SANOCHEMIA
Pharmazeutika AG

The Specialty Pharma Company

Annual Report 2007/2008

+ + + Tolperisone / Viveo® launched + + + Milestones for SANOCHEMIA + + + Results improve significantly + + +

Financial Highlights

in T€	2007/2008	2006/2007
Sales revenues	**29,531**	29,634
EBIT	**–1,225**	–5,501
Cash flow from operating activities	**–5,039**	8,384
Equity capital	**54,109**	57,919
Investment*	**3,891**	6,727
Average headcount during financial year	**185**	189
Productivity	**159.6**	156.8
Working capital	**27,997**	36,834
Current ratio	**255 %**	283 %
Borrowing requirements	**–1,001**	3,034
Capitalisation ratio	**45 %**	42 %
Equity ratio	**61 %**	59 %
Cash earnings per share in €	**–0.50**	0.83
Earnings per share in €	**–0.34**	–0.44
Market capitalisation at 30 September in M€	**52.30**	104.81
Market capitalisation (free float) in M€	**15.36**	30.77

* Investments in fixed and intangible assets

»SANOCHEMIA has specialised in the development and manufacture of innovative drugs and diagnostics. Our focus lies on indications with high therapeutic demand such as neurodegeneration, pain and oncology, as well as in the field of imaging diagnostics. Our products meet urgently required medical needs in commercially interesting segments of the healthcare market.«

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+ + + 78 percent increase in EBIT + + + Profitable H2 + + + All three divisions successful + + + Strong production division + + + + + + New products launched + + + Focus on PVP hypericine + + + Expansion of international market presence + + +

SANOCHEMIA – The Specialty Pharma Company

Production

Production

As a production-oriented provider of speciality pharmaceuticals, SANOCHEMIA covers the value-added chain from development through to the manufacture of the finished formulations. Our range of services extends from the synthesis of premium quality active pharmaceutical ingredients (APIs) to the GMP-conform manufacture of pharmaceuticals. The most important project in our development pipeline, tolperisone, recently entered production: The manufacture of the API and the production of the drug itself ensure that SANOCHEMIA maintains a strong market position.

Human pharmaceuticals

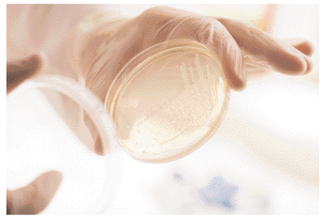
Human pharmaceuticals

This division is mainly concerned with the diagnostic sales activities of the subsidiary SANOCHEMIA Diagnostics. Our entry into the magnetic resonance tomography (MRT) imaging agents market in 2007 has provided us with access to the most important segment of the market for imaging diagnostics. Following the successful launch and marketing of Scanlux®, an imaging agent for MRT, MR-Lux®, is the next product in line for global marketing activities.

R&D

Research and development

Drug development is the segment which offers the greatest potential. SANOCHEMIA has a well-balanced drug and diagnostic development pipeline with a strategic focus on growing therapeutic areas. We are currently concentrating on innovative projects such as PVP hypericine, for the photodynamic diagnosis and therapy of bladder cancer, and Secrelux®, a pancreas function diagnostic. Furthermore, the Company also has several potential API candidate substances at various stages of development.



SANOCHEMIA's strategy in the specialty pharmaceuticals segment:

"Covering the entire value-added chain"

Efficiently managing complex pharmaceutical projects from development through to registration – that is where the strengths and the expertise of SANOCHEMIA lie. Priority is given to substances which, in addition to licensing income, also offer the option of extra value added through the use of our own leading-edge synthesis and pharmaceutical production facilities. Applying our tried-and-tested strategy of also manufacturing anything we develop, we are able to retain associated experience in-house and thereby establish and maintain a decisive competitive advantage.

Review of 2007/2008

78 percent increase in ebit

Profitable H2 signals upward trend / significant improvement in EBIT and EBITDA / equity ratio remains high at 61 percent

more > page 34

New products launched

Tolperisone (Viveo®) and MR-Lux® successfully launched / well positioned with new growth drivers / European registration dossiers filed / high-purity tolperisone: new drug application for the US market

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Diagnostics division enjoys success

Scanlux® now approved in 37 markets / international market presence extending through Scanlux® and MR-Lux® / stronger marketing & sales activities / radiology with new top brands during 2007/2008

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Focus on PVP hypericine

US substance and formulation patent / rapid development as a diagnostic and therapy for bladder cancer / improved chances of recovery due to early diagnosis

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Top performance by production division

Development of a new manufacturing process for galantamine / supply of synthetic galantamine safeguards long-term success / increasing API production for in-house drugs

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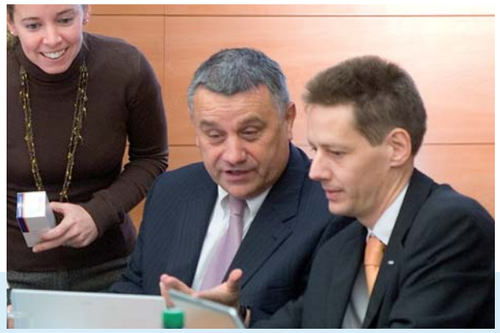
Board of Management

Maximilian Hudl
Chief Marketing Officer
Business Development, R&D

Herbert Frantsits
Chief Executive Officer
Finance and IT

Anton Dallos
Chief Technical Officer



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Dear Shareholder,

The 2007/2008 financial year was one which began with SANOCHEMIA reaching an important milestone on the road to sustainable and profitable growth: the successful launch of Viveo® (tolperisone) in Germany represented the attainment of a long-term objective. Following in the tracks of galantamine, this is a further in-house pharmaceutical development to reach the stage of commercial production. The fact that the first million euro in turnover was generated within a period of months clearly indicates that our tolperisone formulation is an extremely promising option for the treatment of neuromuscular spasm.

The development of a high-purity formulation of tolperisone was yet another significant achievement during the period under review. This innovative new formulation has been classified as a new chemical entity in the United States and would therefore qualify for extended patent protection following the receipt of marketing authorisation. This status is a key marketing advantage for SANOCHEMIA and its partners.

»Development of results confirms upward trend«

We also achieved a lot in operational terms. Following a difficult year, we are delighted to have been able to report positive earnings developments of late including for the final quarter of the period. The satisfactory development of business may be noted in the marked improvement marked improvement in the operating result. EBIT increased by 78 percent to minus € 1.2m. We were also able to improve the net result for the year by 26 percent which, at minus € 3.7m, compares favourably with the loss in the previous period of € 5.0m. This is equivalent to a loss per share of € 0.34 following losses of € 0.44 per share in the prior year.

We regard this as a respectable result given that sales revenues of € 29.5m were almost as high as in the previous period despite the loss of patent protection on a key synthesis product. This indicates that the Company is well positioned on the basis of galantamine and its new growth engines. The Human Pharmaceuticals Division, which is primarily involved in the sale of radiological products, reported some impressive figures. This segment stood up well in the face of intense international competition. Radiological sales revenues reached nearly € 15m or 16 percent higher than in the previous financial year. The operating result (EBIT) of this segment actually increased by 30 percent.

We are also satisfied with the development of MR-Lux®, SANOCHEMIA's first imaging agent for magnetic resonance tomography (MRT). Our entry into the MRT market, the most attractive segment of the market for imaging agents and one with sharply rising growth rates, has given us the opportunity to achieve considerable increases in sales revenues as early as the near term.

In what has in many respects been a difficult year, we have nonetheless been successful in achieving not only what we regard to be the best results possible under such circumstances, but have also supplemented our portfolio during the period under review through the addition of two new products.

»Long-term growth perspectives based on R&D«

In addition to continuously optimising our product portfolio and production processes, the development of new core business product candidates is also of central importance.

Following the registration of tolperisone, PVP hypericine is now the most advanced project in our development pipeline. The PVP hypericine developed by SANOCHEMIA is an innovative new diagnostic aimed at helping urologists detect bladder cancer. Having obtained the US patent on the manufacture of the active substance and the formulation, we can now intensify our efforts to develop this substance as a therapeutic in addition to its role as a diagnostic.

The aim of the extension of our laboratory facilities is to provide the development capacity necessary to ensure that we can bring a steady stream of in-house developments to market. The development of important, innovative products which we can manufacture using our own production facilities is the key to our long-term growth.

»Growth through international expansion«

In times of globalisation and increasing competition, the internationalisation of companies and their products is becoming ever more important: we have a range of promising, branded products with significant growth potential derived from our own development work and are able to react rapidly to capitalise on market opportunities due to our flexible corporate structure. In addition to expanding our own local sales subsidiaries, we have been working continuously in recent years to establish an international network of local marketing and distribution partners. The market in the EU is characterised by intense competitive pressure and increasingly rigorous regulatory guidelines. For these reasons, we aim to rapidly establish our products in new international markets. The US market, in particular, is interesting due to its high levels of demand, attractive prices and the fact that it is considerably more profitable than European markets, while also offering above-average growth potential. Our entry into the US x-ray market in 2009 will give a major boost to SANOCHEMIA's organic growth.

»Profitability – our top priority«

It is against this backdrop that we expect the 2008/2009 financial year to be one with a further improvement in our key financial performance indicators. It will be one in which we focus much of our attention on the marketing of the new growth engines Viveo® and MR-Lux® in Europe, and the planned launch of Scanlux® in the US. We will be investing more in international sales and marketing in order to forge ahead with the rapid global expansion of our activities. Despite the tense situation in the global economy, we are confident of achieving further sustained growth through our active out-licensing policy.

Our vision is to further consolidate our market position in the specialty pharmaceuticals sector through new product innovations and premium quality products in order to become a global player in profitable markets. Given our clearly defined and growth-driven projects, the planned operational steps and our sound financial standing, we firmly believe that we are on track to making this vision reality.

On behalf of the entire Board of Management, I would like to take this opportunity to thank our shareholders and stakeholders for their continued support and our employees for their outstanding work.

Herbert Frantsits

Tolperisone/Viveo® on the Market

SANOCHEMIA's partner, Orion Pharma GmbH, reports successful launch in Germany:

Viveo® – an effective, non-sedative, anti-muscular spasm therapy with a favourable side effect profile … Initial sales figures indicate a doubling of the original volumes forecast … Spasticity is a chronic and often painful symptom, (which considerably impairs the mobility and quality of life of those affected) … In Germany, an estimated 150,000 to 200,000 patients suffer from symptoms of spasticity … A high level of demand for better tolerated drugs exists … SANOCHEMIA's manufacturing process is subject to patent protection until 2022.

Vienna, October 2007

»Success – from development through to production«

2007 saw the launch of our first significant pharmaceutical in-house development since galantamine. Following the impressive launch in Germany, it soon became clear that this tolperisone formulation, marketed under the trademark Viveo®, was set to achieve considerable sales revenues and bottom-line contributions. The first million euros of sales revenues with Viveo® were achieved within nine months.

Viveo® is a new formulation of the muscular relaxant tolperisone which has been patented by SANOCHEMIA. In Germany, this new formulation has been approved for the treatment of all forms of neurological spasticity.

The successful launch of Viveo® in Germany by our partner Orion Pharma GmbH represents an important milestone in this financial year.

This is also particularly important for SANOCHEMIA due to the fact that this innovative development from our in-house R&D pipeline is the source not only of licensing revenues but also enables us to achieve revenues from associated production activities.

Success – from development through to production
Viveo® is a good example of the successful transfer of a project from the research and development sphere into that of commercial production – from laboratory-scale development via the synthesis of the API and the production of the finished product through to regulatory approval: We can cover the most important phases of product manufacture in-house and, thereby, maintain a secure hold on the most lucrative sections of the value-added chain.

The production of Viveo® also extends our Human Pharmaceuticals Division's portfolio in that we can now offer a therapeutic product in addition to the existing diagnostics. The manufacture of the API using our own facilities at the Neufeld site in Austria also bolsters our Production Division.

Tolperisone as the key to efficient spasticity treatment
Tolperisone is a muscle relaxant for the treatment of neuromuscular spasms. The main causes of spasticity are strokes followed, to a lesser extent, by Multiple Sclerosis. Symptoms of spasticity are also often attributable to accidents involving paraplegia or craniocerebral trauma. The primary aims of treating spasticity are to improve functionality and to reduce muscle tone, but also to relieve pain and make it easier to care for patients. Muscle-relaxing drugs are widely used in addition to physiotherapy.

What is spasticity?

Spasticity is a chronic and often painful syndrome which significantly impairs the mobility and the quality of life of those affected. It is often triggered by conditions and incidents which are associated with damage to the central nervous system such as strokes, Multiple Sclerosis, craniocerebral trauma and paraplegia. In Germany, an estimated total of up to 200,000 patients suffer from symptoms of spasticity as a result of neurological conditions. Spasticity involves long-lasting muscular cramps and even muscular rigidity which limit mobility.

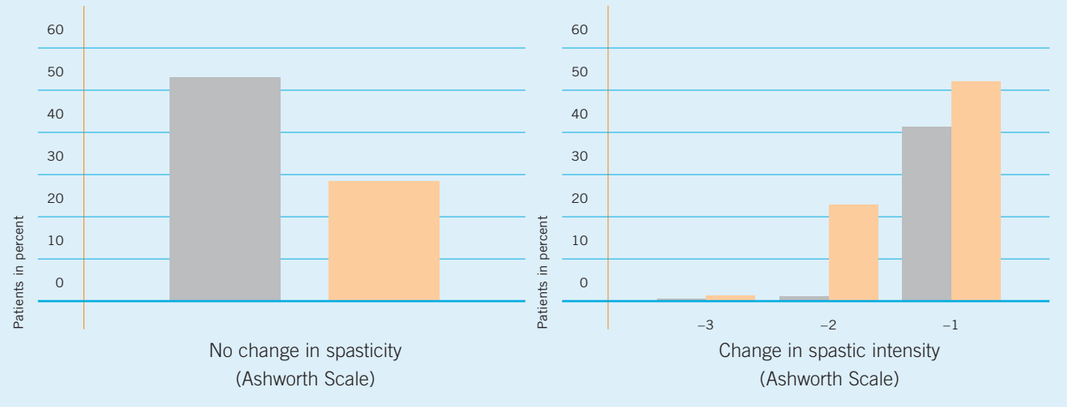
Tolperisone affects both the central and the peripheral nervous systems and is an effective means of reducing spasticity and its associated restrictions on mobility; it does this by reducing excessive muscle tone without influencing muscle strength. Tolperisone also suppresses peripheral pain. As a result, this substance alleviates muscular spasms while at the same time improving mobility and, as a result, patients' quality of life. The mechanism of action of tolperisone offers new perspectives to many patients for whom spasmolytic treatment was not previously an option.

One of the problematic side effects associated with many muscle relaxants is sedation – a factor which troubles many patients. It is particularly in this respect that tolperisone offers a significant advantage: the substance does not have any sedating effects, meaning that patients' reactions and their ability to work and operate machinery (e.g. driving) are not restricted.
This API combines high levels of efficacy with excellent tolerance – as has been shown in numerous clinical trials.

New formulation of an established API
Tolperisone formulations have been on the market for many years in Eastern Europe, Germany and Asia, hence the long-established efficacy of this substance in approved indications.

Fig. 1: Assessment of the efficacy of tolperisone on the basis of changes in spasticity on the Ashworth Scale.

Significant decrease in spasticity with tolperisone



Adapted from Stamenova, P et al., European Journal of Neurology 2005, 12: 453-461

Viveo®, developed by SANOCHEMIA, represents a new, fast-acting, formulation of this tried-and-tested substance. In addition to the rapid release of the API, the main therapeutic advantage of the new formulation for patients lies in its dosage strength: A single tablet contains 150 mg of tolperisone. In order to receive the recommended daily dosage, patients now only need to take a single tablet twice or three times per day. This significantly improves compliance.

Tolperisone for Europe

»The aim is to achieve 30 percent market shares«

Following the successful launch of Viveo® in Germany, attention has now moved on to securing marketing authorisations for this innovative product in other European markets. SANOCHEMIA and Orion Corporation, Finland, have held a pre-submission meeting with the German Federal Institute for Drugs and Medical Devices (BfArM) which, among other factors, led to the decision to opt for a decentralised regulatory procedure.

DCP – Decentralised Procedure

The regulatory applications are filed simultaneously in all selected member states of the European Union. One member state takes on the role of the reference member state for the testing and preparation of the assessment report.

