitions.

Investments in intangible assets related primarily to the expansion of the retail division. Celesio acquired a total of 57 pharmacies in the United Kingdom, Norway, Ireland, the Netherlands, Belgium and the Czech Republic. The additions to goodwill in wholesale and retail were € 100.8 m.

Investments in tangible assets amounted in wholesale to € 33.6 m. These related to new branches and the modernisation of branches in France, Germany, the United Kingdom, Ireland, Norway and Portugal. The Bourg-Achard and Toulouse branches in France, Delmenhorst and Landshut in Germany, and Torres Novas and Lisbon in Portugal, were completed. In retail, the focus continued to be on the refitting, modernisation and relocation of pharmacies. In the United Kingdom, almost all pharmacies were equipped with consultation areas. In the United Kingdom, Italy, Norway, Belgium and Ireland, pharmacies were refitted or modernised at a cost of € 18.2 m. Investments in tangible assets for the retail business totalled € 44.1 m.

Celesio invested € 21.3 m in intangible assets and tangible assets in respect of information technology. The main focus was on the improvement of operational processes in the wholesale branches, the introduction of the *Merlin* sales and stock management system in Ireland and the upgrading of IT systems in the retail business.

Investments in financial assets principally related to the purchase of a holding in Andreae-Noris Zahn AG.

Cash flow finances investments and pharmacy acquisitions

In the 2003 financial year, cash flow increased by 7.0 % (2.2 % in €) to € 358.0 m, after adjustment for exchange rate effects. This was principally due to the increased net profit.

After payment of the dividend for the 2002 financial year, and taking account of the changes in net working capital, Celesio financed all investments in the underlying business and a large element of pharmacy acquisitions from cash flow.

Cash flow Group	2002 in € m	**2003 in € m**
Cash flow	350.2	358.0
Dividends paid	(63.1)	(72.9)
Cash flow after dividends paid	**287.1**	**285.1**
Income from the disposal of fixed assets	49.4	29.4
Investment in underlying business	(130.0)	(106.9)
Free cash flow before acquisitions and change in net working capital	**206.5**	**207.6**
Change in net working capital	(82.2)	(103.3)
Acquisitions	(262.6)	(169.7)
Free cash flow	**(138.3)**	**(65.4)**

Business review

Strong equity capital base for Celesio AG

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

At 31 December 2003, the balance sheet total had fallen by € 172.7 m to € 2,005.3 m. Whilst capital increases in subsidiaries led to an increase in fixed assets, current assets reduced, in particular as a result of a reduction in amounts due from affiliated companies. The increased equity and reduction in liabilities had a positive effect on the balance sheet structure.

The net profit of Celesio AG for the 2003 financial year was € 117.7 m, compared with € 187.1 m the previous year. This reduction from the previous year was principally due to the one-off payment of dividends by domestic and foreign subsidiaries, undertaken in 2002 to improve the group financing structure. From the net profit and retained earnings brought forward of € 21.2 m, it will be proposed that € 76.5 m should be paid out as a dividend, and € 58.9 m transferred to revenue reserves. The remaining amount of € 3.5 m is to be transferred to retained earnings.

Dividend to rise by 5.9 %

The management and supervisory boards are proposing at this year's annual general meeting an ordinary dividend of € 0.90 per share for the 85.05 m individual full dividend-bearing shares in 2003.

The proposed dividend per share represents an increase of 5.9 % compared with the previous year.

With the proposed dividend, more than 30 % of the group net profit is once again to be paid out to the shareholders of Celesio AG.

Outlook

The European pharmaceutical market is and will continue to be a growth market. Because of this on-going, long-term stable growth trend and despite government measures to control health expenditure in certain markets, Celesio is anticipating a market growth of about 5 % for the 2004 financial year.

The most important factors influencing the pharmaceutical market – the continuous rise in the demand for medicines and pharmaceutical developments – develop independently of general economic conditions. Although individual government regulations, which the group has successfully coped with for years due to its long experience and regional diversity, lead to fluctuations, the market trend continues to be positive. Over the last ten years the European pharmaceutical market has grown on average by about 7 % per year. Even in the weak overall economic environment of the last three years, market growth has averaged about 7 % per annum.

Growth ensured by increasing demand and innovative medicines

Two factors are responsible for the relative independence of the growth market in healthcare. First, due to the increasing proportion of older people in the population, more people require more medicines and hence the demand for them continues to rise. Secondly, due to the development of innovative and highly effective drugs which are replacing more expensive and complicated forms of treatment, the range of high quality drugs is continuously improving. These growth factors will remain in the future.

Long experience and diversification compensate for government intervention

In the course of demographic development, expenditure on health in most European countries has risen more strongly than gross domestic product. Although expenditure on drugs makes up only a small part of total expenditure on health, government measures target the drugs market instead of resolving the structural problems around the financing of the health service. Intervention of this nature leads to fluctuations in the constant, positive growth rates in the pharmaceutical market.

Celesio has shown with its 17 years of unbroken profit growth that the group can successfully deal with changes in government framework conditions. The company has reduced the impact of individual government measures on Celesio's overall success through geographical diversification in 11 European markets together with the vertical integration of all stages of pharmaceutical distribution. The group was therefore able to compensate for the consequences of government intervention in 2003 which, in Germany in particular, had a severe impact on pharmaceutical wholesale profits, and maintained its strong profit growth.

Celesio will continue to grow in 2004

Market growth in the 2003 financial year was below the average of recent years. Based on the slight recovery in the 2nd half-year 2003, the group is expecting market growth to pick up in 2004. In wholesale Celesio is expecting turnover to increase in line with market growth. In retail the group is anticipating growth in turnover to outperform market growth.

The management board estimates that the group's profit development in 2004 will be affected by government intervention in health policy in various countries. Celesio will more than compensate for the resulting impact. Therefore the management board is very optimistic about the 2004 financial year and anticipates a further record profit.

Risk management

Anyone acting with an entrepreneurial spirit will be aware of the risks. Grasping opportunities whilst carefully weighing up the risks is the secret of Celesio's success. Group-wide risk management has allowed, and will continue to allow, Celesio to identify risks, analyse, monitor and overcome them.

Planning and reporting systems ensure effective risk management

Risk management at Celesio is linked group-wide in all decision-making and business processes by means of planning and reporting systems. Risks and their possible impact together with their likelihood of occurrence and measures to overcome them are recorded, assessed and documented at national and group level. Essential facts, possible negative developments and risks are placed before the management board at an early stage for information, assessment or decisions on measures to be taken.

The main areas of focus in risk management

The risk environment at Celesio is characterised by several factors. Changes to the legal situation, decisions on acquisitions and investment, interest and exchange rate changes together with secure communication and information systems are the main areas of focus in risk management.

The medicines market is strongly affected by legal regulations. Attempts have been made for years to check the rising costs of the health service through changes in the legal situation. In addition to national programmes to compensate for the resulting negative effect on profits, Celesio meets this risk – so typical of the sector – with geographical diversification in eleven European markets. In this way negative effects on profits in individual countries can be smoothed out at group level. Celesio also diversifies risk by vertical integration into wholesale and retail. Government intervention in the medicines market regularly impacts on Celesio's wholesale and retail divisions, to varying degrees.

Acquisitions and investment are of central importance for Celesio's external growth. The risks in connection with decisions on acquisitions and investment are taken into account by Celesio through comprehensive advance due-diligence testing, careful forecasting, feasibility studies and a multi-stage approval process.

As a growth-orientated company which is active Europe-wide, Celesio is exposed to interest and exchange rate risks. The use of interest based derivatives, applied by highly qualified employees on the basis of guidelines applicable group-wide, bears witness to this fact. The hedging instruments used to insure against financial risks are described in detail in the group annex.

Group-wide security standards limit the risk of unauthorised access to communication and information systems and also of data loss. Detailed emergency plans ensure that even in the event of a failure of the communication and information systems, business can be carried on as usual. In order that the available protection and prevention measures can have full effect, employees are trained though group-wide campaigns in the correct and secure use of the company's communication and information systems.

Monitoring of the risk situation has revealed no major risks

When monitoring Celesio's risk situation for the 2003 financial year, no risks were found which could jeopardise the existence of the company. In the opinion of the management board, the company will be able to overcome any risks which might arise from its business activity now and in the future.

Corporate governance

Responsible management aimed at sustainable growth is tradition at Celesio. The management and supervisory boards work closely together in the interests of the company and are committed to a permanent increase in its value. Celesio's regular, open and speedy information policy is appreciated by shareholders, customers, employees and the public alike. This strengthens confidence in the management and supervision of the company. Domestic and foreign investors recognise the quality of the company's management.

The demands on company management have been on a legal footing since 2002 with the adoption of the German Code of Corporate Governance. Celesio's management and supervisory boards have welcomed the code and expressly supported its aims and purposes. At their meetings during the 2003 financial year, the management and supervisory boards dealt in detail with the code and discussed it thoroughly. In addition, the articles of association in the financial year were brought fully into line with the code, as soon as the standing order for the management and supervisory boards had been amended in late 2002 in accordance with the regulations of the code. In particular, an independent audit committee was formed as required by the code, but not under the aegis of the chairman of the supervisory board or of a former management board member. This committee met for the first time on 10 March 2003 for a constitutional meeting.

Celesio complied with the recommendations of the German Code of Corporate Governance in its version of 21 May 2003, with three exceptions one of which will probably cease to be an exception in 2004. Celesio will refrain from publishing individual details of the remuneration of members of the management and supervisory boards. The reason is that both boards are collegiate bodies where the decisive factor is the incentive effect on the total body, and not on the individual members.

Information on the topic of corporate governance at Celesio can be downloaded from www.celesio.com, including the following declaration of conformity, as issued by the management and supervisory boards on 16 December 2003 pursuant to § 161 of the Companies Act:

Celesio AG is conforming to the recommendations of the government commission's German Code of Corporate Governance in its version of 21 May 2003 with the following exceptions:

Celesio AG will produce its group financial statements and interim reports in future using International Financial Reporting Standards (IFRS) (section 7.1.1 sentence 3 of the code). Conversion work has been largely completed. The introduction of the IFRS will depend on their progress and probably take place in 2004.

The remuneration of the members of the management board is shown in the appendix to the group financial statements, divided into a fixed fee, success-related components and components with a long-term incentive effect. Details are not given for individual members of the board. (section 4.2.4 sentence 2 of the code).

The remuneration of members of the supervisory board is not disclosed by board member in the appendix to the group financial statements but is shown as a total value. (section 5.4.5 paragraph 3 sentence 1 of the code).

Since last year's declaration was issued, pursuant to § 161 of the Companies Act, Celesio AG has complied with the recommendations of the government commission's German Code of Corporate Governance in its version of 7 November 2002, with the following exceptions:

The chairmanship and membership of supervisory board committees were not separately remunerated (section 5.4.5 paragraph 1 sentence 3 of the code). This exception ceased to be one as a result of a resolution passed by the annual general meeting held on 24 April 2003 concerning supervisory board remuneration, actioned on 13 May 2003 by means of an entry of the relevant amendment to the articles of association of Celesio AG in the Trade Register. The declaration of conformity issued in December 2002 was hence amended in May 2003.

Celesio AG will produce its group financial statements and interim reports in future in accordance with recognised International Financial Reporting Standards (IFRS) (section 7.1.1 sentence 3 of the code).

The management board

The supervisory board

Employees

The key to Celesio's success is its employees. In 2003, they again worked with great commitment and made a major contribution to the record results. At 31 December 2003 Celesio employed 24,975 employees compared with 24,978 in the previous year. In wholesale the number of employees fell by 3.3 %, and in retail the number was 3.4 % above last year's figure.

An attractive employer for highly qualified staff in Europe

The aim of Celesio's human resources policy is to be an attractive employer, whose employees work with commitment, professionalism and pleasure. Clear structures, internationalism, individual staff development and financial incentives make Celesio attractive to university graduates, specialists and trainees.

Celesio has directed its recruitment to attract the most highly qualified workers and to win them over to work for the Celesio Group. Intensive co-operation with universities and technical colleges, together with participation in career days and exhibitions for university graduates, allow early contact with future graduates.

Clear, internationally structured business divisions

The new organisation, introduced in early 2002, structured clearly into internationally focused business divisions, has also found expression in the field of human resources. International communication structures provide a group-wide link between the staff of human resources departments in the different countries and guarantee an extensive exchange of information and experience between the territories. International project teams, consisting of representatives from the different countries, ensure group-wide implementation of best-practice standards.

The different national businesses act largely independently within the framework of group guidelines in their human resources work. This ensures that there is rapid action suited to local needs. Measures which promote the growing together of national companies and a common group identity, as well as the development of managers, are supervised Europe-wide from the group head office.