The aim is now to submit two decentralised procedure applications (DCPs) by the end of 2008: Orion Corporation, Finland, has filed regulatory applications in Scandinavian markets and the Baltic region, while the DCP cluster of SANOCHEMIA covers the markets of Italy, Portugal, Spain, Greece and Austria. Germany is acting as the so-called reference member state for both DCP clusters.

An application for regulatory approval has already been submitted in Switzerland. Orion Pharma holds the exclusive marketing rights for this country and has already initiated preparations for marketing activities. As a result, Switzerland is expected to be the next country in which tolperisone is launched. During the period under review, we were able to report the signing of an agreement covering the exclusive rights to market and distribute tolperisone in Greece through another partner.

In 2009/2010, we expect to receive marketing authorisation in several countries and are already engaged in gearing up for European-wide production activities. These additional regulatory approvals are expected to generate significant opportunities for SANOCHEMIA. On the one hand, we aim to profit in the near future from the awarding of additional marketing licenses in Europe, on the other, we will achieve rising revenues from product sales in the coming years through our role as the exclusive manufacturer.

European market

Market for muscle relaxants in the EU: > € 260 m
Neurological segment in Germany: > € 40 m

US market assigned priority

»New drug application for the US market«

We regard the US market as offering enormous potential given that this accounts for half of the global pharmaceutical market. Due to the fact that no tolperisone formulation has ever been approved in the US, this product is regarded by the FDA as a so-called new chemical entity (NCE). This, in turn, means extended patent protection following the launch of the product and, therefore, represents a considerable marketing advantage for the distributor, assuming the product meets the stricter requirements, particularly those relating to the purity of the product.

We are currently working on a special formulation of this product in order to comply with FDA guidelines. The development of a new, high-purity, form of tolperisone during the period under review represents a major step towards securing marketing authorisation for this product in the US market.

A single service provider: from development work to API manufacture and registration

Further development for the USA
SANOCHEMIA has been successful not only in complying with the high standards for the API tolperisone imposed by the FDA, but has done so by a significant margin. The improved API will now serve as the basis for an improved formulation. The new tablet will represent a further increase in the application safety of tolperisone compared to other drugs.

»High-purity tolperisone secures € 2.5m milestone payment«

The documentation of the validation batches produced revealed that our new API exhibits an improved purity profile and sufficient stability for use in clinical trials. The stability data of a new substance are a key prerequisite for later filings for marketing authorisations and form the basis for the development of a tablet containing the improved API.

This new development of a high-purity form of tolperisone marks one of the major milestones of the past twelve months. This innovative development work on a high-purity formulation of tolperisone culminated in SANOCHEMIA

receiving a milestone payment in the amount of USD 2.5m in the fourth quarter (refer to Events after the balance sheet date).

High-purity tolperisone extends marketing exclusivity
In terms of the US market, tolperisone is regarded as a so-called new chemical entity (NCE) and is therefore subject to all of the FDA's strict regulatory requirements for clinical development and marketing.

This new formulation of tolperisone for the US market has been protected by SANOCHEMIA by means of the submission of several substance patent applications. The awarding of the first of these patents is expected in the near future.

A comprehensive new patent strategy to improve the exclusivity of the API is a key element of the development plan for the US. The expected awarding of patents for the high-purity form of tolperisone could mean an extension of market exclusivity in the US through 2027, and would lead not only to a significant increase in the value of this development product in the US and Europe, but also represent significant product advantages vis-à-vis our competitors.

»Tolperisone – high potential in the US market«

New development partner
SANOCHEMIA's aim is to pursue the further clinical development of tolperisone for the US market in cooperation with clinically experienced and well financed partners. This will yield the advantage of the commercial risk being borne by the partners, while SANOCHEMIA can still secure a share of development success in the form of milestone payments, something which could amount to several million US dollars. If the product ultimately receives marketing authorisation, SANOCHEMIA will also receive a share in profits in the form of royalties on product sales.

This SANOCHEMIA development, with its sought-after patent protection through 2027, the broad indication area and the indisputable safety offered by this product, endow tolperisone with significant potential in the US market and provide the preconditions for marketing success.

Maria Popova, MSc.
Deputy Member of the Board of Management, responsible for Business Development and R&D

Research and development assigned high priority at SANOCHEMIA

"The achievements of the past twelve months are clear evidence of our healthy position in the area of product development and the in-house production of APIs and formulations. This success has also shown us how important our commitment to R&D is, particularly in terms of the development of our own project pipeline. R&D lays the foundation for tomorrow's growth and thereby underpins the company's long-term commercial success."

"We are concentrating on a limited number of projects with high chances of success and a well balanced risk-benefit profile. Given our diversified R&D pipeline, with projects at various stages of clinical development, we regard ourselves as being well equipped to advance a number of projects that are currently fast approaching the market on to the stage of in-house production in the near future."

R&D focuses:

US patent for PVP hypericine
"The granting of a US patent on the novel active substance PVP hypericine was an important milestone during the course of the year. The patent protection on the PVP hypericine formulations and their use is now secured until 2020. This will enable us to rapidly advance the targeted development of this substance for use in photodynamic diagnostics (PDD) and, in due course, as a potential drug in the photodynamic therapy (PDT) of bladder cancer."

Clinical trial programme for Secrelux®
"In addition to PVP hypericine, Secrelux® will also be a key focus of our R&D activities in 2009. Secrelux®, a successful in-house development of SANOCHEMIA, is currently used in the diagnosis of pancreatic disorders. Literature and studies have established that Secrelux®, in combination with modern imaging processes, possesses additional potential – potential that SANOCHEMIA aims to tap."

Galantamine – further indications
"We have also been working to rapidly advance the globally successful parent substance galantamine and its derivatives. One example of this progress was recently the initiation of preclinical trials in ophthalmological indications where we see further potential for this substance. Such a new indication would be an interesting extension to the existing marketing authorisation for galantamine in the treatment of Alzheimer's disease."

MRT Imaging Agent on the Market

Sanochemia reports launch of MR-Lux® in Germany

The first MRT imaging agent in the product portfolio of our subsidiary SANOCHEMIA Diagnostics … rounding off the radiological product portfolio increases competitiveness … MR-Lux® is a paramagnetic imaging agent for magnet resonance tomography … extends the product portfolio with the aim of combining medical needs and commercial efficiency … extensive, premium quality product portfolio and competent advice underpin strong market position.

Vienna, March 2008

»A single source for all radiological and urological investigations«

MR-Lux®, our latest product and one that was successfully launched in Germany in 2008, is a paramagnetic imaging agent for magnetic resonance tomography of the entire body. It is used in the early localisation and characterisation of tumours and inflammation. This is particularly important because early diagnosis following suspected tissue changes or the growth of metastases enables patients to receive appropriate treatments in good time. A further application area is the imaging of vessels (angiography). Diseases affecting blood and other vessels are a common cause of often fatal conditions in industrialised nations. Aterioschlerosis, for example, is jointly responsible for the most common causes of death: heart attack and stroke.

Magnetic resonance tomography (MRT) is an imaging process for investigating the internal organs and tissues. In contrast to conventional x-ray investigations, MRT uses magnetic fields and radio waves rather then x-rays. The advantage of MRT compared to other imaging procedures is the fact that the images of organs obtained are often higher quality.

SANOCHEMIA Diagnostics now offers customers a comprehensive product portfolio of highly efficient and innovative imaging agents for all diagnosis segments. The launch of this product saw the achievement of an important objective: In combination with our excellent sales team in Germany, we can now rapidly expand our market position and further improve profitability.

SDI first presented its complete base product portfolio at the world's second largest radiological congress (ECR). MR-Lux®, SANOCHEMIA's first MRT imaging agent, stimulated particular interest among the experts present. Due to the rounding off of the product portfolio, the feedback was considerably more positive than in the previous year and a complete success.

The MRT market: Double-digit growth rates

The market for imaging agents is showing signs of saturation in certain segments and territories. Success is increasingly confined to suppliers, such as SANOCHEMIA, who offer a safe and cost-effective range of imaging agents capable of covering all of the segments of the market for imaging diagnostics.

With double-digit growth rates in terms of the number of investigations carried out, MRT is the fastest growing segment in the market for imaging agents. The reasons for this are foremostly the increased use of the MRT procedure, but also the excellent imaging properties and the wide range of application options offered by the available MRT imaging agents. MRT imaging agents currently make up a significant proportion of overall sales in the imaging market and are forecast to generate above-average growth in the years ahead.

The market potential of these substances in Germany, for example, is estimated to be around 80 to 90 million euros per year. Due to the constantly rising number of investigations, its own MR-Lux® brand product has thrown open the door for SANOCHEMIA to access the most attractive segment of the market for imaging agents. SANOCHEMIA Diagnostics aims to secure a 10 % share of the MRT market in Germany within the next three years.

German market

Worth a total of around 260 million euros, growing at around six percent.

Non-ionic imaging agents: *€ 150 m*
Ionic imaging agents: *€ 15 m*
Barium sulphate: *€ 3 m*
MRT imaging agents: *€ 80 – 90 m*

Consolidating the market position of radiological products in Europe

»The aim is a 50 percent increase in revenues by 2010«

Rapid roll out of MR-Lux® in Europe

Following the successful launch in Germany, our aim is now to rapidly expand our position throughout Europe as a supplier of a full range of imaging agents. MR-Lux® has all the preconditions for rapid success in a European context. In addition to its own marketing activities, SANOCHEMIA also acts as a contract manufacturer of the active substance for use in customer-specific formulations for the entire European market. This clearly underlines our comprehensive expertise in the manufacture of diagnostics.

MR-Lux® has already received regulatory approval in Switzerland. The negotiations with regard to the pricing and reimbursement of the product are still ongoing with the Swiss authorities. We hope to receive the green light for MR-Lux® marketing activities at the beginning of the new calendar year. By the end of 2009, we expect to receive marketing authorisations for a further 13 markets

MR-Lux® attracts considerable interests from visitors to the European Congress of Radiology (ECR)

in the course of the European registration procedure. The preparations for rollouts in the most important of these European markets, with a strategic focus on radiologists as the target group, are already underway.

MR-Lux® is a paramagnetic imaging agent for whole-body MRT investigations

Progress in Europe with Scanlux®

Scanlux® – specialty x-ray imaging agent based on iopamidol: The clear advantages offered by the substance iopamidol, in terms of tolerance, triggered the spread of non-ionic imaging agents and, despite the high costs involved initially, these have largely replaced the use of high-osmolar ionic imaging agents which had previously represented the industry standard. The substance iopamidol is now used in over 100 countries and, following over 250 million applications and more than 2,000 scientific publications, is among the most widely tested and documented imaging agents in the world. Although the European market is highly competitive, during the period under review we were able to achieve significant increases in sales in some of the markets in which Scanlux® is registered, particularly those in Eastern Europe such as the Czech Republic, Slovakia and Romania, with market shares of up to ten percent. We also achieved double-digit growth in Hungary, a country where sales volumes are already considerable in terms of volume. These increases in revenues have led to corresponding improvements in bottom-line results. The above is clear evidence that Scanlux® is being well received by customers due to its outstanding levels of quality and the growing pressure on prices.

»Scanlux® achieves annual revenue growth of around 15 percent«

Registration procedures have also been successfully completed in Ukraine, Albania and Ireland. In Greece, the aim is to secure significant gains in market share in the next two years with a new, commercially strong sales partner. Marketing activities started on schedule in Italy during the period under review. We also expect to secure marketing authorisation for Scanlux® in Spain, one of the most important European markets for SANOCHEMIA's radiological products, by the end of 2009. As a result, we now have a presence in Europe's second largest market for imaging agents after Germany, with a market potential of around 50 million euros.

»No comparable product available in Europe!«

Secrelux® – Pancreatic function diagnostic

Secrelux®, based on the substance secretin, is the only product of its type in Europe. Although this successful in-house development on the part of SANOCHEMIA is currently only registered in Germany, it is already used in many other European countries on a named patient basis. It is presently approved in the indications diagnosis of exocrine pancreatic function and Zollinger-Ellison syndrome.

Secrelux® facilitates the early and clear diagnosis of a pancreatic tumour. This enables doctors to decide which patients will profit from a targeted therapeutic intervention.

During the financial year under review, we set up a medical support centre in order to simplify the use of Secrelux® and the associated administrative work as well as supporting current and future users of this product. The rising demand for Secrelux® from gastroenterologists is a clear indication of the degree to which this product is widely accepted and needed. Other European and international marketing authorisations, as well as indication extensions for other diagnostic procedures such as CT, MRCP and sonography, are also being pursued. The market potential of this substance in Germany, for example, is estimated to be around 10 million euros per year.

Secrelux®: for the early and clear diagnosis of pancreatic carcinomas.

+ + + Product launch of MR-Lux® + + + Complete product range from a single supplier + + + Diagnostics Division successful + + + + + + Scanlux®: top-selling single product + + + European-wide marketing + + + Internationalisation and profitable growth + + +

Accelerated development of international markets with Scanlux®, MR-Lux® and Secrelux®

»Growth through international expansion«

Scanlux®, the central and pioneering product in terms of our international market development strategy, has already been approved in 37 territories. Given that levels of international demand are high, we aim to use Scanlux® as the most important core product, with its wide application range in the area of CT, in order to drive our international expansion strategy and secure additional market shares. We will also use our success in marketing Scanlux® to prepare the way for our new growth drivers. SANOCHEMIA has worked steadily in recent years to establish its product portfolio in the field of imaging diagnosis. Our innovative products offer considerable growth potential. We also have a major competitive advantage as a result of our own production facilities for diagnostics in Neufeld, Austria. As such, we are considerably closer to reaching our goal of adding a truly international dimension to our strategy of promoting our own brands, all driven by the central idea of being a single supplier for all radiological needs. We are well positioned to achieve this goal. In addition to expanding its own local sales subsidiaries, SANOCHEMIA Diagnostics is also working in parallel to establish an international network of local marketing and distribution partners. Bearing in mind the different structural, organisational and regulatory environments in international markets for the sale of diagnostics, these partnerships and the knowledge input by our partners form the optimal basis for grasping the opportunities presented by each individual market.

»Global marketing effort intensified«

In times of globalisation and increasing competition, the internationalisation of companies and their products is becoming increasingly important. The tasks faced by management, sales and marketing teams are also becoming more challenging. SANOCHEMIA is prepared to face these challenges. Its new International Sales and Marketing Department is responsible for the ongoing global development of the Group and its sales partners.

Thomas Fahrhöfer
Director Marketing & Sales

»Our aim here is to become an important global player on the strength of our successful products. This involves the markets of Asia, North America and Europe equally. Rising levels of demand in these regions are a further reason why we believe that we can expand the activities of SANOCHEMIA Diagnostics to truly global dimensions in the coming years, built on a broad product portfolio and our flexible organisational structure.

This not only involves the use of classical marketing tools, but also recognising and seizing opportunities in close cooperation with our local distribution partners. New strategic marketing concepts form the basis for the target group and profit-oriented establishment of our products and a common international marketing approach based on the uniform SANOCHEMIA Diagnostics brand and the slogan: "There is more to see".
Our entry into the North American market in particular, a market with high volumes and considerably higher margins, allows us to extend our reach along the value-added chain.
The pace of innovation in the USA is high, customers expect outstanding levels of quality and adaptation to comply with the established, often very complex, distribution channels.«

The global presence based on Scanlux®, our extensive product portfolio, and our own patented manufacturing operations at the Neufeld facility will further accelerate the pace of growth and prepare the way for SANOCHEMIA to become a truly global diagnostics company.

Maximilian Hudl
Chief Marketing Officer
Business Development, R&D

Third successful division – diagnostics

"SANOCHEMIA Diagnostics has been extremely successful in a difficult competitive environment. In the radiological segment, we achieved increases in sales revenues of 15 percent and an improvement in EBIT of 30 percent record annual performance. This success is a clear confirmation that we have been able to firmly establish ourselves as a successful diagnostics provider within the space of only a few years. Our internal efforts to increase productivity and focus on high-growth regions have also contributed to this success.

Rapid expansion in Europe with MR-Lux®

"The rounding off of our product portfolio through the addition of this product has put us in a strong position from which to rapidly expand our presence in European markets. Following the successful launch in Germany, we have initiated registration procedures in 13 other European territories and expect to receive the first national approvals within the space of a year. Our mid-term target is to achieve a 50 percent increase in sales revenues by 2010 – a target we firmly believe we can reach."