Employees

Individual staff development across Europe

A deciding factor for entrepreneurial success and the future of Celesio is the continuing high qualifications of all employees. The full potential of employees is brought out and utilised through systematic, individual staff development. Celesio offers employees with relevant qualifications pan-European perspectives and opportunities for development.

Management and key positions are filled with highly qualified employees largely from Celesio's own ranks. Particularly competent individuals from the various national businesses are promoted in multi-stage qualification schemes and prepared for their future roles.

Celesio promotes mobility and intercultural competence in its employees through cross-border exchanges within the group. This includes the exchange of employees, especially management and trainee managers, from the group head office to the national businesses and vice versa. This enhances group-wide co-operation beyond national and company boundaries.

Dependence report

The majority shareholder of Celesio AG is Franz Haniel & Cie. GmbH of Duisburg. We have therefore drawn up the report on relations with affiliated companies as required under § 312 of the Companies Act [Aktiengesetz]. This concludes with the following statement: "We hereby declare in summary that Celesio AG and its subsidiaries, received appropriate payment for all legal transactions, under the circumstances known to us at the date of these transactions."

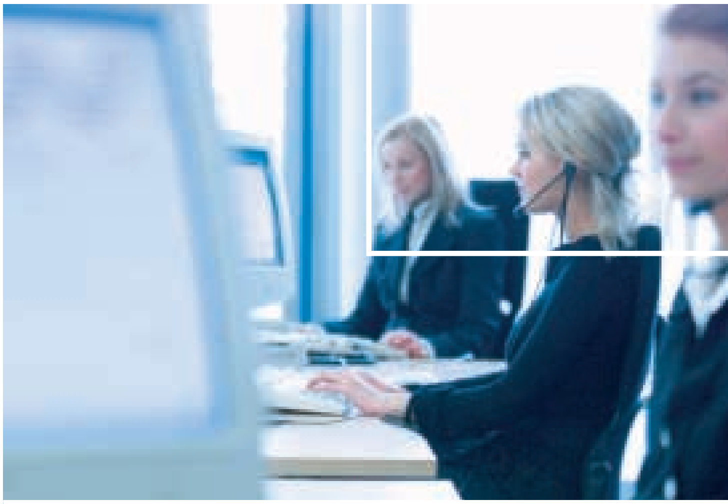
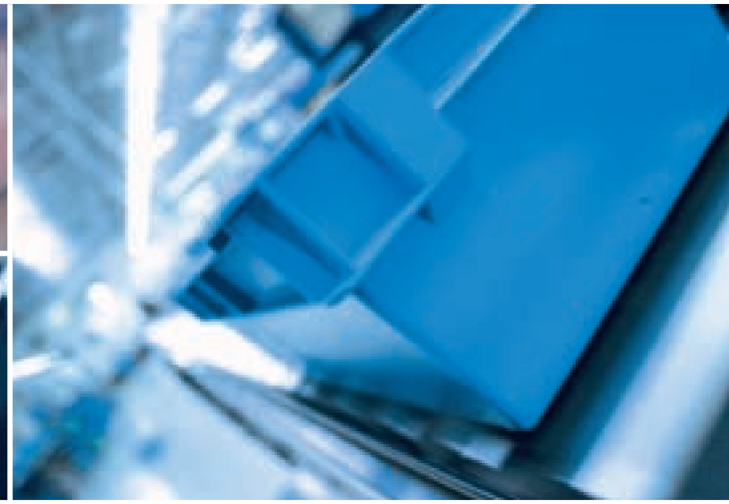
Ginkgo – A symbol of the equal rank of dual components

The dioecious nature of the ginkgo, (i.e. the separation of male and female plants), and the dilobed shape of its leaves reflect the Far-Eastern desire for dialectic and harmony, for the union of opposites.

Supplying pharmacies everywhere with everything pharmacies need.

10 countries
8 languages
126 branches
12,624 employees
Over 100,000 daily deliveries
About 40,000 pharmacies supplied daily

Celesio Wholesale



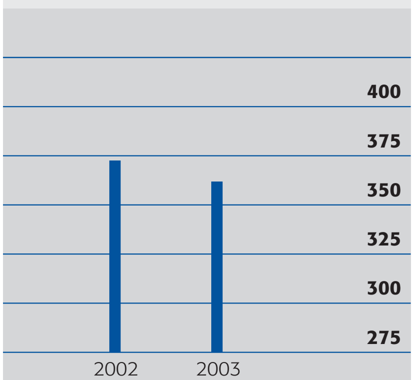


Wholesale turnover by country

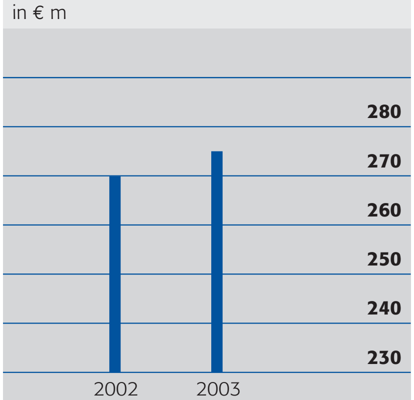
Country	Number of branches	2002 Turnover in € m	**2003 Turnover in € m**	Change in %	Change adjusted for exchange rate effects in %	Change adjusted for extraordinary items and exchange rate effects in %
France	54	6,553	**6,778**	3.4	3.4	3.4
Germany	19	3,350	**3,484**	4.0	4.0	4.0
United Kingdom	20	3,193	**2,977**	– 6.8	2.6	9.2
Austria	7	943	**919**	– 2.5	– 2.5	3.8
Norway	4	489	**420**	– 14.2	– 8.6	– 0.7
Belgium	8	412	**408**	– 0.8	– 0.8	5.9
Ireland	3	357	**374**	4.7	4.7	4.7
Portugal	7	288	**283**	– 1.8	– 1.8	– 1.8
Czech Republic	3	126	**129**	2.7	6.2	6.2
Italy	1	113	**115**	1.4	1.4	1.4
Total	**126**	**15,824**	**15,887**	**0.4**	**2.5**	**4.5**

Wholesale overview

EBITDA
Wholesale
in € m



Profit before tax
Wholesale
in € m



Turnover above last year's high level – Market growth in 2nd half-year accelerated – Disproportionate profit increase of 4.5 % – Celesio benefits from regional diversification – Market position as Europe's No. 1 in wholesale strengthened

Turnover above last year's high level – Profit increases disproportionately

Growth in the wholesale market in 2003 was in most markets below the long-term average of the previous years. In the 2nd half-year, however, turnover growth clearly accelerated again.

In wholesale Celesio increased its turnover compared with the previous year by 4.5 % after adjustment for exchange rate effects and extraordinary items. The extraordinary items included the expiry of a major distribution agreement in the United Kingdom in the 4th quarter of 2002 (impact totalling € 192.5 m); the loss of a pharmacy chain as a wholesale customer in Norway (impact totalling € 38.9 m); and the conversion – not affecting profit – of a distribution agreement in Austria from a turnover basis to a commission basis (impact totalling € 56.7 m). Including these extraordinary items turnover, adjusted for exchange rate effects, rose by 2.5 % (0.4 % in €).

EBITDA, adjusted for exchange rate effects, fell by 0.1 % (2.9 % in €) and at the end of the 2003 financial year totalled € 361.9 m.

The positive development of most wholesale companies together with the extensive measures introduced for cost reduction and control in the German wholesale business, in particular, led to an increase in profit before tax of 4.5 % (1.9 % in €) after adjustment for exchange rate effects, to € 275.0 m. Return on sales, based on profit before tax, rose from 1.71 % to 1.73 %.

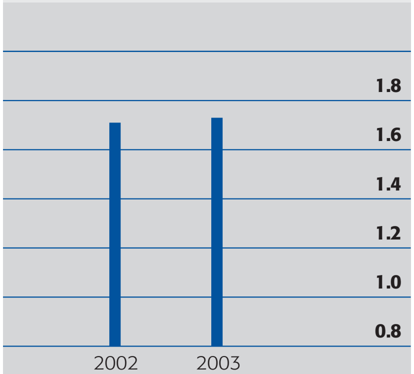
Earnings potential through tight cost management and regional diversification

Celesio achieved positive results in a difficult market environment. The good profit development in most wholesale markets compensated in 2003 for the negative impact of government savings measures in certain countries. This confirms the successful strategy of regional diversification in the group. The company has been continuously improving its cost structure over several years by critically reviewing internal processes and the branch network, and by carrying out relevant adaptations and investing in improvements.

The wholesale business was particularly affected by government measures in Germany, France and Portugal.

In Germany the Contribution Rate Security Act [Beitragssatzsicherungsgesetz] led to economically unjustifiable discount competition between wholesalers, and impacted strongly on the profit of GEHE Pharma Handel. The Act for Modernisation of Statutory Health Insurance [Gesetz zur Modernisierung der gesetzlichen Krankenversicherung], which replaced the Contribution Rate Security Act on 1 January 2004, reduces the legally fixed margin of pharmaceutical wholesalers by about the level of discounts granted voluntarily to date to pharmacies by wholesalers. This amount was added to the government-regulated remuneration of pharmacies. Since 1 January 2004 German pharmacies receive by force of law what, until the end of 2003, they had been receiving as a margin set by law and as a discount freely granted by the wholesalers. The reduction in the wholesale margins, as stipulated by the law, amounts to about half of the wholesale margin which applied up to the end of 2003. Faced with this enormous burden it can be assumed that German pharmaceutical wholesale will no longer be in a position to grant discounts to pharmacies.

Return on sales*
Wholesale
in %



* based on profit before tax

Wholesale overview

In France new regulations concerning the reimbursement of medicines were introduced with effect from 1 October 2003. For certain groups of drugs, reimbursement is no longer geared to the price of the original preparations but to the price of the corresponding generic products. As a result, pharmacies increasingly dispensed the cheaper generic products. This led to an increase in the generics share of the market but to an overall slowdown in market growth. Further measures to reduce costs include new rules from 1 January 2004 on the charges to be paid by pharmaceutical manufacturers on direct sales and a reduction in the wholesale margin which is likely to be introduced in the 2nd quarter of 2004.

In Portugal too, government measures such as changes to more cost-effective package sizes and limits on the number of items which can be prescribed per prescription hampered general market growth.

Celesio anticipates positive effects from the on-going consolidation process in the United Kingdom

Following the Office of Fair Trading's demands for the liberalisation of the British pharmacy market, the Department of Trade and Industry issued a proposal in August 2003 to ease restrictions over the granting of pharmacy licenses. AAH, Celesio's wholesaler in the United Kingdom, expects that the implementation of these recommendations will lead to further consolidation of the British pharmacy market and that AAH, as the market leader in the large customer segment, will benefit from this development.

Celesio strengthens its market position as No. 1 in Europe

In wholesale the group was active in ten countries at the end of the 2003 financial year with a total of 126 branches, and strengthened its top position in European pharmaceutical wholesale through the continued improvement in its branch network.

Due to process optimisation and socially acceptable rationalisation measures the number of employees declined from last year's figure of 13,052 to 12,624 at the end of 2003.

Wholesale information by country

France – Turnover growth accelerates in the 2nd half-year

OCP, the market leader in French wholesaling, achieved turnover in the 2003 financial year of € 6,777.9 m. This corresponds to growth of 3.4 % as compared with the previous year. Compared with the 1st half-year, turnover growth in the 2nd half-year accelerated considerably, and was in line with the comparable market growth. As a result of tight cost management, OCP's pre-tax profit increased in the 2nd half-year stronger than turnover.

Government measures caused the generics market to grow strongly in comparison with the previous year. Due to OCP's many years of intensive co-operation with manufacturers of generics and Pharmactiv, the company's own purchasing association for pharmacy customers, OCP benefited from this development and strengthened its position as pharmacies' preferred partner. The company profited from the increased market share of generics and successively expanded its position in that segment.

OCP is continually reviewing and improving its branch structure in order to achieve higher productivity on a lower cost basis. In March 2003 OCP merged its Rouen and Le Havre branches to form the new Bourg-Achard branch. The Toulouse branch moved into a new building which, equipped with the most modern technology, has a very high degree of automation.

Germany – Costs continually reduced due to innovative logistics system

Turnover of GEHE Pharma Handel, No. 2 in German wholesaling, grew by 4.0 % in 2003 to € 3,483.8 m which is below comparable market growth. The Contribution Rate Security Act [Beitragssatzsicherungsgesetz] triggered a financially unjustifiable discount competition between wholesalers which lasted throughout 2003. Although since the end of the 3rd quarter of 2003 discounts stabilised at a high level and costs fell in relation to turnover, profit before tax clearly declined compared to the previous year.

In the Spring of 2003 GEHE Pharma Handel developed a new logistics system with the purpose of streamlining internal processes and making better use of its branch network. This will enable branch operating times to be shortened and the cost structure to be continually improved. After a successful pilot phase the logistics system will be introduced in all regions, and by 2005 all branches will be linked into the system. This restructuring will allow staff numbers to be reduced in a socially responsible manner.

After the commissioning of the new branch at Delmenhorst in April 2003, the reconstruction of the Landshut branch was concluded according to plan.

Wholesale information by country

United Kingdom – Large increase in turnover with pharmacy chains

In the 2003 financial year AAH, the market leading wholesaler in the United Kingdom, achieved turnover of € 2,977.2 m. After adjustment for extraordinary items and exchange rate effects, this corresponds to an increase of 9.2 % which is on a par with comparable market growth. The improvement in net working capital, the smaller burden of interest and tight cost management led to a clear disproportionate profit growth.

The business development in 2003 was characterised by a number of extraordinary items, in particular by the expiry of a distribution agreement in the 4th quarter of 2002. This reduced AAH's turnover, adjusted for exchange rate effects, by € 192.5 m compared with the previous year. In addition, the average exchange rate per GBP fell in 2003 from € 1.5908 to € 1.4459. When translated into € this represents a loss in turnover of € 298.4 m. Altogether AAH's turnover increased, after adjustment for exchange rate effects, by 2.6 % (- 6.8 % in €) compared with the previous year.

Pharmacy chains are expanding their market position in the United Kingdom. AAH is a market leader in the segment with customers who run their own pharmacy chains. Therefore a particularly large increase in turnover was registered in this segment.

Branch modernisation had a very positive impact on profit. Rationalisation improvements and increased productivity were achieved, particularly in the Romford and Glasgow branches which were modernised in 2002.

Austria – Turnover rising further

Herba Chemosan, Austria's No. 1 in wholesaling, achieved turnover of € 919.4 m in 2003. After adjustment for an extraordinary item, this corresponds to growth of 3.8 % over the previous year, which is above the comparable market growth. Strong cost reductions and a lower interest burden led to a strong disproportionate increase in profit before tax.

The extraordinary item can be attributed to the change in the distribution agreement with a major customer. On 1 March 2003 the contract was changed from a turnover to a commission basis (with no effect on profit). The contribution to turnover from this contract was therefore technically reduced by € 56.7 m. Including this extraordinary item, turnover fell by 2.5 %.

Herba Chemosan expanded its seminar and information service for pharmacists in order to strengthen its position as a competent partner within the health service. Its range of seminars, for example, was expanded, with several sessions devoted to *New Drugs*.

Wholesale information by country

Norway – NMD improves the efficiency of customers' stock management

In the 2003 financial year NMD Grossisthandel (NMD), the Norwegian wholesale market leader, achieved turnover of € 419.8 m. After adjustment for an extraordinary item and exchange rate effects, this corresponds to a change of - 0.7 % (- 6.8 % in €). NMD therefore developed below comparable market growth. Profit before tax developed in line with expectations.

In June 2002 a large pharmacy chain, previously a customer of NMD, acquired a small wholesaler, which has been its exclusive supplier since July 2002. As a result, turnover decreased in 2003 compared with the previous year by € 38.9 m. With the inclusion of this extraordinary item NMD's turnover fell, adjusted for exchange rate effects, by 8.6 % (14.2 % in €).

NMD has, for many years, supplied almost all of the country's hospitals. Due to the high quality of deliveries and good co-operation in the past, existing contracts with NMD were extended in 2003.

In November 2003 NMD introduced an innovative solution for the Norwegian market to assist pharmacies with their stock management. Stocks are ordered automatically, at the optimum time and in the right amounts. This solution reduces stock levels in pharmacies and increases liquidity. In addition the ordering procedure is shorter, which allows employees more time for customer care.

Belgium – Clear improvement in the cost structure

PHARMA BELGIUM, No. 2 in the Belgian wholesale market, achieved turnover in the 2003 financial year of € 408.2 m. After adjustment for an extraordinary item this corresponds to an increase in turnover of 5.9 %. This development is below the comparable market growth. The extraordinary item is attributable to the acquisition of numerous, high-turnover wholesale customers by Celesio’s Belgian retail company in 2002. Their turnover is only shown in retail in order to avoid duplication of accounting. Including this extraordinary item, turnover declined by 0.8 %.

The cost structure of PHARMA BELGIUM was improved in the 2003 financial year by a number of operational improvements. These had a very positive effect on profit development.

PHARMA BELGIUM modernised its call centre in Brussels and, in doing so, profited from the long experience of Celesio’s French wholesaler, OCP. The call centre now allows faster, more personal customer care as well as more targeted use of marketing measures.

Wholesale information by country

Ireland – Improved profit through rationalisation

CAHILL MAY ROBERTS (CMR), No. 3 in the Irish wholesale market, achieved turnover of € 374.2 m in the 2003 financial year. With growth of 4.7 % compared with the previous year, CMR developed below comparable market growth.

Profit before tax improved despite intense competition. This is chiefly attributable to the effects of rationalisation in the Dublin and Cork branches, which were modernised in 2002.

Portugal – Increased market share in the generics segment

OCP PORTUGAL, No. 3 in the Portuguese wholesale market, achieved turnover of € 283.1 m in the 2003 financial year in overall weak market conditions. Although this corresponds to a decrease of 1.8 % compared with the previous year OCP PORTUGAL outperformed the comparable market. The development of profit before tax is in line with expectations.

Whilst market growth in 2002 was enhanced by a major wave of influenza and a nation-wide meningitis vaccination campaign, market growth in 2003 slowed down as a result of additional government cost saving measures. The generics market by contrast grew strongly. Due to intensified collaboration with manufacturers of generics, OCP PORTUGAL benefited from this development.

In the 2nd half of 2003 OCP PORTUGAL opened its modernised Lisbon branch in a new location. In addition, steps were taken to merge the branches at Torres Novas and Santarém.

Czech Republic – Reorganisation of operational procedures leads to increased productivity

In the 2003 financial year GEHE Pharma Praha, No. 5 in the Czech wholesale market, achieved turnover of € 128.9 m. With growth, adjusted for exchange rate effects, of 6.2 % (2.7 % in €) over the previous year, GEHE Pharma Praha maintained its market position but developed below the comparable market. Profit development was in line with expectations.

At the Prague branch, extensive reconstruction work was carried out in the 1st half-year in order to reorganise operational procedures. The resulting increased productivity and higher supply quality were already having a positive effect on business in 2003.

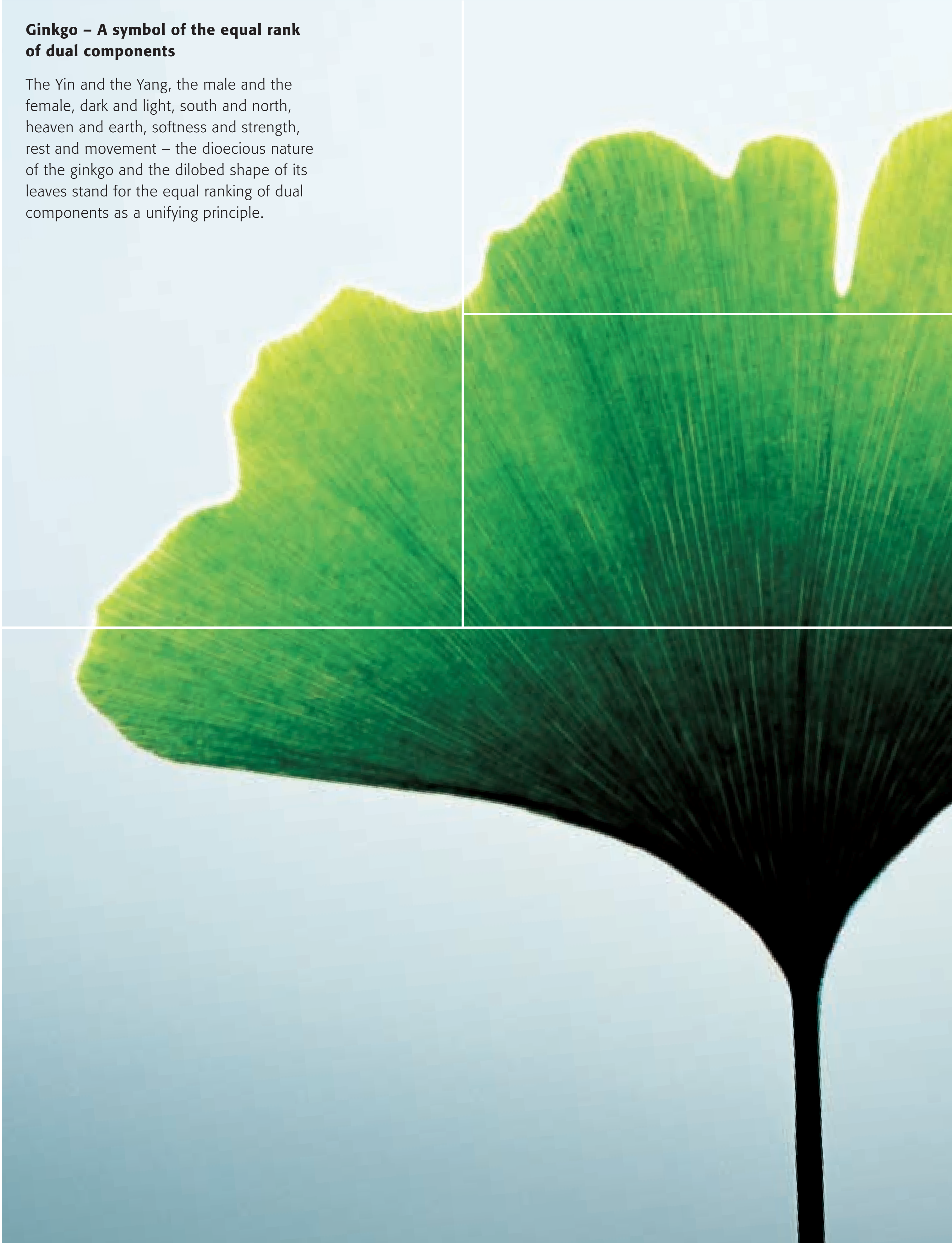
Italy – Pleasing business development

AFM's turnover rose in the 2003 financial year by 1.4 % to € 114.7 m. Sales of OTC medicines and peripheral products showed a particularly positive development. Concentration on high turnover customers and improved net working capital led, despite intense competition, to a pleasing profit before tax.

This positive development stood in contrast to the general market development, which was cautious as a result of government measures.

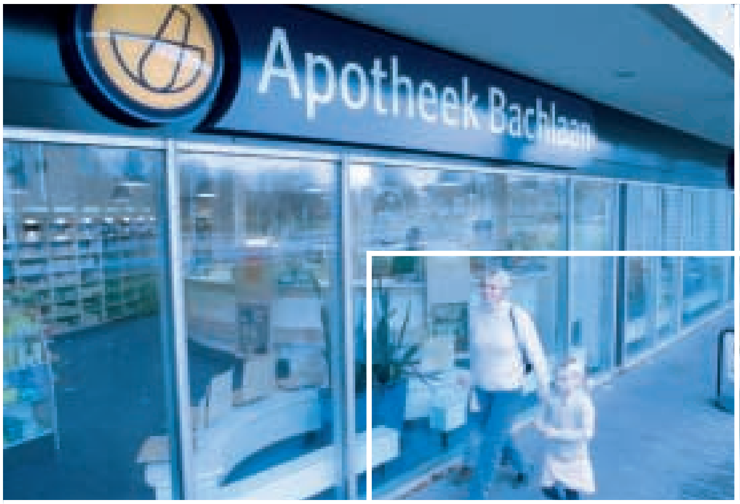
Ginkgo – A symbol of the equal rank of dual components

The Yin and the Yang, the male and the female, dark and light, south and north, heaven and earth, softness and strength, rest and movement – the dioecious nature of the ginkgo and the dilobed shape of its leaves stand for the equal ranking of dual components as a unifying principle.