Global market potential: Top quality standards and added-value service

Survival in today's global market is dependent on the highest possible quality standards and outstanding customer service. Our strong market presence is based on increasing levels of customer care for radiologists, hospitals and clinics, and by offering a uniform product range for greater levels of convenience and customer satisfaction. Part of our recipe for success will also be the uniform corporate identity of the brand SANOCHEMIA Diagnostics and the principle of offering radiologists a full range of radiological imaging agents.

Our strategy: Internationalisation and profitable growth

"The market in the EU is characterised by competitive pressure and increasingly rigorous regulatory guidelines. It is for these reasons that we aim to rapidly establish our products in new international markets. We have noted considerable interest from the Middle East and larger emerging markets as well as from countries in Eastern Asia. The US market is particularly interesting for SANOCHEMIA due to its high levels of demand, attractive prices and the fact that it is considerably more lucrative than European markets while also offering the prospect of above-average growth. Our entry into the US x-ray market would give a major boost to SANOCHEMIA's organic growth. Profitable increases in growth markets are a key precondition for sustained positive development in terms of enterprise value. Our objective is to work together with our distribution partners to tap the opportunities presented by global markets.

Heading West – Scanlux® in the US

Paul Böckmann reports from Stamford, Connecticut on 20.10.2008

»The official filing of the registration dossier with the FDA was an important milestone along the route to entering the US market. As a result, the launch of Scanlux®, our leading x-ray imaging agent, in the world's largest single market is now within reach. This is a market which is particularly important for SANOCHEMIA due to the fact that it represents a potential of around USD 1.5 bn, and because the margins in the imaging segment are generally more favourable than in Europe. The US market is also characterised by above-average growth potential. We aim to generate sales revenues of between three and five million US dollars in the first years after launch – a perfectly realistic target.«*

** ANDA (Abbreviated New Drug Application)*

»Production for the US to start in mid 2009«

SANOCHEMIA has contracted out the production of Scanlux® for the US market to a local contract manufacturing partner. HollisterStier, a contract manufacturing player with many years of experience and expertise, is a partner with sufficient capacity to serve a market of this size. The first stability and validation batches have already been completed at HollisterStier's facility in Spokane, Washington State; meaning that production for the US market can begin in the middle of next year. The excellent cooperation with this contract manufacturer to date is key to safeguarding the critical pipeline filling process for a top quality product such as this. The alternative to our current plans is to upgrade our existing facility in Neufeld, Austria, to comply with FDA standards, something which would give us even more flexibility.

The US market is one with a variety of distribution channels. It is dominated by a limited number of national suppliers which distribute products via nationwide wholesalers and distribution centres. There are sales via the state institutions such as Medicare, Medicaid and FSS as well as the relatively uncomplicated private market. Our discussions with potential marketing and sales partners at all levels of the complex supply chain have yielded very positive feedback. We expect to sign the first sales agreements with selected distributors on schedule by March 2009. This will ensure that our specialty x-ray imaging agent is sold throughout the USA.

»US distribution on track«

SANOCHEMIA has marketed the immunofluorescence test Fluorognost®, a leading confirmatory assay for the AIDS virus HIV1, in the USA for years. MR-Lux®, an MRT imaging agent which has already been successfully launched in Germany, is a further product with sufficient documentation and demand to warrant a launch in the US market. A number of registration-related aspects and the patent situation are currently being assessed.

US Market

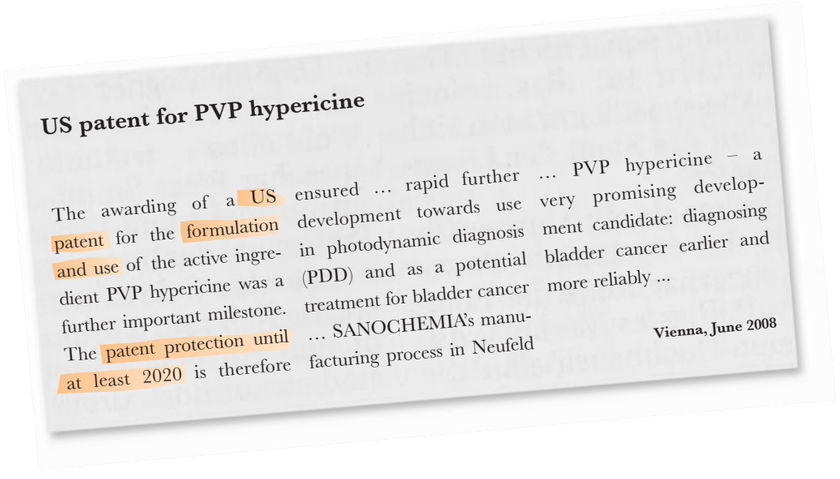
According to OECD data for 2006, there are approximately 33.9 CT scanners per million inhabitants in the USA. This is highest density in the world.

By comparison:
Germany has 16.7 CT scanners per million inhabitants; Austria has 29.8.

This means that there are more than 10,000 CT scanners in the USA and more than 62 million CT scans are performed each year.

The total imaging market in the USA is worth 2.3 billion US dollars, made up as follows:
Imaging agents (LOCM + HOCM): *USD 1.5 bn*
MRT: *USD 650 m*
Ultrasound: *USD 80 m*

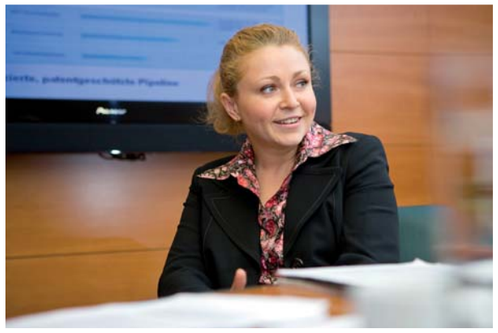
Sights Set on Cancer



US patent for PVP hypericine

The awarding of a US patent for the formulation and use of the active ingredient PVP hypericine was a further important milestone. The patent protection until at least 2020 is therefore ensured ... rapid further development towards use in photodynamic diagnosis (PDD) and as a potential treatment for bladder cancer ... SANOCHEMIA's manufacturing process in Neufeld ... PVP hypericine – a very promising development candidate: diagnosing bladder cancer earlier and more reliably ...

Vienna, June 2008



Interview with Maria Popova, MSc.

PVP hypericine, developed by SANOCHEMIA, is a new diagnostic aimed at helping urologists detect bladder cancer. Head of R&D, Maria Popova, MSc., discusses the background to the project, its current status, and the future prospects with Wolfgang Wagner.

Mrs. Popova, what was the initial trigger for the PVP hypericine project?

Bladder cancer is the third most common form of cancer worldwide. This type of carcinoma accounts for around three percent of all new incidents of cancer. In men, the proportion of all incidents of cancer involving the bladder is six percent, in women two percent. It is important to diagnose the disease as early as possible. It is also worth noting that this form of carcinoma often recurs after the removal of malignant growths of this kind. That is why regular check ups of patients are decisive. Currently, however, there is still considerable room for improvement in terms of the diagnosis methods used.

Where is this potential for improvement?

The most important diagnosis method in use is cystoscopy, which involves the urologist checking for changes in the mucus membrane of the bladder by means of a special form of catheter. Until now, this has largely been done using white light, which has the disadvantage that even well trained and experienced urologists cannot always see all such changes and the extent of these. A second problem arises due to the fact that the majority of such carcinomas are removed during the same procedure. Some carcinomas are overlooked. With others, the full extent of the malignant changes is not identified, meaning that not all of the affected tissue is removed. This leads later to a high relapse rate.

How effective are conventional methods?

The success rate using white light lies between 50 and 70 percent. Around four million cystoscopic investigations are performed every year in the USA and Europe. But, it isn't only the first investigation and the diagnosis which are important. The accuracy of the investigations and patient check ups following an initial operation to remove a tumour are also key factors. The interval between investigations is generally six months. Both the earliest possible diagnosis and the removal of the entire tumour are critical to patient health. This also applies to check ups.

How can the efficacy of bladder cancer diagnosis be increased?

The issue here is the early diagnosis of the carcinoma in situ. This means that the tumour has not yet spread beyond the first layer of the mucus membrane of the bladder. This applies to around 70 percent of bladder carcinomas. The aim here is to improve the efficacy of the cystoscopic investigation. Work began several years ago on the use of dyes as a means of better highlighting carcinomas. Examples of such photosensitisers developed to date include aminolaevulinic acid and the substance 5-ALA. One such product is already on the market in the EU. In the United States, this product is still undergoing the FDA's approval procedure.

What improvements is PVP hypericine expected to bring?

PVP hypericine is a so-called photosynthesiser which accumulates in cancerous cells. Under blue light, something which simply involves the use of a blue filter on the cystoscope, it is easier to identify the area affected by the cancer. This area begins to fluoresce, which in turn makes the area of the bladder affected by the cancer easier to see. We expect the accuracy of diagnoses to rise to around 95 percent. That would be a major advance.

How is this substance obtained?

Hypericine is a substance which occurs naturally in St John's wort (botanical name: Hypericum perforatum). Hypericum extracts have been used for centuries as sedatives and to treat forms of depression. The fact that the substance also acts as a photosensitiser has also been known for a long time. It was scientists at Vienna General Hospital (AKH) who investigated this substance and developed PVP hypericine. This involves binding hypericine to polyvinylpyrrolidone (PVP). The reason for this is the fact that the substance must be water soluble in order to be used in urological diagnosis procedures. PVP hypericine is soluble in water. SANOCHEMIA acquired the exclusive rights to this development in 2005. In June 2008, we were granted a patent on this development in the USA to add to the one we already had for Europe. The patent protection relates to the formulation and the use of the active ingredient. These patents provide us with exclusivity until at least 2020.

What could be the advantages of this new development compared to the product already available in Europe?

Cystoscopic investigations are performed under short-term anaesthesia. Before this, the dye is introduced into the patient's bladder. This is then removed again, after which the investigation begins. Previously known photosensitisers bleach relatively rapidly, at most after one hour. PVP hypericine extends this window of opportunity to up to two hours. This makes the preparations for such an intervention easier. The urologist also has more time to perform the procedure under optimal conditions. This represents an advantage both for the doctor and for the hospital. Overall, this should lead to a better cost-benefit ratio when compared to other procedures. And, the patient can of course be treated better and more accurately. This in turn reduces the risk of a recurrence of the tumour and reduces overall treatment costs.

How far has the project progressed?

We are currently at the stage of preclinical testing in animal models. We haven't experienced any problems with the substance so far. The tests into any possible chronic toxicology revealed no negative results which would indicate any risks. At present, we are waiting for the results of a so-called local tolerance study which involves investigating whether such a diagnostic procedure involving the bladder could itself lead to any side effects.

What are the next steps?

After we have the results from the last preclinical trial, we will submit the study protocol to the relevant ethics commissions. We are already in discussions with hospitals in Germany and Austria with regard to performing a clinical Phase II trial in patients. This trial could then start in 2009. We expect it to take around six months.

What would then be the next steps?

We are already discussing the project with possible cooperation partners in order to then perform a Phase III trial, obviously with more patients, which would be aimed at providing the documentation necessary for a regulatory filing. The next step would then be to file for regulatory approval in Europe. We are also taking steps with regard to a filing for approval in the US parallel to the ongoing development of this project in Europe. We are already searching for licensing and marketing partners in both Europe and the US with the aim of bringing these partners on board during the development of the products.

Does PVP hypericine have any other development potential?

Yes. But, we don't have any hard scientific data on this yet. First of all, this substance could probably also be used in the diagnosis of cancer of the intestine. It could also be possible to use it in the diagnosis of skin cancer. Around 50 percent of all potentially fatal tumours can in theory be diagnosed through the use of fluorescence endoscopy, just as this is now possible in the case of bladder cancer. Furthermore, there are also indications that PVP hypericine itself could have a therapeutic impact on cancerous cells. It is thought that the formation of oxygen radicals may lead to increased apoptosis, i.e. programmed cell death, in tumours. But that is something which still needs to be investigated in detail.

Patent on Improved Galantamine Synthesis Process

Press release: Austrian patent for a new development process for the manufacture of a high-purity form of synthetic galantamine

The aim behind the patenting of the new SANOCHEMIA process is to extend the current global protection from 2014 to 2027. The qualitatively improved manufacturing process sets a new benchmark … This new, high-purity, product could become the industry standard. This, in turn, could result in competitors also having to demonstrate the same quality standards as those of the high-purity product manufactured by SANOCHEMIA.

Vienna, September 2008

The first galantamine used for medical purposes was extracted from snowdrops (botanical name: Galanthus nivalis). In 1996, SANOCHEMIA received the first patent on a technically and commercially feasible process for synthetically manufacturing galantamine. This patent guarantees global exclusivity for our synthesis process until 2014. The synthetic galantamine manufactured by SANOCHEMIA is used in a drug marketed by Janssen and Shire as Reminyl® in the treatment of mild to moderate Alzheimer's disease.

»SANOCHEMIA's galantamine reaches the global market«

In 2001, SANOCHEMIA's manufacturing process was approved by the US Food and Drug Administration (FDA), thereby allowing us to begin production of synthetically manufactured galantamine for the US market. This milestone in the Company's history and its status as the exclusive manufacturer of the API formed the basis for today's commercial success.

Following the qualitative improvement of the manufacturing process for galantamine, we have now established new benchmarks in terms of the stricter regulatory requirements for future generations of APIs. The relevant patent applications associated with our new manufacturing process were submitted in 2007; the Austrian patent has already been granted. The international patents we expect to receive in due course could provide SANOCHEMIA with global patent protection until 2027. This would make it considerably more difficult for third parties to reach these new standards. The patented synthetic manufacturing process for galantamine also provides a significant cost advantage vis-à-vis obtaining galantamine from natural raw materials, which are rare and consequently expensive. Alternative manufacturing processes remain as yet unknown.

Alzheimer's market – a growth market

The incidence of neurological disorders such as Alzheimer's disease is increasing markedly in line with demographic developments and the continuous rise in life expectancy. The market for drug-based therapies to combat Alzheimer's in particular is growing rapidly, not least due to the fact that relatively few drugs have as yet been approved in the treatment of this condition. Additional growth is possible by increasing access to treatment: It is estimated that approximately only 20 percent of Alzheimer's patients currently receive adequate treatment, and that the condition is not even diagnosed in a significant proportion of those affected.

Broad application spectrum under assessment

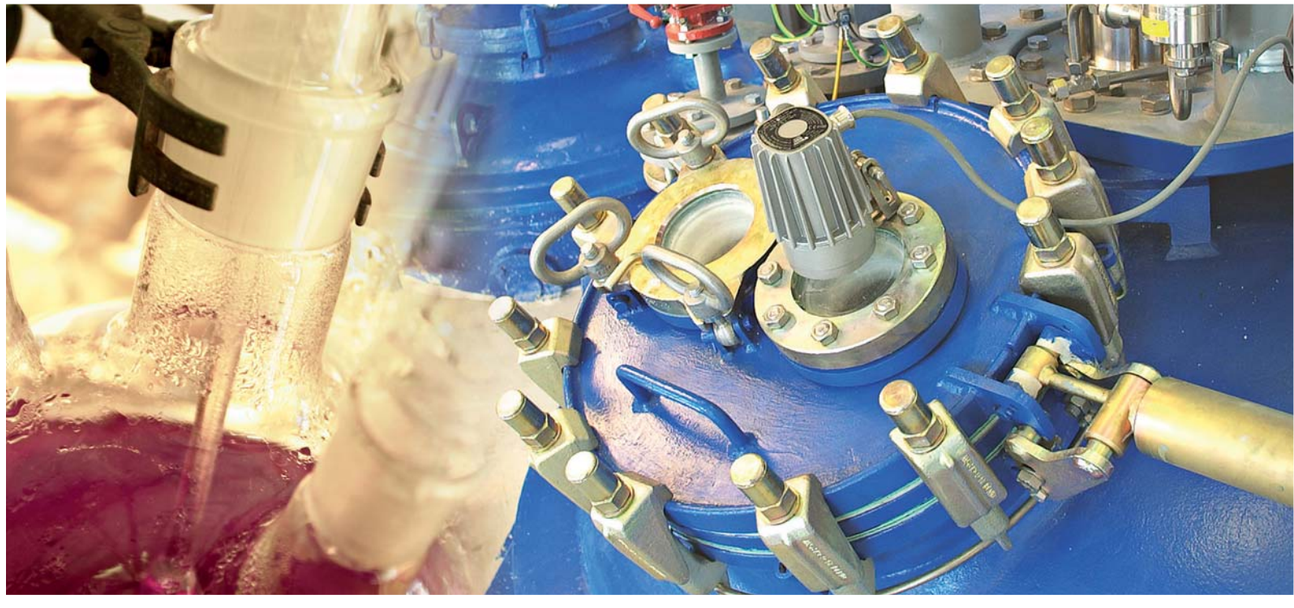
Following its many years of experience in the development of APIs, SANOCHEMIA was one of the first companies to recognise the potential of galantamine. As early as 1995, we secured the first marketing authorisation for the use of the API galantamine in the treatment of Alzheimer's disease.