Our pharmacies: Optimal care in everything to do with health

7 countries
7 languages
1,882 pharmacies
12,213 staff
About 100 million customers served per year


Apotheek Bachlaan



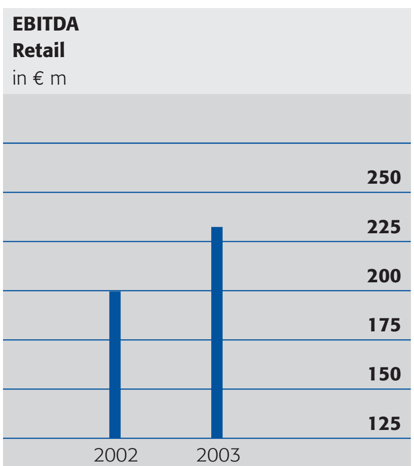


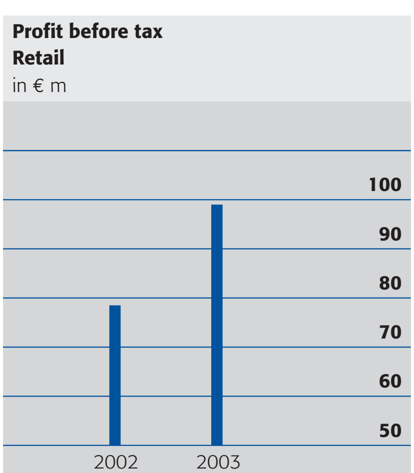

Lord Chamberlain's Office


Retail turnover by country

Country	Number of pharmacies	2002 Turnover in € m	**2003 Turnover in € m**	Change in %	Change adjusted for exchange rate effects in %
United Kingdom	1,375	1,837	**1,833**	– 0.2	9.8
Norway	108	319	**322**	0.8	7.4
Italy	161	183	**186**	2.0	2.0
Ireland	54	70	**105**	51.9	51.9
Netherlands	35	67	**97**	46.4	46.4
Belgium	65	40	**60**	49.2	49.2
Czech Republic	84	44	**49**	10.6	14.4
Total	**1,882**	**2,560**	**2,652**	**3.6**	**11.7**

Retail overview





Development well above market level – Strong growth in turnover of 11.7 % and rising gross margin – Strong increase in profit of 38.7 % – Synergies from cross-group exchange of know-how – Market leadership expanded in pharmacy retail

Development well above market level – Strong growth in turnover and rise in gross margin leads to a strong increase in profit

The retail market in 2003 was characterised in most countries by a marked slowdown in growth. Just as in the wholesale market, market growth in retail also clearly decreased in the 1st half-year but picked up again in the 2nd half-year.

In 2003 retail turnover, adjusted for exchange rate effects, rose by 11.7 % (3.6 % in €) over the previous year to € 2,652.2 m. On a like-for-like basis, i.e. after eliminating acquisitions and disposals, growth in turnover amounted to 6.9 % after adjustment for exchange rate effects. The performance of those pharmacies refitted in 2002 using country-specific design concepts, together with the introduction of attractive service concepts, contributed to organic growth in 2003, which significantly outperformed comparable market growth.

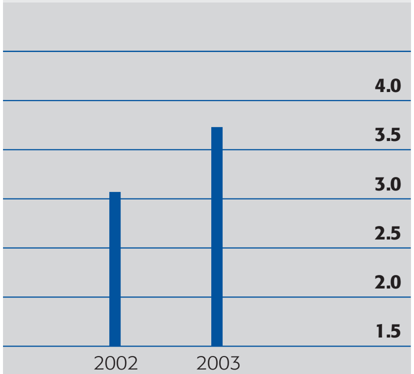
EBITDA increased, adjusted for exchange-rate effects, by 25.8 % (16.4 % in €) and reached € 232.4 m at the end of the 2003 financial year.

The strong growth in turnover and the rising gross margin led to a strong increase in pre-tax profit, after adjustment for exchange rate effects, of 38.7 % (26.1 % in €) to € 99.0 m. Return on sales increased significantly from 3.07 % last year to 3.73 %.

Intensive co-operation with pharmaceutical manufacturers – Celesio Retail geared up for government measures

In some countries cost-cutting government measures led to a considerable slowdown in market growth. In Norway an index price regulation was introduced for the reimbursement of prescription medicines in order to encourage pharmacists to dispense favourably priced generics instead of branded products. In the Netherlands the De-Geus Regulation came into force on 1 September 2003. This envisaged an increase in the clawback, but was declared void in a court judgement in December 2003. What effect the judgement will have on payments already made by pharmacies is as yet unclear. Celesio is assuming that the Netherlands will have recourse to other savings measures. In Belgium, prices for some prescription medicines were reduced and the clawback for reimbursable medicines increased during the 2nd half-year of 2003. Furthermore, in Italy the clawback for highly priced medicines was increased and the prices of all reimbursable medicines reduced by an average of over 4 %.

Return on sales*
Retail
in %



* based on profit before tax

Celesio Retail will take advantage of easier licensing in the United Kingdom

In January 2003, the British Office of Fair Trading published its recommendations to the Department of Health on the granting of licences to pharmacists without restriction. In July 2003 both the Department of Health and the Department of Trade and Industry (DTI) opposed the total liberalisation of licensing for pharmacies. At the end of August 2003 the DTI issued concrete proposals to make the licensing procedure for pharmacies easier under certain conditions e.g. granting licences to pharmacies opening in large shopping centres with very long opening hours on the outskirts of towns. Introduction of these proposals would scarcely have an effect on Lloydspharmacy, Celesio's British retailer. Over recent years Lloydspharmacy has concentrated its pharmacies in attractive locations near to the main flow of prescriptions, for example in or near medical practices. This means that there is little competition between Lloydspharmacy and supermarkets.

If business opportunities result from easier licensing of pharmacies, Lloydspharmacy will take advantage of these.

Retail overview

Synergies through exchange of know-how across the group

An important factor in the success of the retail division is the exchange of know-how between the national organisations. Innovative services and logistical systems which are successful in one country are transferred to other countries at only minor expense and adapted to local market needs. In this way, synergies are achieved.

Lloydspharmacy in the United Kingdom has strengthened the role of pharmacists as health service providers by equipping its shops with separate consultation areas where comprehensive advice, diabetes testing and other services are offered as standard. Reinforced by an information campaign on diabetes and carried out in close collaboration with the pharmaceutical industry, demand at Lloydspharmacy shops for the diabetes test increased significantly. Vitusapotek, Celesio's Norwegian pharmacy chain, followed the example of Lloydspharmacy in the 1st half-year of 2003 and also introduced diabetes testing with great success in pilot projects at its pharmacies.

Unicarepharmacy, Celesio's Irish pharmacy chain, benefited from Lloydspharmacy's experience in similar fashion. In the 2003 financial year Unicarepharmacy adopted the stock management and cash handling system after it had been successfully installed at Lloydspharmacy. With electronic cash tills, barcode scanners and an electronic communication infrastructure, the system supports all business processes at the pharmacy, from ordering to stock keeping, and supplies, in addition, relevant information on sales figures and stock levels.

Market leadership extended in pharmacy retail

At the end of the 2003 financial year Celesio Retail was operating 1,882 pharmacies in seven European countries. With the strategy of locating pharmacies in attractive sites close to the flow of prescriptions such as in or near medical practices, health centres and hospitals, Celesio was able to gradually optimise its portfolio and extend its market leading position in Europe.

In the 2003 financial year Celesio acquired or opened 65 pharmacies, 25 of which were in the United Kingdom, nine in Norway, two in Ireland, seven in the Netherlands, 17 in Belgium and five in the Czech Republic. In addition, as part of the continuous optimisation of locations, Celesio moved 16 pharmacies to more attractive locations and sold or closed 30 pharmacies.

The number of employees grew, essentially due to acquisitions, by 3.4 % to 12,213.

Retail information by country

United Kingdom – Strong growth in turnover in the prescription segment

In the 2003 financial year Lloydspharmacy increased turnover ahead of the previous year, adjusted for exchange rate effects, by 9.8 % (- 0.2 % in €) to € 1,832.7 m. This growth was far ahead of comparable market growth. In the prescription segment turnover increased, adjusted for exchange rate effects, by 12.3 % (2.1 % in €). The increasing average value per prescription during 2003 and the increased number of prescriptions dispensed at Lloydspharmacy shops are chiefly responsible for this development. Profit before tax increased disproportionately due to the strong growth in turnover and tight cost management.

The British Department of Health's *Vision for Pharmacy in the New National Health Service* re-defined the role of the pharmacists in the United Kingdom. In future they will no longer be just dispensers of medicines but also an integral component in the medical supply chain of the population. This will be purposefully promoted through the adaptation of government regulations, probably in the 1st half-year of 2004. For example, it is likely that the dispensing fee set by the NHS for dispensing prescription medicines will no longer relate only to the number of items dispensed but also to the quality and extent of advice offered. As the market-leader for the most modern pharmacy services, Lloydspharmacy has been conforming to this vision for many years. At the heart of its trading lies comprehensive, responsible advice tailored to the needs of the customers. By the end of the 2003 financial year Lloydspharmacy set up separate consultation areas in more than 85 % of its pharmacies, offering comprehensive services such as blood, diabetes and cholesterol testing. The consultation areas provide a private place in the pharmacy where customer care can be offered as standard. In addition, Lloydspharmacy started up its own radio station in the 2nd quarter of 2003 with product information and contributions on current health topics.

Norway – Rise in turnover well above market growth

Vitusapotek achieved turnover of € 321.5 m in the 2003 financial year. Turnover grew by 7.4 % (0.8 % in €), adjusted for exchange rate effects, and outpaced comparable market growth, which was clearly below the average of previous years due to the introduction of a price reference system. Profit development exceeded expectations.

Since 1 January 2003 some OTC products are permitted to be sold in shops other than pharmacies. This has had no noticeable effect on Vitusapotek's business.

In the 2003 financial year Vitusapotek benefited from Lloydspharmacy's long years of experience by extending its range of products and services. The company began to introduce own-label products and new product categories such as reading glasses and cosmetics. It has also been offering services in some pharmacies, such as blood pressure and diabetes testing in pilot projects since the 2nd quarter of 2003.

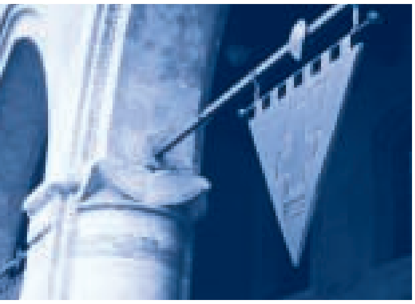
Vitusapotek's initiative led to a new patient-friendly concept being developed in Norway for health centres. These combine pharmacy, doctors and other health service providers all under one roof. The first health centre of this type was opened in Førde and includes an ultramodern Vitusapotek pharmacy.

Retail information by country

Italy – Organic turnover growth higher than comparable market growth

In the 2003 financial year Celesio Retail achieved turnover of € 186.4 m corresponding to organic growth of 2.0 % over the previous year. This is significantly above comparable market growth, which declined due to cost reduction measures introduced in the health service. Celesio's pharmacies in Italy were so successful because of the large number that were relocated and modernised during 2002 and 2003. Profit before tax developed in line with expectations.

Celesio's pharmacies in Bologna have been participating, since July 2003, in the 'PharmaCard' scheme for patients in the region. If patients so wish, details of the patient's health can be stored on the card such as test results and prescribed medicines. This gives the pharmacist an overview of the most important health data, which enables him to give even better advice to his customers.



Celesio's Italian pharmacies are concentrated in Emilia-Romagna, Lombardy and Tuscany. Privatisation processes of municipal pharmacies did not take place on a large scale in 2003. Lack of clarity as to whether privatisation in Italy is lawful has led to a marked caution on the part of municipalities in issuing new invitations to tender.

Ireland – Uniform, country-wide launch as Unicarepharmacy

At the end of the 2003 financial year Celesio's Irish retailer achieved turnover of € 105.5 m, representing growth of 51.9 % over the previous year. The strong growth in turnover was particularly driven by the acquisition of 30 Unicarepharmacy pharmacies in June 2002 and organic growth in turnover in a continually strong-growing market. Profit development was not in line with expectations.

A uniform market presentation is a prerequisite for successful country-wide marketing activities. Celesio therefore utilised the Unicarepharmacy brand, which was already well-known on the Irish market, and renamed its Irish pharmacies Unicarepharmacy in the 2nd half-year of 2003.

The majority of Unicarepharmacy pharmacies are in the conurbations of Dublin and Limerick.

Retail information by country

Netherlands – Double digit growth in turnover

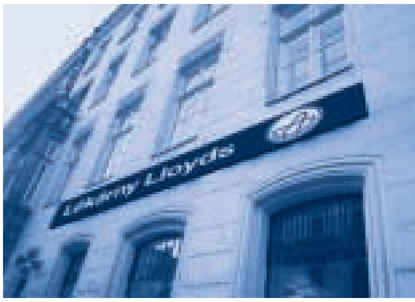
In the 2003 financial year Celesio's pharmacies in the Netherlands achieved turnover of € 97.4 m. This corresponds to a rise of 46.4 % compared with the previous year and is attributable to acquisitions and organic growth which outpaced comparable market growth. Profit development exceeded expectations.

Belgium – Customer-orientated services and high-turnover locations

In the 2003 financial year, turnover at Lloydspharmacy Belgium grew by 49.2 % over the previous year to € 60.1 m. The weak market growth was impacted by the introduction of government measures. Customer-orientated services and high-turnover locations enabled Lloydspharmacy Belgium to achieve organic growth which clearly outperformed comparable market growth. Profit before tax exceeded expectations.

Lloydspharmacy Belgium operates pharmacies throughout the country, the majority currently being in the south-west.

Czech Republic – Unsatisfactory development



In the 2003 financial year turnover at Lékárny Lloyds was € 48.7 m, achieving growth, adjusted for exchange rate effects, of 14.4 % (10.6 % in €) over the previous year. Turnover and profit development at Lékárny Lloyds is still failing to reach expectations. Initial, drastic steps to reorganise were taken. These include a reduction in central functions and the sale and closure of 21 pharmacies.

Lékárny Lloyds operates pharmacies in most large towns in the Czech Republic. A third of locations are concentrated in the conurbations of Prague, Brno and Ostrava.








Group financial statements

Celesio Group

Balance sheet of the Celesio Group at 31 December 2003

Assets

	Notes	31.12.2002 € '000	**31.12.2003 € '000**
Fixed assets			
Intangible assets	(1)	1,875,958	1,703,807
Tangible assets	(2)	397,865	394,178
Financial assets	(3)	60,175	108,606
	(4)	**2,333,998**	**2,206,591**
Current assets			
Stocks	(5)	1,380,422	1,401,618
Debtors and other assets	(6)	1,704,599	1,814,689
Bank and cash balances	(7)	19,723	13,998
		3,104,744	**3,230,305**
Prepaid expenses	(8)	**70,814**	**63,862**
		5,509,556	**5,500,758**

Equity and liabilities

	Notes	31.12.2002 € '000	**31.12.2003 € '000**
Equity	(9)		
Issued capital	(10)	217,728	217,728
Capital reserves		1,113,030	1,113,030
Revenue reserves	(11)	58,045	11,629
Consolidated retained earnings	(12)	236,027	249,360
Minority interests	(13)	14,864	17,232
		1,639,694	**1,608,979**
Provisions			
Provisions for pensions and similar obligations	(14)	85,064	86,408
Other provisions	(15)	327,726	374,852
		412,790	**461,260**
Liabilities	(16)		
Liabilities to banks		1,302,735	1,011,342
Promissory notes		0	243,883
Trade creditors		1,520,051	1,572,985
Bills payable		239,701	229,805
Other liabilites		391,211	364,721
		3,453,698	**3,422,736**
Deferred income		**3,374**	**7,783**
		5,509,556	**5,500,758**

Profit and loss account of the Celesio Group for the 2003 financial year

	Notes	2002 € '000	**2003** **€ '000**
Turnover	(17)	**18,383,359**	**18,539,558**
Own work capitalised		4	7
Gross performance		**18,383,363**	**18,539,565**
Cost of raw materials, consumables and supplies, and of purchased merchandise		(16,542,045)	(16,673,254)
Gross profit		**1,841,318**	**1,866,311**
Other operating income	(18)	151,118	156,056
Personnel expenses	(19)	(856,860)	(868,568)
Other operating expenses	(20)	(599,802)	(600,828)
Income from investments	(21)	3,370	2,677
EBITDA		**539,144**	**555,648**
Amortisation of intangible assets and depreciation of tangible assets	(22)	(103,557)	(99,881)
EBIT		**435,587**	**455,767**
Net interest	(23)	(91,958)	(81,968)
Profit before tax		**343,629**	**373,799**
Taxes on income and profit	(24)	(104,068)	(119,827)
Net profit		**239,561**	**253,972**
Minority interest in profits		(3,534)	(4,612)
Consolidated retained earnings		**236,027**	**249,360**

Development of the Celesio Group fixed assets, 2003

	Intangible assets € '000	Tangible assets € '000	Financial assets € '000	**Total € '000**
Cumulative cost at 01.01.2003	**3,078,942**	**888,046**	**68,969**	**4,035,957**
Translation adjustment	(138,975)	(36,283)	(424)	(175,682)
Additions	106,332	85,573	69,709	261,614
Changes to consolidation scope	6,312	8,537	163	15,012
Transfers	6,425	(1,959)	(4,395)	71
Disposals	(13,470)	(37,481)	(19,058)	(70,009)
Cumulative cost at 31.12.2003	**3,045,566**	**906,433**	**114,964**	**4,066,963**
Cumulative valuation adjustments at 01.01.2003	**1,202,984**	**490,181**	**8,794**	**1,701,959**
Translation adjustment	(55,139)	(21,876)	0	(77,015)
Additions	27,374	72,507	0	99,881
Changes to consolidation scope	695	4,181	0	4,876
Transfers	1,773	(1,817)	62	18
Goodwill set-off	176,323	0	0	176,323
Disposals	(12,251)	(30,921)	(2,498)	(45,670)
Cumulative valuation adjustments at 31.12.2003	**1,341,759**	**512,255**	**6,358**	**1,860,372**
Net book value at 31.12.2003	**1,703,807**	**394,178**	**108,606**	**2,206,591**
Net book value at 31.12.2002	1,875,958	397,865	60,175	2,333,998

Group annex

General information

Basis for accounting

The group financial statements of Celesio AG for the year ending 31.12.2003 have been prepared in Euro, in accordance with the German Commercial Code [Handelsgesetzbuch] and the Companies Act [Aktiengesetz].
For the sake of clarity certain amounts in the balance sheet and the profit and loss account have been presented in summary form. A detailed breakdown is included in the notes.
The profit and loss account has been drawn up according to the expenses by nature method but has been extended to show the gross profit separately. In order to show the earnings before interest, tax, depreciation and amortisation (EBITDA), the structure of the profit and loss account has been adjusted accordingly.
Consolidated retained earnings correspond to the group net profit less profit owed to minority interests.

Scope of consolidation

The group financial statements include all subsidiaries in which Celesio AG has a direct or indirect majority of the voting rights. 494 domestic and foreign companies are included in the consolidation (last year 513).
The scope of consolidated companies has changed as follows, compared to the position at 31.12.2002:

At 01.01.2003	**513**
Changes in the 2003 financial year:	(19)
of which due to mergers with other group companies	(35)
of which due to disposals of investments	(8)
of which due to new business set-up	3
of which due to acquisition of investments	21
At 31.12.2003	**494**
of which domestic companies	13
of which foreign companies	481

General information

Fourteen associated companies have been entered in the group financial statements according to the equity method pursuant to §§ 311 and 312 of the Commercial Code.
Two companies acquired towards the end of the 4^{th} quarter of 2003 have not yet been included in the group financial statements, since the information necessary for consolidation was not yet available. The non-inclusion of these companies has had no significant effect on the representation of the assets, financial situation and profit.
A complete list of the shareholdings of Celesio AG has been filed in the Commercial Register of the District Court of Stuttgart.
Changes in the scope of consolidation had no effect on the comparability of the group financial statements at 31.12.2003 as compared with the previous year.

Consolidation policies

The assets, liabilities, prepaid expenses, as well as the income and expenditure of the companies included in the group financial statements were consolidated as follows:
For first-time consolidation, the book value of the parent company's investment, has been offset against the subsidiary's share capital and reserves at the time of first consolidation (the so-called book value method, in accordance with § 301 Paragraph 1 Clause 2 , Subclause 1 of the Commercial Code). A similar procedure is used when accounting for associated companies on an equity basis, in accordance with §§ 311 and 312 of the Commercial Code.
The goodwill arising from consolidation of capital has been offset against revenue reserves applying § 309 Paragraph 1, Clause 3 of the Commercial Code without affecting profits. Goodwill is amortised over a period of fifteen years. Where the value has been permanently reduced, goodwill already offset is reversed and permanently written off, thus affecting profit. To determine the value of goodwill, the goodwill of the smallest identifiable profit unit is used.
On subsequent consolidation, the group's share of the profits from subsidiaries accruing after the balance sheet date of the initial consolidation has been included under revenue reserves.
On deconsolidation (deletion of a subsidiary from the scope of consolidation), the goodwill – which was neutral as to profit and set off against reserves in previous years – has been reversed.
Amounts receivable and payable between group companies included in the group financial statements have been eliminated.
In the group profit and loss account, all intra-group sales and associated expenditure have been offset against the expenditure incurred, and other income and expenditure between group companies fully consolidated.
Intra-group profit has been eliminated whilst taking account of deferred tax pursuant to § 306 of the Commercial Code, thus affecting profit.
Third-party interest in shareholders' equity and profit are shown under *Minority interests*.

General information

Currency translation

Currencies have been translated at the spot rate prevailing on the balance sheet date for all balance sheet entries, including net retained earnings. Expenses and income have been translated at average annual rates. Differences compared with the previous year arising from translations of assets and liabilities and translation differences between the balance sheet and the profit and loss account have been offset against revenue reserves, with no impact on profit. The same principles have been applied in respect of translation differences arising on consolidation.
Exchange rates have moved as follows from the previous year:

Country		Rate on balance sheet date		Average rate	
		31.12.2002	**31.12.2003**	2002	**2003**
United Kingdom	**GBP**	0.6505	0.7048	0.6286	0.6916
Norway	**NOK**	7.2756	8.4141	7.5033	7.9909
Czech Republic	**CZK**	31.5770	32.4100	30.7874	31.8413

Valuation principles and policies

All companies included in the group balance sheet have the same balance sheet date.
The individual financial statements were first prepared in accordance with the relevant national accounting principles. Where these differed from the accounting principles set out in the Commercial Code the necessary adjustments were made to the principles applied by Celesio. Any value adjustments required were offset against the equity of the companies concerned. Special reserves of € 2,961,000 (previous year € 3,024,000), set up in the individual company's financial statements to comply with tax regulations, were not entered on the liabilities side in compliance with § 300 Paragraph 2 of the Commercial Code. The associated deferred tax amounts to € 1,102,000 (previous year € 1,210,000).
The methods used to value assets and liabilities are set out in the notes on the individual balance sheet items.

Cash flow statement

	2002 € '000	**2003** **€ '000**
Net profit	**239,561**	**253,972**
Fixed asset depreciation	104,696	99,881
Profit on sale of tangible assets and changes in long-term provisions	5,931	4,179
Cash flow	**350,188**	**358,032**
Change in other provisions	(28,481)	54,523
Other income and expenses not involving the movement of funds	(7,706)	7,398
Profit on disposal of financial assets	(244)	(1,219)
Changes in stocks, debtors, other assets and prepayments	(257,985)	(238,039)
Changes in short-term liabilities and accruals	250,706	(15,334)
Net cash flow from operations	**306,478**	**165,361**
Proceeds of sale of fixed assets	49,371	29,381
Investment in fixed assets	(396,316)	(277,995)
Net cash flow from investment activities	**(346,945)**	**(248,614)**
Dividends paid	(63,116)	(72,904)
Capital increase	461,700	0
Movement in long-term liabilities	(345,345)	150,648
Net cash flow from financing activities	**53,239**	**77,744**
Change in funds due to payments	**12,772**	**(5,509)**
Change in funds due to exchange rates	(738)	(216)
Funds on 01.01.	7,689	19,723
Funds on 31.12.	**19,723**	**13,998**

The layout of the cash flow statement follows German Accounting Standard No. 2 [Deutsche Rechnungslegungsstandard Nr. 2 (DRS 2)] produced by the German Standardisation Board [Deutsche Standardisierungsrat].
The dividends paid include dividend payments to minority shareholders of € 612,000.

Segmental reporting

Segmentation by business division	Wholesale 2002 € '000	Wholesale 2003 € '000	Retail 2002 € '000	Retail 2003 € '000	Other 2002 € '000	Other 2003 € '000	Group 2002 € '000	Group 2003 € '000
Profit and loss account								
Turnover	**15,824,406**	**15,887,330**	**2,558,953**	**2,652,228**	**0**	**0**	**18,383,359**	**18,539,558**
Gross profit	**1,069,228**	**1,036,162**	**772,090**	**830,149**	**0**	**0**	**1,841,318**	**1,866,311**
Income from associated companies	374	360	14	91	0	0	388	451
Income from other shareholdings	2,078	2,214	904	12	0	0	2,982	2,226
EBITDA	**372,595**	**361,852**	**199,639**	**232,418**	**(33,090)**	**(38,622)**	**539,144**	**555,648**
Depreciation and amortisation	(57,310)	(51,129)	(42,441)	(47,818)	(3,806)	(934)	(103,557)	(99,881)
Net interest	(45,400)	(35,738)	(78,682)	(85,608)	32,124	39,378	(91,958)	(81,968)
Profit before tax	**269,885**	**274,985**	**78,516**	**98,992**	**(4,772)**	**(178)**	**343,629**	**373,799**
Taxes on income and profit	87,580	89,039	24,993	31,314	(8,505)	(526)	104,068	119,827
Net profit	**182,305**	**185,946**	**53,523**	**67,678**	**3,733**	**348**	**239,561**	**253,972**
Assets, liabilities and investments								
Segment assets	3,390,135	3,548,170	2,089,809	1,923,629	29,612	28,959	5,509,556	5,500,758
Segment liabilities	2,251,194	2,418,426	1,185,343	987,337	17,161	16,973	3,453,698	3,422,736
Investments in associated companies	3,943	5,642	0	475	0	0	3,943	6,117
Other investments	16,124	22,379	878	818	0	0	17,002	23,197
Capital expenditure	72,069	80,618	319,138	150,413	1,435	45,595	392,642	276,626
Employees								
Employees (annual average)	13,101	13,019	11,486	12,101	97	130	24,684	25,250
Employees on 31.12.	13,052	12,624	11,814	12,213	112	138	24,978	24,975

The layout used for segmental reporting follows the design provided by the German Standardisation Board entitled German Accounting Standard No. 3. Segmentation is based on Celesio's internal organisational and accounting structures.