The potential efficacy of this API now appears to be far greater than was originally assumed. We are currently assessing other application areas and new therapeutic options based on galantamine and its derivatives. Initial preclinical investigations also indicate potential in ophthalmological indications.

»Galantamine-based drug awarded innovation prize «

The potential of galantamine has been widely recognised in the field, a fact highlighted, among others, by the awarding of the H. G. Creutzfeldt Innovation Prize 2006. This prize is awarded annually in Germany for the development of innovative drugs which achieve high levels of therapeutic efficiency in the area of preventative medicine. As reported in the Deutsche Ärztezeitung journal in January 2007, the central reasoning behind the awarding of the prize was the dual mechanism of action which differentiates galantamine (Reminyl®) from other cholinesterase inhibitors. This substance not only inhibits acetyl cholinesterase, but also increases the availability of acetylcholine in the synaptic cleft. Studies have demonstrated that patients treated with Reminyl® experience a delay in the deterioration of cognitive abilities of between twelve and eighteen months.

In-house production at SANOCHEMIA's leading-edge synthesis plant



Our future in the area of synthesis: Key technology and core competence

»Development, API production and formulation from a single source«

SANOCHEMIA's expertise and the underlying synthesis process represent an outstanding knowledge base in the stereo selective synthesis of naturally-occurring substances. Our many years of experience gained during the synthesis of galantamine give us a major advantage in the development of complex substances from our own pipeline, but also allow us the option of offering services tailored to the needs of other players in the pharmaceutical industry.

Contract manufacturing
SANOCHEMIA's expertise lies in the development of new processes for the manufacture of active pharmaceutical ingredients as well as in rapid technical scale-up procedures from laboratory dimensions to industrial manufacturing under GMP conditions.

Due to the trend towards more indication and patient-group specific drugs, there exists growing demand for production facilities capable of offering low-volume manufacturing with a high degree of in-built flexibility. Given our access to the necessary innovative technologies, extensive pharmaceutical expertise and high standards of customer service, we have long been a preferred partner to larger pharmaceutical companies. This has been demonstrated by a marked rise in the number of API project enquiries during the 2007/2008 financial year.

Growing API demand for in-house products
When selecting development projects, we have a clear policy of focussing on substances which, in addition to licensing revenues, also offer additional value-added through the option of manufacturing the API using our technically advanced synthesis and pharmaceutical production plants. The increasing focus on in-house production yields considerably higher potential earnings for SANOCHEMIA.

The Production Division is expected to grow significantly in the coming years, not least due to the planned roll out of tolperisone (Viveo®) in other markets in the course of 2009/10 (see page 8): SANOCHEMIA is the exclusive manufacturer of this substance for the duration of the licensing agreements concluded with the respective marketing and sales partners.

The granting of a US patent on the manufacturing process for PVP hypericine (see page 22) provides SANOCHEMIA with another development project with an implementation horizon in the near future. SANOCHEMIA has developed a new manufacturing process for this premium quality substance and its formulation.

Other new substances as the basis for our diagnostic products are also undergoing evaluation. If successful, these projects will result in a greater degree of independence from suppliers, cost savings and higher utilisation rates for our synthesis facilities.

The production facility in Neufeld, Austria

»Local for global«

We supply our 'made in Austria' speciality pharmaceuticals to customers and markets around the world. In doing so, we maintain a clear focus on fast-growing niche markets. The proportion of SANOCHEMIA products destined for export already exceeds 80 percent.

Our past success and the ongoing rise in demand for our products are clear signals that we should continue expanding our Austrian specialty pharmaceuticals facility in Neufeld. This strategy involves targeted investments in production technologies, infrastructure and constant product improvements. One of the key advantages of the Austrian facility is the optimal combination of on-site training, in-house R&D and outstanding levels of expertise in API and pharmaceutical production.
Through the efficient deployment of our resources, we will continue to increase our competitiveness and both expand and consolidate our global position.

Anton Dallos
Chief Technical Officer

Our core competences of development and production

In recent years, we have brought a number of successful products to market – products which are based on in-house development. Scanlux®, Viveo® and MR-Lux® – our new growth drivers which are already contributing to higher plant utilisation rates at our production facilities. Concentrating on our core competences of development and production has put us in a strong strategic position. The expertise in the synthesis of complex APIs combined with the production of complete drug formulations are the keys to our solid standing in the market."

Capital investments

"SANOCHEMIA has invested heavily in the expansion of production facilities and significantly upgraded the Neufeld facility. As a result, our development and production plants remain of the highest technical standards. Following the construction of a new logistics centre in 2007, a further phase of the current investment programme has been completed – one which provides the ideal pre-requisites for our future success as a full service provider in the specialty pharmaceuticals sector."

Latest technical equipment at Neufeld facility

"A new production facility for highly active pharmaceutical ingredients (HAPIs) has been approved by the Austrian regulator, AGES, and is now operational. What makes these substances so special is the fact that they are pharmacologically effective at very low dosages, something which offers advantages both for patients and in terms of cost savings. It is for this reason that strong demand exists in the market for these substances."

"This project has given SANOCHEMIA a significant competitive advantage. Such technical innovations form the basis for new ideas, services and economic growth. We are one of the few custom manufacturers capable of offering the production of HAPIs on an industrial scale. In addition, this highly specialised means of manufacturing will in future also be used in the production of innovative substances from our own development pipeline."

Top performance for future success

"The skills, creativity and commitment of our personnel and management are key to the commercial success of SANOCHEMIA. That's why we invest heavily in training young people at our Neufeld facility to become tomorrow's specialists, and also why we recruit the most promising graduates from universities and colleges. We also offer specialists and managers at SANOCHEMIA excellent training and further education options. For more details on our workforce, please refer to the Personnel section of this annual report."

Preview of 2009:
Our targets and expectations

Financial Year 2008/2009

Considerable increase in sales revenues / new markets with high sales potential / higher in-house production of pharmaceutical products improves earnings position / active out-licensing policy

Rapid market penetration with MR-Lux® and Viveo®

Roll outs in Europe / rapid marketing of new growth drivers / broad presence in new markets boosts revenues and bottom-line growth

Innovative: Secrelux® and PVP hypericine

New studies underpin tomorrow's innovations / Secrelux®: indication extension and further diagnostic application create new markets / PVP hypericine: top out-licensing candidate

Radiology: 50 percent increase in turnover by 2010

European-wide substance manufacturer for MR-Lux® / expansion of global activities: Scanlux® and MR-Lux® for international markets / Scanlux® on US market

Production for new projects and galantamin

Successful in-house developments increasingly bolster Production Division / project developments for high-margin synthesis products / stable forecasts for galantamine

Management Report 2007/2008

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+ + + 78 percent increase in EBIT + + + Profitable H2 + + + All three divisions successful + + + Strong production division + + +

+ + + New products launched + + + Focus on PVP hypericine + + + Expansion of international market presence + + +

Management Report 2007/2008

Economic Environment

The rapid growth of the global economy seen in 2007 slowed significantly in 2008. The economic outlook has been dominated by the financial crisis since the second half of 2008. The EU currently forecasts that average growth in GDP terms will be limited to 1.3 percent in the 15 countries forming the so-called Eurozone. Inflation is also high. While the European economy remains essentially robust, if somewhat weaker, that of the US has been hard hit, primarily as a result of the property and financial crises. The US economy is under a considerable burden and is not currently acting as a motor of the global economy.

The pharmaceutical and healthcare markets

The current situation of commercial uncertainty is only being partially felt in the heathcare and pharmaceutical markets. The markets in which SANOCHEMIA is active are expected to grow by between five and seven percent, to around USD 745 bn, in 2008, according to IMS Health. The economic slowdown is being felt by five top European markets just as it is the US market, which is experiencing an all-time low. Emerging markets now constitute almost 25 percent of the global pharmaceutical market.

The pharmaceutical industry is facing a series of tough challenges: Pressure on development pipelines and prices, expiring patent protection on important products, and the significantly more restrictive stance of the FDA with regard to the approval of new drugs, are just some of the challenges being faced by the industry. Generally, it has been Big Pharma that has suffered most from setbacks and the failure to secure marketing authorisations for promising future revenue drivers. Due to the sheer size of these companies, they often struggle to make up for billion-dollar losses of forecast revenues; hence the constant pressure to develop and launch new, successful, blockbuster drugs in response to pressure from investors demanding top revenue and earnings statistics.

The development of the markets relevant to SANOCHEMIA warrants a degree of optimism: The pharmaceutical market is profiting more than most from demographic developments and medical progress. Older populations are driving demand for drugs, resulting in more prescriptions, as well as adding to the need for new, indication-specific drugs for age-related disorders.

SANOCHEMIA is well positioned on the basis of its specialty pharmaceuticals business model. The focus of this model lies on the core competences of drug development, API synthesis and pharmaceutical production. The strategy of being able to manufacture everything that we develop means that we keep documentation relevant to our developments in house and ensure that we retain a decisive competitive advantage. Success in the sale of diagnostics has seen SANOCHEMIA develop from a 'one-product company' to a diversified Group with an outstanding investment and risk profile.

Share Price

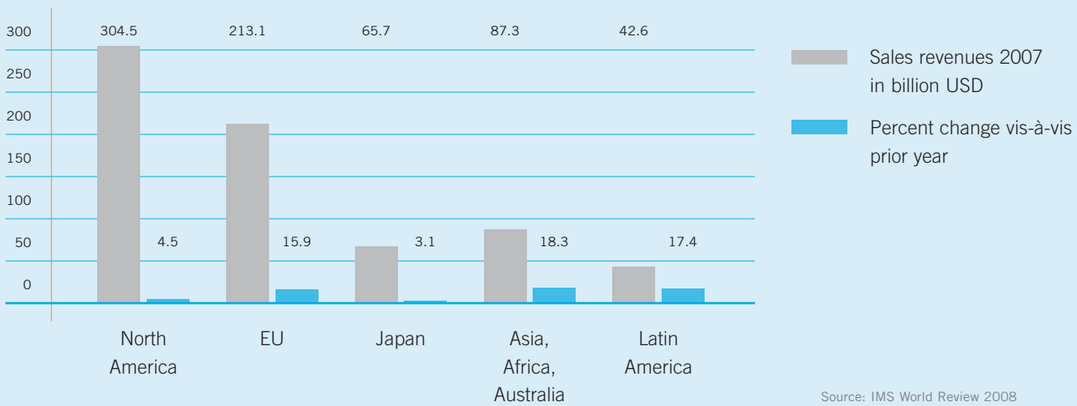
The critical situation on the financial markets, poor economic data and the marked decline in growth rates all had an impact on the mood of investors during the period under review. The leading stock indices all experienced notable losses in the past months. The share prices of so-called Small Caps in particular slumped in the weeks before the close of the reporting period.

At 30 September 2008	
Shares issued	10,155.598
Closing share price	€ 5.15
MCAP	€ 52.30 m
Free float MCAP	€ 15.36 m
Free float	29.36 %
Sanochemia Ltd.	70.64 %

SANOCHEMIA's share price continued to fall against the backdrop of the financial crisis and the general fears of a recession as the capital markets failed to acknowledge the successive improvements in the quarterly results and the progress achieved in the Group's operational divisions. Following € 10.39 at the start of the period, the share price lost value during the financial year to stand at € 5.75 on 30 June 2008, before falling further, in line with the overall market, to close the period under review at € 5.15 on 30 September 2008.

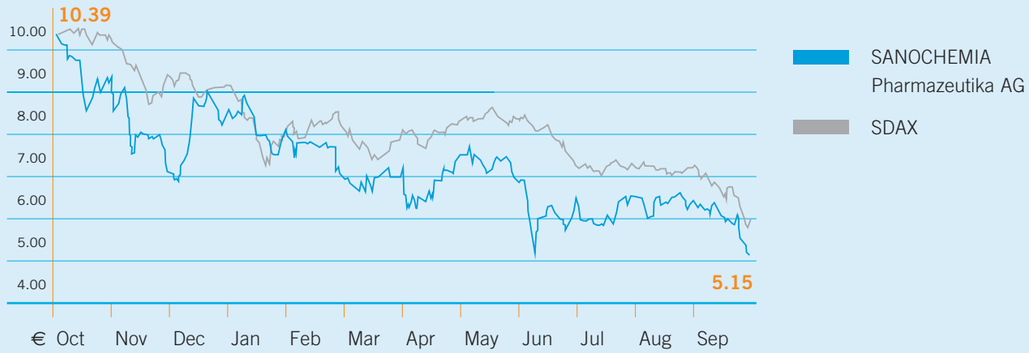
The Board of Management of SANOCHEMIA is confident that, on the strength of the Company's considerable improvements in terms of key performance indicators, the

The global pharmaceutical market



Source: IMS World Review 2008

SANOCHEMIA indexed against SDAX 1.10.2007 to 30.9.2008
ISIN: AT0000776307



Source: German Stock Exchange

+ + + 78 percent increase in EBIT + + + Profitable H2 + + + All three divisions successful + + + Strong production division + + + + + + New products launched + + + Focus on PVP hypericine + + + Expansion of international market presence + + +

share price will again stabilise within the range indicated by the latest research assessments.

Investor Relations

A further contribution to increasing transparency was made through the publication of the Factbook 2008. This document provides a comprehensive and clearly structured overview of the strategy and products of SANOCHEMIA as well as the progress made in the Company's various development projects.

The Factbook 2008 can be downloaded at: www.sanochemia.at/en/investors/reports-downloads/presentations/

Communication with institutional investors, financial analysts and private investors was timely and accurate. In addition to press conferences and conference calls, the Board of Management also held a number of interviews on a variety of current issues with media relevant to the capital markets. SANOCHEMIA also gave presentations at international investor conferences such as the German Equity Forum Autumn 2007 and the Institutional Investors Conference in Zurs, Switzerland in April 2008. In early October 2008, the Company organised a roadshow culminating in Zurich at the German Healthcare Conference 2008.

Information for shareholders
Please feel free to contact us personally with any questions or requests:

Margarita Hoch
Tel.: +43 (0)1/319 14 56-335
Fax +43 (0)1/319 14 56-344
Email: m.hoch@sanochemia.at
www.sanochemia.at

Financial events in 2008/09

26 February 2009	Publication of Q1 2008/2009
26 March 2009	Annual Shareholders' Meeting
28 May 2009	Publication of Q2 2008/2009
27 August 2009	Publication of Q3 2008/2009

Facts and Figures

The 2007/2008 financial year was one marked by steps to improve results and by the successful launch of new products. Important progress was also made in the development work associated with several projects. The positive development of results in the second half of the period signals a clear upward trend. Following improvements in all key financial indicators, the results for the period were respectable.

in T€	Q1	Q2	Q3	Q4
Sales revenues	6,287	6,153	8,034	9,057
EBIT	–1,592	–1,427	103	1,691
Net result for the period	–2,373	–2,161	949	-124

Business development

The following summary of the Company's performance and operations should be read in the context of the consolidated financial statements and the accompanying notes. As in previous periods, the Group's financial statements have been prepared under IFRS in order to allow meaningful comparisons with prior year to be made.

Profit and Loss Account

SANOCHEMIA Pharmazeutika AG generated **sales revenues** of € 29.5m during the financial year, following € 29.6m in the prior year. It was possible to maintain the overall level of revenues despite a 25% decline in those from production activities-largely attributable to the expiry of a patent on a synthesis product which had previously accounted for considerable revenues. Milestone payments received by the Research and Development Division and revenue contributions from new growth drivers were sufficient to almost wholly offset this decline. The increase in sales revenues in the core segment Human pharmaceuticals amounted to 16% compared to the prior year. This division now, for the first time, accounts for over 50% of Group revenues. Synthesis products such as galantamine nonetheless remain important sources of revenues. With receipts of € 2.1m, the Research and Development Division also played a significant role in shaping overall revenues.