Explanation of segmentation data

Celesio's internal organisational and accounting structure is based on a subdivision of business divisions into three segments: wholesale, retail and other. The *wholesale* segment includes Celesio's wholesale activities exclusively with third parties, whilst the *retail* segment groups together retail activity in the United Kingdom, Italy, Norway, the Czech Republic, Ireland, Belgium and the Netherlands. For the 2003 financial year, the *other* segment includes essentially the activities of the holding company, Celesio AG, and non-operational companies. The segment also includes consolidation measures between the segments.

The following table shows regional data on turnover and investment:

Segmentation by country	Germany		France		United Kingdom		Other countries		Total	
	2002 € '000	**2003 € '000**	2002 € '000	**2003 € '000**	2002 € '000	**2003 € '000**	2002 € '000	**2003 € '000**	2002 € '000	**2003 € '000**
External sales by customer location	3,350,439	**3,483,819**	6,552,975	**6,777,931**	5,030,019	**4,809,908**	3,449,926	**3,467,900**	18,383,359	**18,539,558**
Investments in long-term assets	14,564	**58,702**	16,573	**25,066**	69,930	**88,666**	291,575	**104,192**	392,642	**276,626**

Notes on the balance sheet

(1) Intangible assets

	Concessions, industrial and similar rights € '000	Goodwill € '000	Down-payments for fixed assets € '000	Goodwill from capital consolidation € '000	**Total € '000**
Cumulative cost at 01.01.2003	**78,792**	**289,207**	**5,480**	**2,705,463**	**3,078,942**
Translation adjustment	(2,558)	(18,369)	(63)	(117,985)	(138,975)
Additions	11,203	23,964	571	70,594	106,332
Changes to consolidation scope	14	6,234	64	0	6,312
Transfers	3,514	0	(1,740)	4,651	6,425
Disposals	(12,866)	(604)	0	0	(13,470)
Cumulative cost 31.12.2003	**78,099**	**300,432**	**4,312**	**2,662,723**	**3,045,566**
Cumulative valuation adjustments at 01.01.2003	**54,914**	**96,997**	**0**	**1,051,073**	**1,202,984**
Translation adjustment	(1,486)	(2,291)	0	(51,362)	(55,139)
Additions	8,051	19,323	0	0	27,374
Changes to consolidation scope	(7)	702	0	0	695
Transfers	1,773	0	0	0	1,773
Goodwill set-off	0	0	0	176,323	176,323
Write back	0	0	0	0	0
Disposals	(12,127)	(124)	0	0	(12,251)
Cumulative valuation adjustments at 31.12.2003	**51,118**	**114,607**	**0**	**1,176,034**	**1,341,759**
Net book value at 31.12.2003	**26,981**	**185,825**	**4,312**	**1,486,689**	**1,703,807**
Net book value at 31.12.2002	23,878	192,210	5,480	1,654,390	1,875,958

Acquired goodwill and other intangible assets are valued at purchase cost less pro rata amortisation. Acquired goodwill is generally amortised over 15 years. The other intangible assets are mainly written off over a useful life of four to ten years on a straight-line basis.

Of the total additions of € 106,332,000, the sum of € 70,594,000 relates essentially to goodwill arising from consolidation of investments. This results principally from the acquisition of pharmacies in the Netherlands, Belgium, the United Kingdom and Ireland.
The additions to goodwill amounting to a total of € 23,964,000 are principally due to pharmacies acquired in Norway, Belgium and the United Kingdom.
During the period under review, € 176,323,000 of the goodwill arising from consolidation of capital was offset against revenue reserves, with no impact on profits. At 31.12.2003, out of total goodwill arising on consolidation of € 2,662,723,000, € 1,176,034,000 was offset directly against revenue reserves. The remaining amount of € 1,486,689,000 relates to 75 shareholdings. Goodwill is being amortised over a period of fifteen years.
The transfers of goodwill relate to pharmacies acquired in the 4th quarter of 2002 and are entered under financial assets. Consolidation of these acquisitions took place for the first-time in 2003.
Intangible assets include goodwill on consolidation of investments relating to shareholdings acquired at the end of the 2003 financial year amounting to € 1,486,689. This sum is made up as follows:

	Gross € '000	Set-Off € '000	Net € '000
At 31.12.2002	**2,705,463**	**1,051,073**	**1,654,390**
Translation adjustment	(117,985)	(51,362)	(66,623)
Addition	70,594	0	70,594
Transfer	4,651	0	4,651
Disposal	0	0	0
Write back	0	0	0
Set-off against shareholders' equity	0	176,323	(176,323)
At 31.12.2003	**2,662,723**	**1,176,034**	**1,486,689**

Notes on the balance sheet

The book value will be offset directly against reserves as follows, subject to currency fluctuations:

Year	€ '000	€ '000
2004 – 2006	177,026 each year =	531,078
2007		171,057
2008		159,716
2009		149,315
2010		126,386
2011		118,724
2012		64,170
2013		50,295
2014		48,695
2015		37,847
2016		20,007
2017		9,370
2018		29
		1,486,689

(2) Tangible assets

Additions to tangible assets are valued at acquisition or production cost. Depreciation is calculated at the maximum rates allowed by the tax authorities, using only the straight-line method.
The depreciation periods (in years) are as follows:

Buildings	25 – 50
Technical equipment and machinery	4 – 15
Other factory and office equipment	3 – 20

In accordance with the tax regulations, a full-year's depreciation is charged on additions during the first half-year, and a half-year's depreciation on additions during the second half-year.

Low-value assets are fully written off in the year of purchase and are also treated as disposals.

Additions in wholesale relate mainly to investments in the United Kingdom, France and Germany. In retail, additions relate principally to investments in the United Kingdom and Norway.

	Land and buildings including buildings on third party land € '000	Technical equipment and machinery € '000	Other factory and office equipment € '000	Prepayments on account and assets under construction € '000	**Total € '000**
Cumulative cost at 01.01.2003	**280,948**	**169,775**	**423,327**	**13,996**	**888,046**
Translation adjustment	(9,494)	(8,061)	(18,350)	(378)	(36,283)
Additions	12,891	15,938	32,047	24,697	85,573
Changes to consolidation scope	5,650	1,584	1,303	0	8,537
Transfers	48,901	40,685	(61,157)	(30,388)	(1,959)
Disposals	(8,333)	(8,945)	(20,009)	(194)	(37,481)
Cumulative cost at 31.12.2003	**330,563**	**210,976**	**357,161**	**7,733**	**906,433**
Cumulative valuation adjustments at 01.01.2003	**117,449**	**110,437**	**262,295**	**0**	**490,181**
Translation adjustment	(4,541)	(5,632)	(11,703)	0	(21,876)
Additions	13,324	20,547	38,636	0	72,507
Changes to consolidation scope	2,705	1,096	380	0	4,181
Transfers	21,668	17,978	(41,463)	0	(1,817)
Disposals	(4,648)	(8,615)	(17,658)	0	(30,921)
Cumulative valuation adjustments at 31.12.2003	**145,957**	**135,811**	**230,487**	**0**	**512,255**
Net book value at 31.12.2003	**184,606**	**75,165**	**126,674**	**7,733**	**394,178**
Net book value at 31.12.2002	163,499	59,338	161,032	13,996	397,865

Notes on the balance sheet

(3) Financial assets

	Investments in affiliated companies € '000	Investments in associated companies € '000	Other investments € '000	Security investments € '000	Loans to participations € '000	Other loans € '000	**Total € '000**
Cumulative cost at 01.01.2003	**5,585**	**3,944**	**21,615**	**5,019**	**2,579**	**30,227**	**68,969**
Translation adjustment	0	0	(101)	0	0	(323)	(424)
Additions	4,103	2,643	7,234	42,025	358	13,346	69,709
Changes to consolidation scope	0	153	0	3	0	7	163
Transfers	(4,651)	(175)	520	135	(426)	202	(4,395)
Disposals	(899)	(448)	(1,979)	(3,057)	(630)	(12,045)	(19,058)
Cumulative cost at 31.12.2003	**4,138**	**6,117**	**27,289**	**44,125**	**1,881**	**31,414**	**114,964**
Cumulative valuation adjustments at 01.01.2003	**0**	**0**	**4,613**	**66**	**134**	**3,981**	**8,794**
Translation adjustment	0	0	0	0	0	0	0
Additions	0	0	0	0	0	0	0
Changes to consolidation scope	0	0	0	0	0	0	0
Transfers	0	0	0	46	16	0	62
Write up	0	0	0	0	0	0	0
Disposals	0	0	(521)	(1,265)	0	(712)	(2,498)
Cumulative valuation adjustments at 31.12.2003	**0**	**0**	**4,092**	**(1,153)**	**150**	**3,269**	**6,358**
Net book value at 31.12.2003	**4,138**	**6,117**	**23,197**	**45,278**	**1,731**	**28,145**	**108,606**
Net book value at 31.12.2002	5,585	3,944	17,002	4,953	2,445	26,246	60,175

Financial assets are valued at acquisition cost, in the case of loans net of repayments, or at the lower applicable value. The additions to investments in affiliated companies relate to pharmacies acquired in the 4th quarter of 2003, and not to be consolidated until 2004. The transfers of investments in affiliated companies are the result of the first-time consolidation of pharmacies acquired in the 4th quarter of 2002. The acquisition costs for associated companies are calculated, with one exception, according to the equity method. The additions to security investments in financial assets relate essentially to the acquisition of the holding in ANZAG.

(4) Fixed assets

The analysis and development of fixed assets as summarised in the group balance sheet are set out in the overview on page 92. This constitutes an integral component of the notes on the accounts.

(5) Stock

Raw materials, consumables and supplies, and merchandise are entered at lower of cost or the net realisable value.
The increase in stock is mainly the result of the targeted build-up of wholesale stock in France and the United Kingdom.
As in previous years, adequate allowance has been made to cover inherent storage risks.

	31.12.2002 € '000	**31.12.2003 € '000**
Raw materials, consumables and supplies	3,243	2,155
Finished goods and merchandise	1,373,858	1,397,285
Payments on account	3,321	2,178
	1,380,422	**1,401,618**

Notes on the balance sheet

(6) Debtors and other assets

	31.12.2002 € '000	**31.12.2003** **€ '000**
Trade debtors	1,586,631	1,690,256
Amounts due from associated companies	0	82
Amounts due from companies in which a participation is held	355	486
Other assets	117,613	123,865
	1,704,599	**1,814,689**

Debtors and other assets are valued on a prudent basis, taking into account their likely recovery. Provision has been made for identifiable, individual risks. Adequate provision has also been made to cover other general credit risks. The increase in debtors was mainly due to the rise in French and German wholesale.

Trade debtors are sold under non-recourse discounting agreements. The nominal contractual values of existing contracts and their utilisation at the year end are set out below:

	Nominal volume **€ m**	**Volume at 31.12.2002** **€ m**	**Volume at 31.12.2003** **€ m**	**Duration of non-recourse discounting agreements**
OCP REPARTITION SAS, Sain-Ouen/France	250.0	240.1	242.0	28 August 2004
GEHE Pharma Handel GmbH, Stuttgart/Germany	153.4	153.4	153.4	31 December 2004
LLOYDSPHARMACY LIMITED, Coventry/UK and AAH PHARMACEUTICALS LIMITED, Coventry/UK	GBP 100 m	151.3 [GBP 98.4 m]	129.4 [GBP 91.2 m]	3 December 2004
Herba Chemosan Apotheker-AG, Vienna, Austria	20.0	14.6	17.5	31 March 2004
PCB dis S.A., Brussels/Belgium	30.0	30.0	–	15 February 2003
		589.4	**542.3**	

Other assets comprise mainly tax refunds due, short-term loans to customers and company employees, and bonuses receivable from suppliers under annual purchase agreements.
Debtors and other assets falling due after more than one year are as follows:

	31.12.2002 € '000	**31.12.2003** **€ '000**
Trade debtors	11,655	15,321
Other assets	5,585	698
	17,240	**16,019**

(7) Bank and cash balances

	31.12.2002 € '000	**31.12.2003** **€ '000**
Cash	1,242	1,896
Bank balances	18,481	12,102
	19,723	**13,998**

(8) Prepaid expenses

	31.12.2002 € '000	**31.12.2003** **€ '000**
Deferred taxes	37,686	42,167
Other	33,128	21,695
	70,814	**63,862**

Included in prepaid expenses are deferred tax balances and, in particular, advance rental payments of € 8,164,000, primarily in the United Kingdom.

Deferred tax balances are made up of deferred tax assets (€ 64,097,000) and liabilities (€ 21,930, 000). Deferred taxes arise from individual financial statements, from adjustments of individual financial statements to the different accounting principles and valuation policies applied by Celesio and also from consolidation measures.

Notes on the balance sheet

(9) Shareholders' equity

	Issued capital € '000	Capital reserves € '000	Revenue reserves € '000	Retained earnings € '000	Minority interests € '000	**Equity € '000**
At 01.01.2003	**217,728**	**1,113,030**	**58,045**	**236,027**	**14,864**	**1,639,694**
Dividends paid	0	0	0	(72,292)	0	**(72,292)**
Addition to reserves	0	0	163,735	(163,735)	0	**0**
Goodwill set-off	0	0	(176,323)	0	0	**(176,323)**
Translation adjustment	0	0	(33,828)	0	0	**(33,828)**
Net profit	0	0	0	249,360	4,612	**253,972**
Minority interests	0	0	0	0	(2,244)	**(2,244)**
At 31.12.2003	**217,728**	**1,113,030**	**11,629**	**249,360**	**17,232**	**1,608,979**
At 01.01.2002	**186,624**	**682,434**	**71,270**	**267,941**	**12,302**	**1,220,571**
Dividends paid	0	0	0	(61,965)	0	**(61,965)**
Capital increase	31,104	430,596	0	0	0	**461,700**
Addition to reserves	0	0	205,976	(205,976)	0	**0**
Goodwill set-off	0	0	(141,102)	0	0	**(141,102)**
Translation adjustment	0	0	(78,099)	0	0	**(78,099)**
Net profit	0	0	0	236,027	3,534	**239,561**
Minority interests	0	0	0	0	(972)	**(972)**
At 31.12.2002	**217,728**	**1,113,030**	**58,045**	**236,027**	**14,864**	**1,639,694**

(10) Issued capital

The issued capital and capital reserves relate to Celesio AG.
Authorised capital of € 43,546,000 will be available until 7 May 2007.

(11) Revenue reserves

The revenue reserves shown on the group balance sheet include the negative goodwill arising from initial consolidation and reserves (with no effect on results) arising from currency translation of the assets and liabilities of foreign group companies.
Goodwill has been offset against revenue reserves as follows:

	31.12.2002 € '000	**31.12.2003** **€ '000**
Revenue reserves (gross)	1,109,118	1,187,663
Goodwill set-off (accumulated)	(1,051,073)	(1,176,034)
	58,045	**11,629**

(12) Consolidated retained earnings

Last year's consolidated retained earnings of € 236,027,000 was reduced by € 72,292,000 due to Celesio's payment of dividends for the 2002 financial year. The remaining consolidated retained earnings were transferred to revenue reserves.
Consolidated retained earnings at 31.12.2003 correspond to the net profit less the proportion due to minority interests.

Notes on the balance sheet

(13) Minority interests

	31.12.2002 € '000	**31.12.2003** **€ '000**
Share of capital and reserves	11,330	12,620
Share of retained earnings	3,558	4,641
Share of loss	(24)	(29)
	14,864	**17,232**

The increase in minority interests relates essentially to profits owed to minority interests.

(14) Provisions for pensions and similar obligations

Pension provisions were calculated using the unit cost method at the interest rate in force in each country (usually 6 %) using the official mortality tables of the country concerned. In Germany pension provisions were calculated using the unit cost method pursuant to § 6a of the Income Tax Law [Einkommensteuergesetz] and Dr Heubeck's Mortality Tables, 1998, and correspond to the full unit cost.

(15) Other provisions

	31.12.2002 € '000	**31.12.2003 € '000**
Provisions for taxes	67,540	78,461
Other provisions	260,186	296,391
	327,726	**374,852**

The provisions have been estimated at an amount which reasonable business judgement considers necessary.
As with last year, provisions for taxation do not include deferred taxes, since the balance from deferred tax assets and liabilities is shown under deferred tax assets (see Note 8).
The other provisions mainly relate to expenditure in the area of personnel, rental commitments, restructuring, discounts and bonuses as well as bills still outstanding.

Notes on the balance sheet

(16) Liabilities, contingent liabilities, other financial commitments and derivative financial instruments

Liabilities	Total	falling due:			**Total**
	31.12.2002	within 1 year	between 1 to 5 years	after 5 years	**31.12.2003**
	€ '000	€ '000	€ '000	€ '000	**€ '000**
Liabilities to banks	1,302,735	262,834	295,872	452,636	1,011,342
Promissory notes	0	0	243,883	0	243,883
Payments received on account of orders	38,403	44,794	0	0	44,794
Trade creditors	1,520,051	1,572,985	0	0	1,572,985
Liabilities on bills accepted and drawn	239,701	229,805	0	0	229,805
Liabilities to affiliated companies	113	1,400	0	0	1,400
Liabilities to companies in which a participation is held	497	701	0	0	701
Other liabilities	352,198	305,493	5,574	6,759	317,826
of which tax	[49,055]	[80,333]	[0]	[0]	[80,333]
of which social security payments	[34,730]	[36,325]	[0]	[0]	[36,325]
	3,453,698	**2,418,012**	**545,329**	**459,395**	**3,422,736**

The liabilities have been estimated taking the repayment amount into account. Liabilities in foreign currencies were translated at the rate prevailing on the date the liability was incurred or, if higher, at the rate prevailing on the balance sheet date.

Promissory notes with a nominal volume of € 243.5 m and a period of five years (15.12.2003 – 15.12.2008) were placed on the European capital market in December

Liabilities to affiliated companies relate to Haniel Finance Deutschland GmbH of Duisburg/Germany and to investments in pharmacies which were acquired in the 4th quarter 2003 but will be consolidated for the first time in 2004.

Contingent liabilities	31.12.2002 € '000	31.12.2003 € '000
Bills of exchange	12,174	6,877
Guarantees	251,501	230,533
Warranties	15,700	0
	279,375	**237,410**

Contingent liabilities relate mainly to guarantees assumed by wholesale in the United Kingdom (around € 174 m) and Austria (around € 19 m), and by retail in Italy (around € 17 m).
Warranty commitments relating to the sale of companies concerned with pharmaceutical production in the 1996 financial year no longer exist.

Celesio has submitted guarantees according to Section 17 (1) (b) of the 1986 Irish Companies (Amendment) Act in relation to the liabilities of their Irish subsidiaries (wholesale and retail) for the 2003 financial year. Consequently, these companies were released from the requirement to publish certain documents, in particular their balance sheet and profit and loss accounts.

Other financial commitments	31.12.2002 € '000	31.12.2003 € '000
Rent and lease contracts due: within 1 year	93,168	100,618
between 2 and 5 years	310,685	409,191
after 6 years	474,545	388,836
	878,398	**898,645**
Acquisitions of pharmacies	639	2,746
Commitments for capital expenditure	5,123	5,017
Other	13,020	13,020
	897,180	**919,428**

Rental and leasing commitments relate essentially to wholesale and retail in the United Kingdom (around € 458 m), wholesale in Germany (around € 321 m) and France (around € 26 m) and retail in Norway (around € 21 m).

Notes on the balance sheet

Derivative financial instruments	Nominal volume		Market value	
	31.12.2002 € m	**31.12.2003 € m**	31.12.2002 € m	**31.12.2003 € m**
Interest-based derivatives	1,046	**1,296**	(84)	**(63)**
Currency-based derivatives	405	**359**	6	**1**
	1,451	**1,655**	(78)	**(62)**

In the course of operational business activity risks arise from exchange rate and interest rate changes. To reduce such risks Celesio uses derivative financial instruments as part of its interest and exchange rate management programmes. Without these instruments Celesio would be exposed to far higher risks from interest rate and exchange rate fluctuations.
Common instruments used include, for interest rate management: interest swaps, forward rate agreements, swap options, caps and floors; and for currency management: forward contracts and options.
The use of derivative financial instruments is monitored by a range of control mechanisms in the Celesio Group. These include the separation of trading, processing and accounting, restriction to a small number of reputable banks and the empowerment of only a small number of qualified members of staff to carry out these transactions.

Notes on the profit and loss account

(17) Turnover

As part of segmental reporting, turnover has been analysed according to business divisions and regions.

(18) Other operating income

	2002 € '000	**2003** **€ '000**
Profit on disposal of fixed assets	3,904	6,267
Write back of provisions	16,492	12,844
Rental and lease income	4,737	4,544
Other income	125,985	132,401
	151,118	**156,056**

Other income consists essentially of contributions to advertising expenses, income from seminars and conferences, marketing activities and data processing and IT services.

Notes on the profit and loss account

(19) Personnel expenses/staff

	2002 € '000	**2003** **€ '000**
Wages and salaries	708,854	717,238
Social insurance costs	127,840	135,965
Pension costs	20,166	15,365
	856,860	**868,568**

A split of staff numbers is shown within the segmental reporting.

(20) Other operating expenses

	2002 € '000	**2003** **€ '000**
Freight charges	80,403	81,825
Rent	96,197	117,501
Advertising costs	38,606	34,445
Depreciation and adjustments to current assets	21,819	21,550
Loss on disposal of fixed assets	2,126	1,262
Trade capital tax	3,512	0
Other taxes	21,556	22,075
Other expenses	335,583	322,170
	599,802	**600,828**

Other expenses mainly include costs for administration, sales, lighting and heating, and maintenance costs.

(21) Income from investments

	2002 € ’000	**2003** **€ ’000**
Income from associated companies	388	451
Income from investments	2,982	2,226
	3,370	**2,677**

(22) Amortisation and depreciation

	2002 € ’000	**2003** **€ ’000**
Amortisation of intangible assets	28,166	27,374
Depreciation of tangible assets	75,391	72,507
	103,557	**99,881**

Notes on the profit and loss account

(23) Net interest

	2002 € '000	**2003** **€ '000**
Income from other securities and long-term financial investments	1,004	828
Other interest and similar income	14,344	13,197
of which from affiliated companies	[880]	[312]
Interest and similar charges	(106,167)	(95,993)
of which affiliated companies	[(1,263)]	[(957)]
Impairment of security investments	(9)	0
Amortisation of other loans	(1,130)	0
	(91,958)	**(81,968)**

(24) Taxes on income and profit

This item includes German corporation tax, German trade tax, comparable foreign profit-related taxes and deferred taxes.
The group tax ratio, calculated on profit before tax, is 32.1 % (previous year 30.3 %).

Total tax expense	2002 € '000	**2003** **€ '000**
Taxes on income and profit	**104,068**	**119,827**
of which trade tax	[12,035]	[2,180]
Trade capital tax	3,512	0
Other taxes	21,556	22,075
	129,136	**141,902**

Other taxes include property tax, motor vehicle tax and value added tax. Other taxes and the trade capital tax in the previous year are shown under "Other operating expenses", Note 20.

Other information

Declarations by shareholders

According to the declaration dated 02.04.2002 in accordance with § 41, paragraph 2, sentence 1 of the Securities Trade Act [Wertpapierhandelsgesetz], Franz Haniel & Cie. GmbH, Duisburg, held in total 60 % of the voting rights of our company on 01.04.02. Group financial statements will be produced by Franz Haniel & Cie GmbH which will also include Celesio AG and its subsidiary companies. These group financial statements will be published and entered in the commercial register at the Duisburg District Court/Germany under No. B 25.

To the knowledge of Celesio AG, Franz Haniel & Cie. GmbH, Duisburg, had a 58.4 % holding at the end of the reporting year.

AXA, Paris/France informed the company on 13.11.2003 as well as in a supplementary notice on 03.12.2003 in accordance with §§ 21, paragraph 1, 22 paragraph 1 No. 1, 24 of the Securities Trade Act, that on 07.11.2003 the voting rights in Celesio AG to which it is entitled through its holding company Pluto Gesellschaft für Beteiligungswerte mbH had dropped below the threshold of 5 % and that it was entitled to a proportion of 0.22 % of the share voting rights in Celesio AG through Pluto Gesellschaft für Beteiliungswerte mbH.

Corporate governance

The management and supervisory boards last issued the Declaration of Compliance on 16 December 2003, regarding the recommendations of the German Corporate Governance Code pursuant to § 161 of the Companies Act, and have made it available on their Website www.celesio.com.