Other operating income in the amount of € 3.5m (PY: € 4.0m) primarily relates to the reversal of deferred income and the receipt of research grants. The **operating performance** dropped to € 33.9m, following € 37.4m in the prior period, due to the changes in the value of inventory and own work capitalised.

It was possible to significantly cut costs and expenses compared with the prior year. The cost of materials fell to € 10.8m (PY: € 13.0m), a factor accounted for by the lower revenues from synthesis production. It was also possible to reduce personnel expenses to € 9.1m (PY: € 9.8m), partially due to a lower average headcount, but also as a result of savings in the area of board member remuneration.

Depreciation and amortisation of tangible and intangible assets rose markedly. The launch of tolperisone in Germany under the brand Viveo® by our partner Orion Pharma necessitated the first-time depreciation of own work capitalised associated with this project. This, in turn, accounted for the increase in the depreciation of tangible assets to € 4.9m (PY: 3.7m).

It was also possible to reduce other operating expenses in the 2007/2008 financial year from € 12.7m, in the prior period, to € 10.4m. A proportion of the cost savings in this area were accounted for by lower R & D spendings, particularly in connection with the development projects of AlcaSynn.

The above factors culminated in a significant improvement at the level of the **operating result (EBIT)** to minus € 1.2m, compared to negative EBIT of € 5.5m in the prior year.

The **financial result** amounted to minus € 2.8m (PY: € 0.5m). Higher interest payments and the position **other financial income/expenses,** which reflects the balance of the Group's currency hedging and investment strategy on forex markets, were accountable for this result. As a result of the difficulty of assessing the collectability of a claim for compensation asserted against a financial services provider in the current financial environment, the Company feels compelled to take a € 2.0m impairment charge against these assets. This valuation adjustment

Consolidated Profit and Loss Account

in T€	2007/2008	2006/2007
Operating performance	**33,940**	37,432
Operating result	**–1,225**	–5,501
Financial result	**–2,799**	497
Pre-tax profit	**–4,024**	–5,004
Net profit for the year	**–3,709**	–5,006

For further details see page 46

and the necessary discounting due to the time to maturity of this receivable accounted for the negative financial result above. Due to the volatility prevailing in financial markets, it was not possible to fully close out all foreign currency option positions during the 2007/2008 financial year. This should, however, be possible during the course of 2008/2009, whereby, as is reported in the section events after the balance sheet date, a considerable proportion of the remaining options were assigned to Sanochemia Ltd., Malta, as part of the strategy of closing out these positions.

As a result of the abovementioned factors, the **pre-tax result** improved to minus € 4.0m (PY: minus € 5.0m). Following net tax receipts in the amount of € 0.3m, the **net result for the period** amounted to minus € 3.7m (PY: minus € 5.0m), equivalent to minus € 0.34 per share (PY: minus € 0.44). On the grounds of the existing losses carried forward, no dividends will be paid to shareholders.

Given that the stock option programme for members of the Board of Management expired in March of the period under review, there was no dilution of the bottom-line result.

Balance Sheet

The increase in **tangible assets** is accounted for by the expansion of the pharmaceutical plant, in particular the logistics centre and the laboratory units at the Neufeld site in Austria. Due to the on-going depreciation of existing plant, the value of the assets recognised under this position increased only marginally from € 17.6m to €17.8 over the period.

In terms of the **intangible assets**, there was an increase in the value of own work capitalised, whereby this was largely offset by the first-time depreciation of own work capitalised associated with tolperisone in the amount of € 1.0m. The value of cash and short-term deposits declined over the course of the year. This was partly offset by an increase in accounts receivable, trade. Nonetheless, the value of current assets recognised fell to € 46.1m on 30 September 2008 (30 Sep. 2007: € 57.0m). The value of inventory held also declined by € 1.0m.

The **other financial receivables** relate to a claim for compensation asserted against a financial services provider in the amount of € 4.3m, against which an impairment charge of € 2.0m has been taken, and deferred tax assets which, combined, accounted for an increase in non-current assets of € 2.0m.

The value of assets recognised under the position **total assets** on 30 September 2008 amounted to € 88.9m, € 8.9m lower than at the close of the prior period.

The position **total equity** declined, primarily due to the negative net result for the period of € 5.1m, to € 54.1m from € 57.9m. Given the decline in **total equity and liabilities** to € 88.9m (€ 97.8m), the equity ratio rose marginally over the course of the financial year 2007/2008 to 61% at the close of the period under review.

The decline in the recognised value of non-current liabilities to € 16.7m (from € 19.8m) is foremostly attributable to a reduction in non-current financial liabilities of € 1.8m and the reversal of deferred income in the amount of € 1.2m. The recognised value of provisions for employee benefits rose marginally from € 1.3m (€ 1.2m).

The value of **current liabilities** also fell, to € 18.1m from € 20.2m, despite a rise in the value of accounts payable, trade to € 5.0m over the course of the period (from € 3.6m). This was principally due to a decline in the value of liabilities associated with forward exchange contracts in the amount of € 2.8m).

Cash Flow Statement

The negative **cash flow from operating activities,** minus € 5.0m following a net inflow of € 8.4m in the prior year, arose mainly due to the change in receivables and other assets from € 11.4m, in the prior year, to minus € 3.8m in the 2007/2008 financial year. The negative cash flow from investment activities improved significantly and amounted to minus € 3.4m, following minus € 7.7m in the prior period. The **cash flow from financing activities** was also negative during the 2007/2008 financial year at minus € 1.6m (PY: € 2.1m). This is largely accounted for by the repayment of research promotion loans. The above cash flows gave rise to a net outflow of cash and cash equivalents in the amount of € 10.0m and a **balance of cash and cash equivalents** at 30 September 2008 of € 14.3m.

Segment reporting

The **Human Pharmaceuticals Division** achieved a 16% increase in sales revenues from € 12.7m to € 14.8m.

Consolidated Cash Flow Statement

in T€	2007/2008	2006/2007
Net income before taxes	**–4,024**	–5,004
Net cash flow from operating activities	**–5,039**	8,384
Net cash flow from investment activities	**–3,375**	–7,684
Net cash flow from financing activities	**–1,618**	2,143
Net change in cash and cash equivalents	**–10,032**	2,843
Cash and cash equivalents at the close of period	**14,296**	24,328

Segment Report

	Human Pharmaceuticals		Production		R&D		Reconciliation		Total	
in T€	07/08	06/07	07/08	06/07	07/08	06/07	07/08	06/07	07/08	06/07
Sales revenues/external	**14,787**	12,731	**12,605**	16,849	**2,139**	53	**0**	1	**29,531**	29,634
Operating performance	**17,158**	14,418	**19,123**	24,447	**4,692**	5,381	**–7,033**	–6,814	**33,940**	37,432
Segment operating result	**2,223**	1,713	**–321**	2,212	**–258**	–5,056	**–2,869**	–4,370	**–1,225**	–5,501
Investment	**–186**	106	**1,914**	2,279	**1,847**	3,159	**316**	1,183	**3,891**	6,727

For further details see page 70

The launch of Viveo® (tolperisone) by our partner Orion Corporation and the start of sales of our magnetic resonance imaging agent, both in Germany, in addition to the expansion of sales activities for our own range of imaging agents into new markets all played a significant role here. The operating result (EBIT) also improved in this segment, increasing by 30% to € 2.2m (PY: € 1.7m) despite a € 0.9m increase in depreciation.

	Q1	Q2	Q3	Q4
Sales revenues	3,842	3,106	4,134	3,705
EBIT	550	281	829	563

The **Production Division** experienced a marked decline in sales revenues during the period under review from € 16.8m to € 12.6m. This is largely accounted for by the loss of patent protection on a synthesis product. Despite this, a clear upwards trend in terms of sales revenues and EBIT is discernable from the second quarter, although this was not sufficient to wholly offset the segment losses incurred in the first quarter. Consequently, the segment result for the entire period was negative, at minus € 0.3m, following a positive contribution to Group results in 2006/2007 of € 2.2m.

	Q1	Q2	Q3	Q4
Sales revenues	2,427	3,029	3,472	3,677
EBIT	–992	157	28	486

The **Research and Development Division** generated revenues through the out-licensing of tolperisone for Greece and a milestone payment associated with the development of high purity tolperisone. These revenues, in the amount of € 2.1m, combined with considerably lower costs, culminated in an improvement in the segment result from minus € 5.1m, in the prior year, to minus € 0.3m in the period under review.

	Q1	Q2	Q3	Q4
Sales revenues	18	18	428	1,675
EBIT	–592	–440	–508	1,282

The **Reconciliation** segment is intended as a means of clarifying the true performance of our three operational divisions by absorbing costs accrued by the Group as a whole which cannot be accurately allocated to any given division. These costs typically relate to administrative services, financing and management functions.

Investment Activity

The investments made during the financial year 2007/2008 were concentrated on the areas of production as well as research and development. As in previous financial periods, the strategy of securing SANOCHEMIA's long-term future success continued to be pursued. The investments made in the Production Division amounted to € 1.9m, of which € 1.2m was invested in the expansion of the pharmaceutical production plant.

The main investments in the Research and Development Division essentially involved the modernisation and expansion of laboratory facilities. These accounted for an investment volume of € 0.3m. The remaining € 1.5m invested in the Research and Development Division were allocated to the development of Scanlux® (€ 0.9m) and the projects PVP hypericine and Secrelux® (€ 0.6m). The upgrade of workplace technical equipment was also an important focus of investment activities in 2007/2008.

Quality, Safety & Environment

High standards in terms of quality, safety and respect for the environment are today key competitive factors in the sustainable commercial success of companies in the healthcare industry. New challenges as a result of numerous legal requirements and regulations not only represent challenges but are also accountable for the increase in competitive pressure.

Every single employee at SANOCHEMIA is responsible for the quality of their work. Top quality products and compliance with delivery and completion dates are key to meeting customers rising quality requirements. Quality management, however, means far more than simply striving for product quality. It includes aspects such as transparency in manufacturing terms and optimal levels of safety integrated into all work processes.

At SANOCHEMIA, all work processes and procedures, in addition to the associated responsibilities, are exactly defined, continuously reviewed, and assessed for potential improvements. This makes constant optimisation and the avoidance of errors possible. Seamless and complete documentation of all processes and working procedures enables SANOCHEMIA to eliminate nearly all organisational errors. All personnel play an active role in quality assurance processes. For this purpose, regular internal audits are performed in order to determine whether procedures and activities, and the related results, are in line with requirements.

A revolving schedule of training at the Company's own premises in Neufeld, Austria, ensures that all guidelines are compliant with both existing requirements and those which are regularly revised. This training is documented by means of a validated training programme which entails monitoring that training objectives are actually reached.

SANOCHEMIA's system of internal quality management is the key to our commitment to constant further development in terms of the production process used and is central to our commitment to environmental protection and aspects of safety. The most important steps in this area include more in-depth safety training courses, both in the area of production as well as that of administration.

The production facilities (utilities and other supplies) are regularly assessed for safety-relevant deficiencies by SANOCHEMIA and approved by independent experts. This ensures that even small deficiencies or signs of wear and tear are identified in good time – a factor vital to maintaining top levels of equipment safety. Parallel to this, the production processes and the manufacturing facilities are the subject of a programme of continuous improvements in order to reduce our impact on the environment and to further minimise energy consumption.

Personnel

The strength of any company lies to a considerable extent in the expertise and commitment of its personnel. Their knowledge and motivation play a decisive role in mastering new challenges. SANOCHEMIA is fortunate to have a highly skilled team of experienced and dynamic young personnel. A lean management structure, transparent communication, active roles in reaching decisions and a stake in the Company's success, all ensure a high degree of employee involvement in operations. Their ideas and suggestions, not to mention their innovative spirit, are key success factors for the Company.
The complex tasks associated with global competition require personnel who are willing and able to constantly update and expand their skills. As a growing company with an international focus, SANOCHEMIA regards itself as playing an important role in supporting employees to constantly develop their full potential. More than half of all personnel took advantage of the wide range of internal and external workshops, training courses, seminars and professional qualification courses on offer during the past financial year.

Highly skilled personnel are critical in order to engage in the GMP-conform manufacture of APIs and medicinal products. The ability to recognise, understand and implement current regulatory requirements in the area of pharmaceutical quality are dependent on continuous training and further development. Personnel receive the necessary scientific basis by attending courses and seminars at Concept Heidelberg, Europe's leading provider of educational and information services in this field. These include GMP training courses, as the basis for quality assurance and drug safety, as well as seminars on regulatory affairs covering the regulatory requirements placed on the development and registration of drugs.

Career paths
SANOCHEMIA provides traineeships at its Neufeld facility. The trainee programme provides school leavers with a future-oriented combination of a high-school graduation and a practice-based professional qualification. This programme not only provides SANOCHEMIA with its next

generation of qualified personnel, but also paves the way for school leavers to enter an industry with genuine future prospects.

The first trainees will graduate from this programme in the autumn of this year. They will be ideally equipped to begin work as chemical laboratory or chemical process technicians within the Group and to launch their careers in a highly specialised and growth-oriented company. The Group will do its utmost to provide all those who successfully graduate with a position at SANOCHEMIA.

Outlook

Although global development of the pharmaceuticals market appears likely to slow marginally compared to the previous year, certain sectors are nonetheless forecast to generate above-average growth.

It is in exactly these segments that SANOCHEMIA operates: large indication areas with high levels of unmet and acute medical need which are divided into a series of niches such as the central nervous system, pain and oncological conditions. SANOCHEMIA is present in these fast-growing segments through its existing products and on-going projects such as galantamine, tolperisone and PVP hypericine. The manufacture and sale of clinical diagnostics is another, increasingly successful, business area. The market for imaging agents is also a very specific, yet lucrative, segment of the overall pharmaceutical market, and one which is forecast to grow considerably in the coming years.

The unchanged strategic alignment of SANOCHEMIA as a specialty pharmaceuticals company and the Company's selected business model allow us to look forward with confidence despite the difficult economic circumstances. In order to optimise its risk profile, SANOCHEMIA focuses on specific sections of the value-added chain, namely those of pharmaceutical development, in-house API and pharmaceutical production, as well as long-term profitability in the sale of radiological products. SANOCHEMIA also regards the increasingly international scope of its operations as yielding significant opportunities – particularly in the USA, emerging nations and in selected European markets. The rapid opening up of new markets, the targeted marketing of new growth drivers, and an active licensing policy are the top priorities for the years ahead.

SANOCHEMIA expects to achieve high, single-digit growth in terms of sales revenues accompanied by considerably stronger earnings in its 2008/2009 financial year. A key role in achieving these targets will be the development of results in the area of radiological products (Human Pharmaceuticals Division) where we see constantly rising revenue potential. The development of the Production Division, however, is difficult to predict. On the one hand, the Company is dependent on third-party orders, on the other, due to the revised segment reporting, finished medicinal products and diagnostics will in future be allocated to the Human Pharmaceuticals Division.

Overview of the current situation

Rapid market penetration with MR-Lux® and Viveo®
SANOCHEMIA was able to expand its portfolio during the period under review through the addition of two new in-house developments: MR/Lux® and Viveo®. Both products were successfully launched in Germany during 2007/2008, on the basis of which we expect to rapidly extend the marketing of this MRT imaging agent and the tolperisone formulation throughout Europe.

Following the marketing authorisation of its MRT imaging agent, SANOCHEMIA can not only serve its own target markets, but also act as a supplier of the product for the entire European market. Registration dossiers have been submitted in a total of 13 European markets; the first marketing authorisations and rollouts are expected in 2010. MRT is one of the most attractive segments in the imaging agent market and one characterised by sharply rising growth rates. SANOCHEMIA aims to secure a significant share of this multi-million-euro market in its role as a European-wide supplier.

SANOCHEMIA's tolperisone formulation, marketed as Viveo®, generated encouraging sales revenues during the period under review. Before the end of 2008, the Company expects to submit dossiers under the decentralised procedure (DCP) for two clusters covering the majority of European markets. Sales revenues are consequently forecast to rise markedly from 2010. Additional milestone payments are also predicted following the signing of further out-licensing agreements.

Scanlux® - top-selling product
SANOCHEMIA expects to secure market entries in several European countries in the course of the years 2009 and 2010 on the basis of new distribution agreements and marketing authorisations relating to its speciality x-ray imaging agent Scanlux®. Following the registration in Germany, Spain, the second largest radiological market in Europe, will be one of these new markets. Considerable demand also exists in other markets, particularly those in Eastern Europe and the Middle East.

The aim is to further consolidate the position of Scanlux® as the most important core product through a combination of extending international distribution and by means of organic growth involving existing channels.

One of the regional focuses will be the expansion of our diagnostics business in the USA. Following in the footsteps of the HIV-1 confirmatory assay Fluorognost®, the marketing authorisation for Scanlux® will be the prelude to the launch of SANOCHEMIA's second product in the US, the world's largest pharmaceutical market. The first US sales revenues from this product are expected in the 2008/2009 financial year. Based on its current forecasts, SANOCHEMIA expects Scanlux® revenues to grow from the current volume of around € 8.0m at a rate of between ten and twenty percent per annum.

Innovations – Secrelux® and PVP hypericine
Although currently only registered in Germany, Secrelux® (a pancreatic function diagnostic) is the only product of this sub-class known among gastroenterologists in Europe and one which is widely prescribed on a named-patient basis (i.e. imported on a prescription-by-prescription basis) in many European countries. Marketing authorisations in other European and non-European markets are being sought as are extensions for its use in CT, MRCP and ultrasound procedures. The necessary studies were initiated in 2008. The market potential of this product in Germany alone is estimated to be around ten million euros.

Following the start of a Phase II diagnostics trial in 2009, PVP hypericine is the most advanced project in SANOCHEMIA's development pipeline. Having secured a US patent for the manufacture of PVP hypericine formulations and their use in the diagnosis and treatment of bladder carcinomas, the Company has achieved key preconditions for successful out-licensing activities.

Production
The Company expects revenues from galantamine, its main synthesis product, to remain stable despite the expiry of a use patent (for the Alzheimer's drug Razadyne®) in the USA at the end of 2008. This prediction is based on the rapidly growing market for Alzheimer drugs and SANOCHEMIA's cooperation agreement with Janssen Cilag, which is valid until 2014.

Rise in the number of project enquiries: SANOCHEMIA was successful in acquiring two new API synthesis projects during the course of the period under review – both with the potential of generating considerable value-added. Other API enquiries are currently being processed. Due to the complexity of the laboratory work and the production procedures on a limited scale, development enquiries of this type typically take one to two years to process. SANOCHEMIA expects to be in a position to begin filling high-margin production orders by the end of 2009.

These new contract manufacturing projects, the increases in the area of imaging agent manufacture due to geographic expansion, as well as the growing share of business generated by in-house developments will further bolster the Production Division in the years ahead.

Research & Development
Long-term success in the pharmaceutical industry is dependent on investments in the field of research and development. It is for this reason that SANOCHEMIA invests around five million euros in this area every year, equivalent to a research quota of approximately 15 percent.

SANOCHEMIA does not engage in discovery research. With its development portfolio, made up of several projects at various phases of clinical development, SANOCHEMIA focuses on substances which it can manufacture at its own specialist production facilities. SANOCHEMIA will continue to engage in an active out-licensing policy fuelled by its progress made in advancing its development projects.

Risk Management

SANOCHEMIA integrates its risk management system into its ongoing business planning processes. Possible negative developments are described and evaluated in risk reports to the Board of Management such that, in the event of results which deviate from business planning, counteraction can be taken in good time and due care exercised.

There follows a summary of the industry-typical risks which SANOCHEMIA sees itself as being confronted with, in addition to details of the means which the Company regards as suitable in order to militate against them.

In is far as this is possible and practical, we limited the liability and loss risks we face by means of appropriate insurance cover the nature and scope of which is continually adjusted in response to changing circumstances.

Legal risks

As an innovative, internationally active pharmaceutical company, SANOCHEMIA possesses a valuable portfolio of industrial property rights such as patents and trademarks in addition to its product range. These rights may be legally disputed or infringed upon by third parties. Suppliers of generics in particular may be tempted to contest patents before their expiry date. We have taken appropriate precautions in order to identify these risks in a timely manner and to defend our rights if this is warranted.

Competition generally intensifies as a result of the launch of generics as soon as a patent expires.

In order to minimise the threat posed by such risks, the current patent situation is regularly reviewed with the relevant operational departments in order to be able to identify infringements of patent rights and to take appropriate legal action.

Further legal risks relate to the product liability which SANOCHEMIA is exposed to, for example, through the performance of clinical trials. Insurance policies providing adequate cover are concluded as a means of minimising these risks.

SANOCHEMIA holds many commercial and operational secrets which need to be treated with confidentiality. In order to protect these secrets, SANOCHEMIA concludes secrecy agreements with its personnel, cooperation partners and other contractual partners. It cannot, however, be guaranteed that such agreements represent an effective means of protection against the disclosure of such confidential information.

In order to counteract the legal risks outlined above, SANOCHEMIA has not only taken out the insurance cover mentioned, but also has access to a network of legal experts with specialist knowledge in the relevant fields.

Research and development risks

The specific risks associated with pharmaceutical development work are constantly monitored by means of the portfolio and project management system introduced by SANOCHEMIA. Given that SANOCHEMIA is a research-based company, the risk that projects are discontinued despite high investment levels is ever present. Key decisions, such as that to move on to the next stage of development, are taken with extreme care in order to minimise the associated risks. The same applies to investment decisions.

SANOCHEMIA also requires authorisations issued by public health authorities such as the U.S. Food and Drug Administration (FDA), the European Medicines Agency (EMEA), ethics commissions and other competent public bodies in order to continue to develop or market its drug candidates and products. Despite exhaustive efforts and considerable expense, it is possible at every stage of drug development that the awarding of regulatory approvals may be subject to delays or may not be forthcoming at all.

Financial risks

Our global activities are such that SANOCHEMIA is exposed to various risks associated with exchange rate fluctuations. The Company makes use of a range of derivative instruments in order to manage the exchange rate risk associated with transactions.

SANOCHEMIA also enters into strategic partnerships in the course of pursuing its various projects as a means of spreading the inherent financial risks involved in such undertakings. It should, however, be noted that the success of these strategic partnerships is partially dependent on developments relating solely to the respective strategic partners over whom SANOCHEMIA has little or no influence.

A primary tool for limiting and actively managing the financial risks that the Company is exposed to is our project controlling system, an instrument which is particularly useful in assessing and monitoring budget deviations.

Information technology risks

Critical facilities and application systems are protected by means of redundancies in-built into the relevant networks. Access to commercially relevant data is restricted. Suitable technical, organisational and software-based precautions such as user rights, access controls, virus protection, firewalls and data protection systems are in place. Compliance with these precautions is constantly monitored.

Market risks

Due to the high number of competitors with their own research and development activities operating in the same territories and fields as SANOCHEMIA, our Company is exposed to the risk that these competitors are successful in obtaining positive research and development results earlier, or are able to launch a product faster, than SANOCHEMIA.

SANOCHEMIA always attempts to adequately protect its intellectual property rights with the aim of preventing competitors from using technologies developed by the Company in order to achieve competitive advantages and to dominate the market.

Overall assessment of risk exposure

In the event that one or more of the abovementioned risks materialises, this may have a negative impact on the asset, financial and/or earnings position of SANOCHEMIA. The Company is not currently aware of any risks which, either independently or in association with other risks, pose any threat to the continued existence of SANOCHEMIA.

Events after the balance sheet date

Tolperisone
On 6 November 2008, SANOCHEMIA announced the termination of its cooperation with the US pharmaceutical company Avigen Corp., Alameda. Due to the suspension of development work on tolperisone for the US market by Avigen, the termination of the agreement took immediate effect and entails no further obligations incumbent on either of the contractual parties. All rights to the development, marketing and distribution of tolperisone for the treatment of neuromuscular spasms in patients with neurological disorders remain the exclusive property of SANOCHEMIA.

The clinical Phase 2b study with tolperisone initiated by Avigen in patients with MS-induced spasticity concluded with insufficient results. SANOCHEMIA had no influence on the study design selected by Avigen – one involving 150 patients in 27 study centres, equivalent to an average of under six patients per centre.

Tolperisone has for decades been used with success in the treatment of muscle spasms associated with neurological conditions in both clinical and therapeutic contexts and in various administration forms. The latest example of this is provided by the recent launch of Viveo® in Germany by Orion Pharma. The available study data will be re-assessed in conjunction with an external partner. Due to what it regards to be an inappropriate study design, however, SANOCHEMIA does not expect to obtain any clinically significant outcomes.

Disclosures in accordance with Section 243a of the Austrian Commercial Code (UGB)

1. The capital stock of the Company consists of 10,155,598 shares with a nominal value of € 1.00. All shares have the same voting rights, rights and obligations.

2. The shareholder structure is made up as follows:
   Majority shareholder: Sanochemia Ltd., Malta approx. 70.64 %
   Free float: Institutional and private investors approx. 29.36 %

3. There are no shares with rights of control.

4. SANOCHEMIA Pharmazeutika AG does not have any employee share programmes.

5. There are no provisions other than those required by law relating to the appointment and removal from office of members of the Board of Management. Moreover, there are no provisions regarding changes to the Company's statutes other than those directly anchored in law.

6. At the Ordinary Annual Shareholders' Meeting held on 27 March 2008, the Board of Management was awarded the right, for a period of 30 months from the day upon which this resolution was passed and in accordance with Section 65, Para. 1, Subsection 8 of the Austrian Stock Corporation Act (AktG), to purchase a maximum of 10 % of the capital stock of the Company in the course of a share buy-back programme. No share buy-back programme has as yet been decided upon by the Board of Management.

7. The Company is not a party to any agreements containing provisions relating to Section 243a, Subsection 8, of the Austrian Commercial Code (UGB).

8. No compensatory agreements exist as defined under Section 243a, Subsection 9, of the Austrian Commercial Code (UGB).

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The presentation of the 2007/2008 financial results has been made in accordance with IFRS as amended. To facilitate comparison with the corresponding figures from the previous period, these have been restated accordingly.

Consolidated Profit and Loss Account

SANOCHEMIA Pharmazeutika AG

IFRS, 10/2007 – 09/2008 and 10/2006 – 09/2007

in T€	Notes	2007/2008	2006/2007
Sales revenues	(1)	29,531	29,634
Other income	(2)	3,547	3,973
Reversal of investment grants		177	153
Change in inventory		-704	703
Own work capitalised		1,389	2,969
Operating performance		**33,940**	**37,432**
Cost of goods and services	(3)	-10,775	-13,027
Personnel expenses	(4)	-9,052	-9,842
Depreciation of tangible assets and amortisation of intangible assets	(5)	-4,892	-3,693
Write downs of intangible assets	(10)	0	-3,715
Other expenses	(6)	-10,446	-12,656
Operating result		**-1,225**	**-5,501**
Interest payments		-1,079	-853
Interest receipts		1,366	1,336
Other financial income / expenses		-3,086	14
Financial result	(7)	**-2,799**	**497**
Pre-tax profit / loss		**-4,024**	**-5,004**
Taxes on income	(8)	315	-2
Net profit / loss for the year		**-3,709**	**-5,006**
of which:			
Shareholders of the parent company		-3,449	-4,512
Minority interests		-260	-494
		-3,709	**-5,006**
Undiluted earnings per share in €	(31)	-0.34	-0.44
Diluted earnings per share in €		-0.34	-0.44
Weighted average number of shares		10,155,598	10,155,598

Consolidated Balance Sheet

SANOCHEMIA Pharmazeutika AG

IFRS, 30 September 2008 and 30 September 2007

in T€	Notes	30. 09. 2008	30. 09. 2007
Assets			
Buildings on non-owned land		8,087	7,422
Property, plant and equipment		6,457	6,166
Other equipment, furniture and fixtures		1,232	874
Property, plant and equipment under construction		2,023	3,172
Tangible assets	(9)	**17,799**	**17,634**
Goodwill		3,391	3,391
Capitalised development costs		15,901	15,347
Other intangible assets		2,664	4,480
Intangible assets	(10)	**21,956**	**23,218**
Other financial receivables	(11)	2,346	0
Deferred tax assets	(12)	676	0
Non-current assets		**42,777**	**40.852**
Inventory	(13)	8,783	9,753
Accounts receivable - trade	(14)	5,519	3,890
Accounts receivable - affiliated companies	(15)	4,849	3,007
Other financial receivables	(16)	284	1,118
Other receivables and assets	(17)	1,092	2,278
Income tax receivable		296	285
Receivables from research grants	(18)	250	542
Available for sale securities	(19)	10,722	11,793
Cash and short-term deposits		14,296	24,328
Current assets		**46,091**	**56,994**
Total assets		**88,868**	**97,846**
Equity and liabilities			
Equity held by the parent company			
Issued capital		10,156	10,156
Share premium		24,768	48,761
Net gain/loss on available-for-sale securities		-440	118
Currency translation differences		463	6
Profit and loss account		18,863	-1,681
		53,810	**57,360**
Minority interests		299	559
Total equity	(20)	**54,109**	**57,919**
Financial liabilities	(21)	11,720	13,524
Employee benefit provisions	(22)	1,308	1,167
Deferred income	(23)	2,442	3,626
Investment grants	(24)	1,195	1,450
Non-current liabilities		**16,665**	**19,767**
Financial liabilities	(25)	8,433	8,245
Accounts payable - trade		5,034	3,615
Accounts payable - affiliated companies	(26)	0	45
Other financial liabilities	(27)	2,521	5,284
Other liabilities and accruals	(28)	1,061	1,102
Deferred income	(29)	721	1,310
Investment grants	(24)	144	152
Income tax payable		180	407
Current liabilities		**18,094**	**20,160**
Total equity and liabilities		**88,868**	**97,846**

Consolidated Cash Flow Statement

SANOCHEMIA Pharmazeutika AG **IFRS, for the period from 01 October 2007 to 30 September 2008**

in T€	2007/2008	2006/2007
Net income before taxes	-4,024	-5,004
Depreciation, amortisation and write down of tangible and intangible assets	4,892	7,408
Write down of securities	0	166
Proceeds from the disposal of tangible and intangible assets	15	-17
Income from the disposal of securities	-104	11
Interest payments	1,079	853
Interest receipts	-1,366	-1,336
Purchase of securities	-105	-212
Net gain / loss through foreign currency translation	452	97
Reversal of investment grants	-263	-89
Change in inventories	970	-1,560
Change in receivables and other assets	-3,752	11,423
Change in receivables from research grants	292	-12
Change in accounts payable including those due to affiliated companies	1,202	-1,202
Change in other liabilities and accruals	-4,435	-2,861
Change in other provisions	0	-70
Change in provisions for employee benefits	141	333
Net cash flow from current operating activities	**-5,006**	**7,928**
Interest payments	-1,049	-857
Interest receipts	1,283	1,330
Receipts from the sale of securities	137	230
Income tax paid	-404	-247
Net cash flow from operating activities	**-5,039**	**8,384**
Purchase of intangible assets	-1,380	-3,381
Purchase of tangible assets	-2,511	-3,346
Purchase of securities	-4,164	-2,984
Receipts from the disposal of tangible assets	85	42
Receipts from the disposal of available-for-sale securities	4,595	1,985
Net cash flow from investment activities	**-3,375**	**-7,684**
Change in current borrowings	288	2,543
Repayment of non-current borrowings	-771	-400
Proceeds from non-current borrowings	549	0
Proceeds from research grants	89	0
Repayment of research grants	-1,773	0
Net cash flow from financing activities	**-1,618**	**2,143**
Net change in cash and cash equivalents	**-10,032**	**2,843**
Net cash and cash equivalents		
Balance at beginning of the period	24,328	21,432
Change in cash and cash equivalents	-10,032	2,843
Influence of foreign exchange differences on cash and cash equivalents	0	53
Balance at end of period as per Balance Sheet [1)]	14,296	24,328

[1)] The available funds include cash on hand and on deposit

Consolidated Statement of Changes in Equity

SANOCHEMIA Pharmazeutika AG **for the period from 01 October 2006 to 30 September 2008 (IFRS)**

in T€	Relating to the equity owned by shareholders of the parent company							
	Issued Capital	Share premium	Net gain/loss on available-for-sale financial assets	Foreign currency translation	Accumulated result	Profit/loss for the year	Minority interests	Total equity (20)
Balance at 01.10.2006	**10,156**	**48,761**	**64**	**-48**	**2,831**	**61,764**	**755**	**62,519**
Valuation of available-for-sale financial assets	0	0	54	0	0	54	0	54
Foreign currency translation	0	0	0	54	0	54	0	54
Total income/expenses for the year recognised directly in equity	0	0	54	54	0	108	0	108
Net result for the period	0	0	0	0	-4,512	-4,512	-494	-5,006
Consolidated result for the period	0	0	54	54	-4,512	-4,404	-494	-4,898
Minority interest in assets classified as held for sale	0	0	0	0	0	0	298	298
Balance at 30.09.2007	**10,156**	**48,761**	**118**	**6**	**-1,681**	**57,360**	**559**	**57,919**
Valuation of available-for-sale financial assets	0	0	-558	0	0	-558	0	-558
Reallocation from capital reserves to cover accumulated losses	0	-23,993	0	0	23,993	0	0	0
Foreign currency translation	0	0	0	457	0	457	0	457
Total income/expenses for the year recognised directly in equity	0	-23,993	-558	457	23,993	-101	0	-101
Net result for the period	0	0	0	0	-3,449	-3,449	-260	-3,709
Consolidated result for the period	0	23,993	-558	457	20,544	-3,550	-260	-3,810
Balance at 30. 9. 2008	**10,156**	**24,768**	**-440**	**463**	**18,863**	**53,810**	**299**	**54,109**

Notes to the Financial Statements
at 30 September 2008

A. Corporate Information

SANOCHEMIA Pharmazeutika AG, Vienna, and its subsidiaries are engaged in the production and sale of human pharmaceuticals and diagnostics and the synthetic production of galantamine, an active pharmaceutical ingredient used in the treatment of Alzheimer's disease.