Total remuneration and remuneration structure for members of the management board

The total remuneration paid to members of the management board in the 2003 financial year amounted to € 4,771,000. This sum comprised € 1,474,000 in respect of fixed remuneration, € 2,497,000 in respect of profit-related bonuses, and € 800,000 in the form of a long-term strategy bonus. No share option schemes are in existence for Celesio AG.

Responsibility for determining the remuneration of the management board rests with the Staff Committee. This committee is made up of the chairman of the supervisory board, Günther Hülse, and of the two supervisory board members Hans-Martin Poschmann and Prof Theo Siegert.

The total remuneration of the management board is appropriate in relation to the tasks and services performed by its members and in keeping with the economic situation of Celesio AG. The total remuneration of the management board members consists of a fixed, monthly salary and of a variable, performance-related element. This variable element consists of a profit-related bonus and a strategy bonus.

Other information

Profit-related bonus
This bonus is based on the cash flow of the Celesio Group. The cash flow reflects profitability, has a long-term effect and encourages expansion. The profit-related bonus is calculated as a percentage of the cash flow achieved in each financial year.

Strategy bonus
This bonus is based on the performance indicator known as EVA (Economic Value Added). It is calculated based upon the returns achieved above and beyond the EVA target which leads to value-orientated company management and an owner-manager culture. The strategy bonus is calculated on the basis of growth in value. Here, the previous year's value is compared to its value in the following year.

Former members of the management board of Celesio AG and their surviving dependants received € 174,000. For them pension provisions of € 3,792,000 have been set up.

Total remuneration and remuneration structure for members of the supervisory board

Remuneration for members of the supervisory board is set out in § 5 of the articles of association of Celesio AG. According to this, each member receives a fixed annual salary of € 5,000 and is reimbursed for expenses incurred. Furthermore, the members are paid € 800 for each half percentage point by which the dividend paid to shareholders for the last financial year exceeds 4 % of the share capital eligible for dividends. The chairman receives twice the remuneration of the other members, and the deputy chairman one and a half times this amount. Each member of a committee – with the exception of the committee formed pursuant to § 27 of the Co-Determination Act – receives € 2,000 for each membership and the chairman of a committee € 4,000.

The total remuneration of the supervisory board in the 2003 financial year amounted to € 742,000. Each member received € 55,000. The chairman of the supervisory board received twice this sum and the deputy chairman one and a half times this sum. In addition, members of committees received in 2003 pro rata € 2,250 and chairmen of committees € 3,000.

Professor Erich Zahn received fees of € 8,000 for his consulting work for GEHE Pharma Handel GmbH.

Share ownership and disclosure of security transactions

During the year under review the cumulative share ownership (including options and similar) of members of the management and supervisory boards of Celesio AG was always less than 1 % of the company's issued shares.

The members of the management and supervisory boards of a listed German company and its parent company, together with their spouses or registered partners, parents and children, are required under § 15a Securities Trade Act, to make a declaration to both the company and to the Federal Institute for the Supervision of Financial Services [Bundesanstalt für Finanzdienstleistungsaufsicht], if they acquire or dispose of shares in the company or of rights associated with these shares. Celesio AG has received the following declarations in relation to the 2003 financial year: the purchase of 1,000 no-par Celesio shares (WKN 585 800, ISIN: DE0005858005) at € 35.00 per share on 21 February 2003 and also of 883 shares at € 36.00 each on 6 February 2003, by Waltraud Wätjen, Gielde/Germany.

Profit appropriation as proposed by the management board

The net retained earnings of Celesio AG amounted to € 80,102,960.03. The management board proposes to pay out € 76,545,000.00 as dividends for the 2003 financial year and to transfer the remaining amount of € 3,557,960.03 to retained earnings.

On the basis of this proposal, a dividend of € 0.90 is to be paid out on each individual share.

Stuttgart, 16 February 2004

The management board

Members of the management board

Dr Fritz Oesterle
Stuttgart/Germany
Chairman and
chief executive officer

Membership of further management boards and comparable committees:
Executive Committee GIRP (Groupement International de la Répartition Pharmaceutique Européenne), Brussels/Belgium

Membership of supervisory boards and other control committees:
GEHE Pharma Handel GmbH, Stuttgart/Germany, Chairman (until 22.09.2003)
Norsk Medisinaldepot AS, Oslo/Norway (since 23.12.2003)
Herba Chemosan Apotheker-AG, Vienna/Austria
GEHE Nederland B.V., Weesp/Netherlands
Untertürkheimer Volksbank e.G., Stuttgart/Germany
Landesbeirat Baden-Württemberg Allianz Versicherungs-AG, Munich/Germany
Verwaltungsrat Christophsbad Göppingen Dr. Landerer Söhne GmbH, Göppingen/Germany

Jacques Ambonville
Saint-Ouen/France

Membership of supervisory boards and other control committees:
OCP S.A., Saint-Ouen/France, Chairman
GEHE Pharma Handel GmbH, Stuttgart/Germany, Chairman (since 23.09.2003)
NMD Grossisthandel AS, Oslo/Norway (since 03.03.2003)
OCP PORTUGAL, PRODUTOS FARMACÊUTICOS, S.A., Maia/Portugal
DEPOTS GENERAUX PHARMA S.A., Aulnay-sous-Bois/France (until 09.04.2003)
TREDIMED S.A., Saint-Ouen/France

Stefan Meister
Stuttgart/Germany

Membership of supervisory boards and other control committees:
Herba Chemosan Apotheker-AG, Vienna/Austria
GEHE Nederland B.V., Weesp/Netherlands
Börsenrat Baden-Württembergische Wertpapierbörse, Stuttgart/Germany (until 20.06.2003)

Michael A Ward
Coventry/United Kingdom

Membership of supervisory boards and other control committees:
Norsk Medisinaldepot AS, Oslo/Norway (until 02.03.2003)
Vitusapotek AS, Oslo/Norway (from 03.03. until 31.12.2003)
Croda International PLC, Goole/United Kingdom

Members of the supervisory board

Günther Hülse Duisburg/Germany Chairman	Chairman of the management board Franz Haniel & Cie. GmbH	Membership of supervisory boards and other control committees: METRO AG, Düsseldorf/Germany, Chairman (since 22.05.2003) TAKKT AG, Stuttgart/Germany, Chairman Allianz Lebensversicherungs-AG, Stuttgart/Germany (since 11.04.2003)
Ihno Goldenstein Delmenhorst/Germany Since 24.04.2003 Deputy chairman	Employee in Receiving Department GEHE Pharma Handel GmbH Chairman of the central company council	
Friedrich Taake Porta Westfalica/Germany Deputy chairman (until 24.04.2003)	Commercial employee GEHE Pharma Handel GmbH	
Klaus Borowicz Delmenhorst/Germany (since 24.04.2003)	Head of branch GEHE Pharma Handel GmbH	
Prof med **Julius Michael Curtius** Weimar/Germany	Cardiologist	
Dr Hubertus Erlen Berlin/Germany	Chairman of the management board Schering AG	Membership of supervisory boards and other control committees: B. Braun Melsungen AG, Melsungen/Germany Schering Berlin Inc., Montville/New Jersey, USA Partner für Berlin Gesellschaft für Hauptstadt-Marketing mbH, Berlin/Germany Kuratorium Bertelsmann Stiftung, Gütersloh/Germany
Dirk-Uwe Kerrmann Weiterstadt/Germany (since 24.04.2003)	Commercial employee GEHE Pharma Handel GmbH	
Jörg Lauenroth-Mago Magdeburg/Germany	Trade Union Secretary ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	Membership of supervisory boards and other control committees: GEHE Pharma Handel GmbH, Stuttgart/Germany Franz Haniel & Cie. GmbH, Duisburg/Germany (until 10.05.2003)
Ulrich Neumeister Stuttgart/Germany (since 24.04.2003)	Logistics employee GEHE Pharma Handel GmbH	
Hans-Martin Poschmann Berlin/Germany	Trade Union Secretary ver.di – Vereinte Dienstleistungsgewerkschaft e.V.	Membership of supervisory boards and other control committees: GEHE Pharma Handel GmbH, Stuttgart/Germany Oviesse GmbH, Cologne/Germany
Jürgen Puff Stuttgart/Germany (until 24.04.2003)	Director of Organisation GEHE Pharma Handel GmbH	
Hans-Jürgen Sachse Halle/Germany (until 24.04.2003)	Manual worker GEHE Pharma Handel GmbH	
Dr Ihno Schneevoigt Munich/Germany	Member of the management board Ret.: Allianz Versicherungs-AG Allianz Lebensversicherungs-AG	Membership of supervisory boards and other control committees: E.ON Academy GmbH, Düsseldorf/Germany Dr. Dr. Heissmann GmbH, Wiesbaden/Germany (until 31.12.2003)
Prof Theo Siegert Duisburg/Germany	Member of the management board Franz Haniel & Cie. GmbH	Membership of supervisory boards and other control committees: ERGO Versicherungsgruppe AG, Düsseldorf/Germany (since 05.06.2003)
Prof Erich Zahn Stuttgart/Germany	Professor of Business Studies University of Stuttgart	Membership of supervisory boards and other control committees: IFB Dr. Braschel AG, Stuttgart/Germany, Chairman Kuratorium Fraunhofer-Institut für Produktionstechnik und Automatisierung IPA, Stuttgart/Germany

Auditors’ report

”We have carried out an audit of the group financial statements and of the group management report of Celesio AG which has been combined with the management report of Celesio AG for the financial year from 1 January to 31 December 2003. The drawing up of the group financial statements and of the management report, in accordance with German commercial regulations, is the responsibility of the company’s management board. It is our task, based on the audit carried out by us, to assess the group financial statements and the combined management report.
We have carried out our audit of the group financial statements in accordance with § 317 of the German Commercial Code [HGB] in compliance with the guidelines laid down by the German Institute of Certified Public Accountants [IDW] for the proper auditing of financial statements. According to these guidelines, the audit must be planned and carried out so that errors and infringements having a significant effect on the representation of the assets, financial situation and profit presented in the group financial statements, taking into account the principles of proper book-keeping and the combined management report, can be recognised with sufficient certainty. When determining the audit procedures, knowledge of the business activities and of the economic and legal background of the group, as well as expectations concerning possible errors are taken into account. During the audit, the effectiveness of the internal monitoring system and evidence for the details given in the accounts, the group financial statements and the management report are assessed largely on the basis of random samples. The audit includes assessment of the financial statements of those companies which are included in the group financial statements, the boundary of the scope of consolidation, the accounting and consolidation principles applied, a general opinion of the management board and an appraisal of the overall picture presented by the group financial statements and the combined management report. We are of the opinion that our audit provides a sufficiently safe basis for our assessment.

Our audit has not led to any objection.

We are convinced that the group financial statements comply with the principles of proper accounting and give a true and fair picture of the assets, the financial situation and profit of the group. The combined management report gives an accurate representation of the group’s situation and the risks entailed in its future development.”

Stuttgart, 17 February 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Schwarzhof)	(Wißfeld)
Auditor	Auditor

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Celesio on the web

Up-to-date information on Celesio AG and the companies in the Celesio Group is available on Celesio's website:

	www.celesio.com

For information about our pharmaceutical wholesale companies and markets:

France	www.ocp.fr
Germany	www.gehe.de
Austria	www.herba-chemosan.at
Norway	www.nmd.no
Czech Republic	www.gehe.cz

For information about our pharmacies in Europe:

United Kingdom	www.lloydspharmacy.co.uk
Norway	www.vitus.no
Italy	www.admentaitalia.it
Ireland	www.unicarepharmacy.ie
Netherlands	www.gehe.nl
Belgium	www.lloydspharmacy.be
Czech Republic	www.lekarnylloyds.cz

We offer access-protected business-to-business solutions for pharmacies:

France	www.ocp.fr
Germany	www.gehe-point.de
United Kingdom	www.aah-point.com
Austria	www.herba-point.at
Norway	FarmaLink (no public access)

General information

The annual report is available in German, English French and Italian. The German version is the legally binding version.

The financial statements and management report of Celesio AG for the 2003 financial year will be published in the Federal Gazette [Bundesanzeiger] and deposited with the Commercial Register of the Local Court of Stuttgart.

Information on the Celesio share

ISIN Code	DE0005858005
WKN Code	585 800
SE Code	CLS
Reuters Code	CLSG
Bloomberg Code	CLS GR

Investors' Calendar 2004

Balance sheet press conference, Stuttgart	18 March 2004
Analysts' and investors' conference, London	25 March 2004
Annual general meeting, Stuttgart	29 April 2004
Dividend payment	30 April 2004
Letter to Shareholders, 1st quarter 2004	12 May 2004
Letter to Shareholders, 1st half-year 2004	16 August 2004
Letter to Shareholders , 1st – 3rd quarter 2004	15 November 2004

Up-to-date information about the investors' calendar
can be found on www.celesio.com

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