The Company's shares are officially quoted and traded in the Prime Segment of the Frankfurt Stock Exchange. The parent company and holding company is SANOCHEMIA Ltd., Msida, Malta.

The address of the Company's registered office is Boltzmanngasse 11, 1091 Vienna, Austria.

B. Accounting Standards and Valuation Principles

B.1. Basis of preparation

The consolidated financial statements of SANOCHEMIA Pharmazeutika AG for the period between 1 October 2007 and 30 September 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the financial year 2007/2008. In interpreting IFRS, the IFRICs applicable to the financial year 2004/2005 as interpreted by the International Financial Reporting Interpretation Committee (IFRIC) and the SICs interpreted by the Standing Interpretation Committee (SIC) and adopted by the IFRIC were applied.

The revisions to certain existing and/or new standards and interpretations, made for the purposes of use within the EU, which have been published but are not yet in force, have not been applied here on a voluntary basis. These are:

- IAS 1 Presentation of the Financial Statements
- IAS 23 Borrowing Costs
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Presentation
- IFRS 2 Share-Based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The future changes as a result of applying these standards are as follows:

IAS 1 (Presentation of Financial Statements – Capital Disclosures)

IAS 1 (revised 2007): The changes in the presentation of financial statements relate to financial years beginning on or after 1.1.2009. The changes relate principally to the titles for the balance sheet, income statement and cash flow statement, additional disclosure requirements relating to a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. The revisions of IAS 1 are relevant from 1.10.2009.

IAS 1 (revised 2008): These revisions relate to the accrual of equity and borrowings and the balance sheet. In future, certain financial instruments (puttable shares and obligations arising only on liquidation) which currently explicitly meet the criteria of a financial liability can be recognised in equity. As such, this new guideline also impacts on the guidelines covered by the scope of IAS 32. Given that the SANOCHEMIA Group does not hold any corresponding financial instruments, the revisions to IAS 1 have no bearing on the presentation of the Company's results.

IAS 23 (Borrowing Costs)
This standard is to be applied for the first time to all financial years beginning on or after 1.1.2009. The changes require the capitalisation of borrowing costs for qualifying assets and have not been applied ahead of time.

In accordance with the benchmark method, borrowing costs are to be recognised as expenses during the reporting period in which they are incurred. Alternatively, borrowing costs which are directly related to the acquisition, construction or the manufacture of qualifying assets can be capitalised as part of the costs of acquisition or manufacture of these assets. A qualifying asset is one which a considerable period of time is required before which the asset is useable or saleable. The impact of this standard cannot currently be assessed on the basis of the information available at present.

IFRS 8 (Operating Segments)
This standard is to be applied for the first time to financial years beginning on or after 1.1.2009. The changes relate to the presentation of the segment report. Currently, the Company presents this information in accordance with IAS 14. IFRS 8 requires the application of the so-called management approach to segment reporting on the commercial development of the segments. This entails presenting details on segment reporting based on the same principles as are applied to internal management.

IFRIC 12 (Service Concession Arrangements)
This interpretation is to be applied for the first time to financial years beginning on or after 1.1.2007. Service concession arrangements are arrangements whereby a government or other body grants contracts for the supply of public services – such as roads, energy distribution, prisons or hospitals – to private operators. The objective of this project of the IFRIC was to clarify how certain aspects of existing IASB literature are to be applied to service concession arrangements. Based on information currently available, this interpretation will have no impact on SANOCHEMIA's financial, asset and earnings positions.

IFRIC 13 (Customer Loyalty Programmes)
This interpretation is to be applied for the first time to financial years beginning on or after 1.7.2008. IFRIC 13 Customer Loyalty Programmes addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. Based on information currently available, this interpretation will have no impact on SANOCHEMIA's financial, asset and earnings positions.

IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)
This interpretation is to be applied for the first time to financial years beginning on or after 1.1.2008. IFRIC 14 provides standard guidelines on limiting the measurement of the defined benefit asset of a pension fund that has been recognised as an asset under IAS 19. The interpretation explains how legal or contractual minimum funding requirements can have an impact on the assets or liabilities of a pension fund. Under IFRIC 14, the employer is not required to recognise any further liability unless the amounts payable defined by the minimum funding requirements cannot be reimbursed to the company.

IFRIC 15 (Agreements for the Construction of Real Estate)
This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue, and is applicable to financial years commencing on or after 1.1.2009. Accordingly, this standard defines when revenue from the construction should be recognised.

IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)
This interpretation applies to financial years commencing on or after 1.10.2008 and clarifies the question arising through the application of IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 39 Financial Instruments: Recognition and Measurement in relation to the recognition of the hedging of foreign currency risks within an entity and arising out of its foreign operations. The impact of IFRIC 16 on the SANOCHEMIA Group and on its assets, financial and earnings positions, in addition to its cash flow, are currently being assessed.

The consolidated financial statements have been prepared in thousand euro (T€). Similarly, the figures included in the Notes are also expressed in thousand euro (T€).

Pursuant to § 245a of the Austrian Commercial Code (UGB), these consolidated financial statements absolve the company of its obligation to provide separate accounts prepared under the Austrian Commercial Code (UGB).

Assets and liabilities with a residual term to maturity of less than one year are reported as current, those with a residual term to maturity of more than one year as non-current. Residual time to maturity is determined on the basis of the balance sheet date.

These financial statements have been prepared on the basis of the historical costs of acquisition with the exception of derivatives and assets held for sale which are carried at the current value.

B.2. Consolidation principles

In accordance with IAS 27, the scope of consolidation encompasses all subsidiaries in which the parent company holds a controlling interest.

All receivables and liabilities, expenses and income arising from billing between consolidated group companies and any temporary effects of transactions between companies within the scope of consolidation are eliminated.

Subsidiaries are fully consolidated from the date of their acquisition i.e. from the point in time at which the parent takes the controlling interest. The consolidation in the group financial statements ends on the date upon which the parent no longer holds a controlling interest in the subsidiary in question.

B.3. Scope of consolidation

	Registered in	Interest
Parent company		
SANOCHEMIA Pharmazeutika AG	Vienna	
Subsidiaries		
SANOCHEMIA Diagnostics UK Ltd.	Bristol	50 %
SANOCHEMIA Diagnostics Deutschland GmbH.	Neuss	100 %
SANOCHEMIA Diagnostics International Ltd.	Zug	100 %
SANOCHEMIA Corporation	Stamford	100 %
SANOCHEMIA India Private Ltd.	Bangalore	100 %
AlcaSynn Pharmaceuticals GmbH	Innsbruck	60 %

Since 1 September 1999, the Company has held a 50% stake in SANOCHEMIA Diagnostics Deutschland GmbH, Neuss, Germany (formerly Goldham Pharma GmbH). In the 2000/2001 financial year, a further 25% stake was acquired in this company. In accordance with the sale and assignment agreement concluded on 22 July 2002, the remaining 25% of shares in the company were assigned, such that the Company subsequently held and now holds a 100% stake.

Through the articles of association signed on 20 April 2001, SANOCHEMIA UK Ltd., Bristol, UK, was established. The Company holds a 50% stake in this entity, with the remaining 50% being held by SANOCHEMIA Ltd., Msida, Malta. Due to the controlling interest held the Group, SANOCHEMIA UK, Ltd. is consolidated.

Through the articles of association signed on 26 March 2002, SANOCHEMIA Diagnostics International Ltd. with registered offices in Zug, Switzerland, was established. The Group holds a 100% stake in this entity.

Through the articles of association signed on 22 December 2003, SANOCHEMIA Corporation, with registered offices in Stamford, USA, was founded as a wholly owned subsidiary of SANOCHEMIA Diagnostics International Ltd., Switzerland.

On the basis of the participation agreement concluded on 8 June 2006, the Group acquired a 60% interest in AlcaSynn Pharmaceuticals GmbH. Minority interests in this company's assets exist consisting of the value of the minority interests at the point in time of the original merger, determined in accordance with IFRS 3, and the minority interest in the changes in equity since the point in time of the merger.

On 28 July 2004, the subsidiary SANOCHEMIA Diagnostics International Ltd., Zug, established the company SANOCHEMIA India Private Ltd. with registered offices in Bangalore, India. The operational activities of the subsidiary were never initiated and the company is currently being liquidated.

B.4. Changes in accounting and valuation policies

The methods of consolidation applied to the previous year's financial statements have essentially been applied again in their entirety. The only exceptions relate to the following new or revised standards and interpretations applicable to financial years commencing on or after 1 October 2007:

- IAS 1 Presentation of Financial Statements
- IFRS 7 Financial Instruments: Disclosure
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 Group and Treasury Share Transactions

The first-time application of IAS 1 and IFRS 7 led to additional disclosures in the Notes; the interpretations referred to above did not entail any changes to the accounting and valuation policies.

B.5. Significant accounting judgements and estimations

Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, the Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Assets held for sale are differentiated on the basis of whether they can be sold in their current condition and on the basis of the likelihood of their being sold. If it is very likely that they can and will be sold, then these assets and any associated liabilities are to be evaluated and carried as assets held for sale.

Estimation uncertainties

The most important future-oriented assumptions and other sources of valuation uncertainty prevailing on the balance sheet date giving rise to a material risk that may require a material re-estimation of the carrying value of assets and liabilities during the course of the next financial year are detailed below:

Impairment of goodwill

At least once per annum, the Group assesses whether goodwill and remaining intangible assets have been impaired. This requires an estimation of the value-in-use of the revenue-generating units from which the goodwill is derived. In order to estimate the value-in-use of the revenue-generating unit, the Group must estimate future cash flows and apply an appropriate discount factor so as to be able to determine the cash value of these cash flows.

The book values applied and other details can be found under Note 10 to the financial statements and Point B.6. Summary of key accounting and estimation methods.

Recognition and measurement of capitalised development costs

The assessment of the recognition and integrity of capitalised development costs (IAS 38) is also subject to future-oriented assumptions entailing possible assessment uncertainties. This applies in particular to the calculation of the future value-in-use that is based on planned surplus payments.

The book values applied and other details can be found under Note 10 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unconsumed tax-deductable losses carried forward to the extent that it appears probable that sufficient future profits will be generated in order to actually allow these deferred tax assets to be consumed. When determining the amount of deferred tax assets, it is necessary to undertake a thorough assessment of the entity's performance with regard to the expected point in time and the extent of future taxable incomes, as well as the future tax planning strategy of the entity. At 30 September 2008, the carrying value of the Company's deferred tax assets amounted to T€ 10,564 (prior year: T€ 9,780. For further details, refer to Note 8 and Note 11.

Post-employment obligations

The actuarial valuation of obligations due to employees is based on assumptions and estimations with regard to the discount rate, future wage and salary increases, the mortality and the pensionable age of employees, and employee fluctuation. Given the long-term nature of these funds, such estimations may vary considerably from actual future events. At 30 September 2008, the Company's provisions to cover these obligations amounted to T€ 1,158 (prior year: T€ 1,030). Refer to Point B.6. Provisions for employee benefits, for details of the parameters applied during the reporting period.

B.6. Summary of key accounting and estimation methods

Foreign currency translation

The financial reports of foreign subsidiaries are translated into euros based on the concept of the functional currency. Positions valued in foreign currencies are generally valued at the exchange rate ruling at the time of the relevant transaction. Monetary assets and liabilities are translated at the exchange rate ruling on the balance sheet date on which the statements are prepared. Non-monetary positions which are balanced applying the cost of acquisition principle remain unchanged applying the exchange rate at which they were first carried. The currency translation differences generated by the translation of cash positions are duly reported in the consolidated financial statements.

In accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates), the financial reports of foreign groups are translated into euros based on the concept of the functional currency. The assets and liabilities of these subsidiaries are therefore translated at the exchange rate ruling on the balance sheet date, while expenses and revenues are translated at the average annual exchange rate. The resulting differences are recorded (with no impact on operating results) under a separate item in the table: Development of shareholders' equity.

Tangible and intangible assets

The tangible assets and other intangible assets are stated at the cost of acquisition or cost of manufacture less accumulated depreciation. When determining the cost of acquisition or cost of manufacture borrowing costs are not applied. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. Other changes in value are

taken into account applying appropriate valuation methods. In the case of impairment, the revaluation of an asset is at the higher of the net disposal value or the value-in-use. The value-in-use is the cash value of the cash flows derived from the future use and disposal of the asset. If the cash flows cannot be directly allocated to a given asset, then an amount is calculated for a group of assets – a so-called cash generating unit.

Scheduled, straight-line depreciation of tangible assets and other intangible assets is based on a useful life calculated as follows:

Buildings on non-owned land	3.5 – 30 years
Technical equipment and machinery	5 – 15 years
Other facilities, furniture and fixtures	4 – 20 years
Capitalised development costs	10 years

Later expenditures are capitalised when it is probable that these will generate future commercial benefits through their use.

A differentiation is always made between intangible assets with a limited useful life and those with an unlimited useful life. The SANOCHEMIA Group does not hold any assets with an unlimited useful life.

Other intangible assets are subject to straight-line depreciation based on a useful life of three to fifteen years.

Research expenses are recognised as current expenses pursuant to IAS 38. Development expenses are capitalised when the development activity is genuinely likely to generate financial resources and when these meet all of the criteria set out in IAS 38. During the financial year 2007/2008, development expenses in the amount of T€ 1,525 (2006/2007: T€ 2,969) were capitalised.

In accordance with IFRS 3 applied in conjunction with IAS 36 and IAS 38 since 1 May 2004, all mergers and acquisitions are to be balanced based on the method of acquisition. Subsequent consolidation is calculated at the point in time of the acquisition by balancing the purchase price with the revalued share of net assets of the acquired company. The applicable assets, liabilities and contingent liabilities of the subsidiaries are calculated at their full current value independent of any minority interests. Intangible assets are to be carried separately from goodwill if they can be effectively separated from the company or result through a contractual or other right. Provisions for restructuring may not be recalculated in the course of the allocation of the purchase price. Remaining differences are to be carried as capitalised goodwill. In accordance with IFRS 3 in conjunction with IAS 36, and since 1 May 2004, capitalised goodwill is no longer subject to scheduled amortisation. Instead, the values of the goodwill are subject to an impairment test on an annual basis and at any other point in time when it may be assumed that good reason exists for performing such an impairment test. Should the book value of a cash generating unit to which goodwill has been allocated exceed the realisable amount, then the relevant goodwill shall initially be reduced by the differential amount as unscheduled amortisation. Any additional need for amortisation is accounted for by a proportional reduction in the book value of the remaining fixed assets.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment testing of goodwill

At 30 September 2008, an impairment test of the goodwill of the entities SDD and AlcaSynn was carried out. The realisable amount of the cash generating units was based on a calculation of the useable value applying cash flow forecasts that are based on financial planning across a period of five years. The impairment test was performed on the basis of the discounted cash flow accounting applying an interest rate of 11% (prior year: 12%). The cash flows generated after this period of five years are extrapolated without applying a growth rate. Internal and external factors are taken into account in the planning process and are consistent.

The Management is of the considered opinion that no probable changes to any of principles applied to assess the usefulness of the cash generating units could lead to a carrying value of the cash generating unit that materially exceeds its realisable value.

Calculation of future commercial usefulness of development projects

The future useful value of development projects as a basis for calculating the intrinsic value (and applicability) of the capitalised development costs is determined using discounted cash flow accounting and an interest rate of 11 (prior year: 12%). The operational cash flow has be planned in detail for the periods 2008/09 to 2012/13; for the years after 2013/14, stable operational cash flow has been assumed for the remainder of the foreseeable useful life of the asset.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. The financial assets are first recognised at their fair value.

Financial assets carried at their market value and recognised in income

The group of financial assets recognised in income at their fair value include those financial assets held for trading purposes and financial assets which are first recognised at fair value. Financial assets are classified as being held for sale if they have been acquired for the purpose of sale in the near future. Derivatives, including separately recorded embedded derivates, are also classified as being held for sale, with the exception of those derivatives which are financial guarantees or which have been designated as hedging instruments and which are effective as such. Gains and losses arising out of financial assets held for sale are recognised in income. At the point in time that the Group first enters into a transaction, it determines whether embedded derivatives are to be recognised separately from the underlying transaction. A re-assessment is only to be undertaken in the event of a material change in the conditions of the contract which result in a material change in the cash flows which would have otherwise been generated by the contract.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial recognition, such assets are carried at amortised cost using the effective interest method, less any impairments. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial investments held to maturity

Non-derivative financial assets with fixed or calculable cash flows and fixed maturities are classified as being held to maturity, assuming the Group has the intention of holding, and is in a position to hold, these to maturity. Following their first-time recognition, such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments which are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. The fair value of financial investments for which there is no active market is determined by means of valuation methods. These valuation methods include the application of recent transactions between knowledgeable, willing parties in an arm's length transaction, compared to the current fair value of another, essentially identical, financial instrument, the analysis of discounted cash flows and through the use of other valuation methods.

Amortised costs

Financial investments held to maturity, in addition to loans and receivables, are valued at the amortised costs of acquisition. These are valued applying the effective interest method, less any impairments and taking into account any premiums or discounts at the time of acquisition, and also include any transaction fees and charges which form an integral element of the effective interest rate.

Accounting of financial guarantees

The current value of financial guarantees is to be applied to the first-time recognition of financial guarantees. In subsequent periods, the higher of the value of the contractual obligation, calculated in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the current value less cumulative amortisation calculated in accordance with IAS 18 Revenue (at their book value).

Inventories

The valuation of raw materials, manufacturing supplies and finished goods is initially carried out at the point in time of their purchase at the cost of purchase and subsequently at the lower of cost and net realisable value. The purchase cost is calculated using the weighted average cost method.

The valuation of work in progress and finished goods is based on the lower of cost of manufacture or net realisable value. The costs of manufacture include expenses that can be directly allocated to the asset and all variable and fixed overheads associated with the manufacture. Borrowing costs are not capitalised. The purchase cost is calculated using the weighted average cost method.

Trade and other receivables and assets

Receivables and other assets are recognised and carried at the lower of their original invoice amount, in accordance with IAS 39, or their net realisable value. All recognisable risks are accounted for using the appropriate valuation methods.

Cash and cash equivalents

The Company classifies all cash carried under the position cash and short-term deposits at credit institutions as liquid funds. The valuation of these assets is carried out using daily rates on the reporting date.

Cash and cash equivalents refers to all current, extremely liquid financial investments that can be converted into certain cash amounts, that are subject to only immaterial fluctuations in terms of their value and which, calculated from the point in time of their acquisition, have a remaining term to maturity of less than three months. The cash and cash equivalents carried in the cash flow statement are calculated according to this definition.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is recognised where one of the following three preconditions is met:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement which meets the conditions set out in IAS 39.19; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Provisions

In accordance with IAS 37, provisions are set up if a current (legal or actual) obligation of the entity exists and where it is likely that an outflow of resources will be required to meet this commitment, and where a reliable estimate of the amount of the obligations is possible. The amount is recognised which, following a thorough assessment of the facts of the case, appears most probable.

Provisions for employee benefits

Within the SANOCHEMIA group, provisions for obligations towards employees required under IAS 19 comprise provisions for severance payments and loyalty bonus payments. In line with statutory requirements, all members of staff leaving the employ of the company or retiring receive a one-off payment. This is based on the number of years of service and the remuneration level applicable at the time of the cessation of employment. A provision is set up to cover this obligation.

Both ***provisions for severance payments*** and ***provisions for loyalty bonus payments*** are calculated on the basis of the projected unit credit method in accordance with IAS 19 Employee Benefits.

Due to an amendment to severance payment law in Austria, the length-of-service-related system only covers staff employed prior to 1 January 2003. For all new employees (in addition to employees transferring to the new system), the severance payment obligations are carried by the employee severance fund (Vorsorgekasse) operating on a defined contribution basis.

Length-of-service system

Employer liabilities are spread across the entire period of staff employment and based on the use of the following parameters:

	30.9.2008	30.9.2007
Interest rate for accounting purposes	5.50 %	5.00 %
Wage/salary trend	4.00 %	3.50 %
Deduction for fluctuation	0.00 %	0.00 %
Retirement age	APG 04*)	APG 04*)

*) Austrian Pensions Act (APG 2004): The actuarial pension age for both male and female employees has been set at 62. Transitional provisions have been set up for older employees and women and foreseeable variances in retirement data.

The corridor method of determining actuarial gains and losses has not been applied. Actuarial gains and losses are realised in the relevant period.

Defined contribution plans

With defined contribution plans, the employer pays legally determined contributions to a private insurer. Upon payment of these contributions, the employer bears no further liabilities.

Revenue recognition

Revenue is deemed realised upon passage of risk (on the date risks and realisation chances are transferred) or upon provision of the service.

Expenses arising out of the same business transaction or event are recorded parallel to the relevant income. This approach is generally referred to as the allocation of expenses to income. Income derived from interest and licenses are booked as deferred items on a pro rata basis.

Government grants

Government grants are carried as liabilities and reversed in accordance with the useful life of the subsidised assets. Interest rate subsidies are accounted for by the setting up of an appropriate deferral. They are reversed over the duration of the loan in connection with which the interest rate subsidy was granted.

Deferred taxes

In accordance with IAS 12, deferred tax entries are set up in respect of temporary valuation and accounting differences between tax accounts and IFRS accounts resulting in temporary deviations. In addition, deferred tax assets are set up for all loss carry-forwards which can be realistically reversed. For domestic companies, deferred taxes are calculated on the basis of a rate of 25%. For foreign companies, the respective local tax rate, at the time when the value difference is expected to be reversed, is applied.

C. Notes to the Consolidated Profit and Loss Account

Operating result

(1) Sales Revenues

in T€	2007/2008	2006/2007
Sales of goods	26,724	26,370
Contract manufacturing	2,786	3,216
Provision of services	21	48
Total	**29,531**	**29,634**

For more detailed information on sales revenues refer to ***Segment Reporting*** under ***E. Other information***.

(2) Other Income

in T€	2007/2008	2006/2007
Income from the disposal or write up of tangible and intangible assets	57	17
Research grants	149	513
Personnel costs passed on to third parties	301	255
Income from exchange rate variations	290	149
Reversal of deferred income	1,702	1,354
Income from research and training grants	540	1,197
Other income	508	488
Total	**3,547**	**3,973**

(3) Cost of Materials and Services

in T€	2007/2008	2006/2007
Raw materials and manufacturing supplies	9,412	11,052
of which for Research & Development purposes	505	962
Services	858	1,013
Total	**10,775**	**13,027**

(4) Personnel Expenses

in T€	2007/2008	2006/2007
Wages	917	1,027
Salaries	6,187	6,399
Expenditure for social security and payroll-related charges and compulsory contributions	1,684	1,747
Expenditure for defined contribution-based severance payments	50	56
Expenditure for length-of-service-based severance payments	168	564
Other personnel-related expenses	46	49
Total	**9,052**	**9,842**

The position Salaries above includes remuneration for the members of the Board of Management in the amount of T€ 411 (2006/2007: T€ 461) in addition to expenditure in the amount of T€ 32 (2006/2007: T€ 370) for severance payments.

The (Group's) average workforce during the financial year consisted of.

	2007/2008	2006/2007
Workers	40	38
Employees	142	146
Trainees	3	5
Total	**185**	**189**

(5) Depreciation and Amortisation

Scheduled depreciation and write-downs of property, plant and equipment and intangible assets respectively are set forth under (9) Property, Plant and Equipment, (10) Goodwill and intangible assets.

(6) Other Expenses

in T€	2007/2008	2006/2007
Maintenance	1,125	1,308
Insurance premiums	311	264
Vehicle-related expenses	171	166
Travel expenses	368	490
Marketing and advertising	596	406
Legal and other consultancy fees	886	932
Losses in transit	16	6
Foreign currency exchange differences	660	783
Other expenses	3,319	4,192
Research and development expenditure	2,994	4,109
Total	**10,446**	**12,656**

The position Other expenses above includes payments of T€ 171 (2006/2007: T€ 204), T€ 816 (2006/2007: T€ 530) and T€ 50 (2006/2007: T€ 50) in connection with leasing, letting and sub-letting arrangements respectively.

Result of Investing and other Financial Activities

(7) Interest and other Financial Result

in T€	2007/2008	2006/2007
Interest payments	-1,079	-853
Interest and similar income	1,366	1,336
Sale of securities	209	46
Management fees for option-based transactions	122	-429
Exchange rate differences on fixed-term deposits	-1,975	-235
Income from options and futures contracts [1)]	-1,442	632
Total	**-2,799**	**497**

[1)] Details are provided under "Other information" of "derivative financial instruments"

The above position "interest and similar income" includes interest rate subsidies of T€ 21 (2006/2007: T€ 46).

(8) Income Taxes

Tax expenditure for the period was as follows:

in T€	2007/2008	2006/2007
Corporation tax current year	-175	-28
Corporation tax previous years	0	6
Deferred tax expenses	490	20
Total	**315**	**-2**

The difference between the Austrian corporation tax rate of 25% and the tax rate stated in the accounts is due to the following factors:

in T€	2007/2008	2006/2007
Pre-tax result	-4,024	-5,004
Income tax based on corporation tax rate of 25%	1,006	1,251
Differences due to varying foreign tax rates	51	48
Permanent differences due to research subsidies	123	303
Corporation tax previous periods	0	7
Other non-deductible expenses	482	355
Deductible write down of investments	0	844
Non-application / impairment of losses carried forward	-1,347	-2,810
Effective tax expenditure	**315**	**-2**
Effective tax rate	**-7.83%**	**0.04%**

The deferred taxes recognised directly in equity amount to T€ 186 (prior year: T€ 18). For further details, please refer to Point 17.

D. Notes to the Consolidated Balance Sheet

Assets

(9) Tangible Assets

in T€	Leasehold improvements	Plant and machinery	Other equipment, furniture & fixtures	Fixed assets under construction	Total
Cost of acquisition					
Balance at 1.10.2006	12,967	11,277	2,606	1,183	28,033
Reclassifications	16	209	0	-225	0
Additions	562	109	461	2,214	3,346
Reclassification of assets held for sale	0	1	2	0	3
Disposals	0	0	-87	0	-87
Foreign currency translation differences	0	-7	-3	0	-10
Balance at 30.09.2007	13,545	11,589	2,979	3,172	31,285
Reclassifications	1,434	711	110	-2,255	0
Additions	180	516	637	1,178	2,511
Disposals	-20	0	-166	-72	-258
Foreign currency translation differences	0	-1	2	0	1
Balance at 30.09.2008	**15,139**	**12,815**	**3,562**	**2,023**	**33,539**
Accumulated depreciation					
Balance at 1.10.2006	5,290	4,606	1,860	0	11,756
Additions	833	817	303	0	1,953
Disposals	0	0	-62	0	-62
Foreign currency translation differences	0	0	4	0	4
Balance at 30.09.2007	6,123	5,423	2,105	0	13,651
Additions	948	935	361	0	2,244
Disposals	-20	0	-136	0	-156
Foreign currency translation differences	1	0	0	0	1
Balance at 30.09.2008	**7,052**	**6,358**	**2,330**	**0**	**15,740**
Net carrying value at 01.10.2006	**7,677**	**6,671**	**746**	**1,183**	**16,277**
Net carrying value at 30.09.2007	**7,422**	**6,166**	**874**	**3,172**	**17,634**
Net carrying value at 30.09.2008	**8,087**	**6,457**	**1,232**	**2,023**	**17,799**

(10) Goodwill and other Intangible Assets

in T€	Goodwill	Capitalised development costs	Trademarks and similar rights and licenses	Total
Cost of acquisition				
Balance at 01.10.2006	3,418	12,377	18,988	34,783
Additions	0	3,120	261	3,381
Reclassification of assets held for sale	1,958	1,690	75	3,723
Foreign currency translation differences	0	-69	-17	-86
Balance at 30.09.2007	5,376	17,118	19,307	41,801
Additions	0	1,525	63	1,588
Disposals	0	0	-208	-208
Foreign currency translation differences	0	-4	9	5
Balance at 30.09.2008	**5,376**	**18,639**	**19,171**	**43,186**
Accumulated amortisation				
Balance at 01.10.2006	27	0	13,106	13,133
Additions	0	81	1,659	1,740
Write-downs	1,958	1,690	67	3,715
Foreign currency translation differences	0	0	-5	-5
Balance at 30.09.2007	1,985	1,771	14,827	18,583
Additions	0	967	1,680	2,647
Balance at 30.09.2008	**1,985**	**2,738**	**16,507**	**21,230**
Net carrying value at 01.10.2006	**3,391**	**12,377**	**5,882**	**21,650**
Net carrying value at 30.09.2007	**3,391**	**15,347**	**4,480**	**23,218**
Net carrying value at 30.09.2008	**3,391**	**15,901**	**2,664**	**21,956**

The goodwill recorded resulted through the acquisition of shares in SANOCHEMIA Diagnostics Deutschland GmbH. and is allocated to this cash generating unit.

The impairment test required under IFRS 3 into a possible impairment charge against the capitalised goodwill resulted in no need for a write down of goodwill in SANOCHEMIA Diagnostics Deutschland GmbH, since in the case of this company, the realisable value exceeds the book value.

The following intangible assets carried under the position Trademarks and similar rights and licenses have material impact on the consolidated financial statements as a whole:

A licensing agreement concluded on 1 October 2001 with Bioglan Laboratories Ltd. (concerning Baritop Plus, Citramag, Iopamidol and Iohexol), valid for 10 years and in return for which SANOCHEMIA paid a one-off licensing fee of T€ 6,902. The carrying value at 30.09.2008 was T€ 1,380 (2006/2007: T€ 2,071).

This position also includes three patents for the active pharmaceutical ingredient galantamine in the treatment of Alzheimer's disease acquired at a cost of T€ 6,852 and carried at a book value of T€ 343 at 30.09.2008 (2006/2007: T€ 1,028).

The remaining positions relate to low-value software licenses, patents and trademarks.

The own work capitalised relates to the development costs of tolperisone, Scanlux, PVP hypericin and Secrelux.

(11) Other Financial Receivables

The other financial receivables in the amount of T€ 2,346 (PY: T€ 0) are to be regarded as non-current interest-bearing receivables with a term to maturity of two years. These receivables relate to claims for compensation arising out of derivative-based financial transaction. Due to the uncertainty prevailing in financial markets, the long-term nature and the resulting difficulty of assessing the likelihood of recovering these receivables, the decision was made to take an impairment charge against these assets in the amount of T€ 2,000.

in T€	30. 09. 2008	30. 09. 2007
Other financial receivables	4,346	0
Valuation adjustments	-2,000	0
Total	**2,346**	**0**

The valuation adjustments (impairments) taken against other financial receivables developed as follows over the period:

in T€	30. 09. 2008	30. 09. 2007
Balance of valuation adjustments at 1 October	0	0
Exchange rate differences	0	0
Additions (impairment charges)	2,000	0
Consumed	0	0
Reversed	0	0
Balance of valuation adjustments at 30 September	**2,000**	**0**

(12) Deferred Taxes

Deferred tax assets result from the following temporary valuation and accounting differences between the valuation in the consolidated balance sheet and the relevant taxable values and as yet unutilised and temporally unlimited tax deductible losses which can be carried forward:

in T€	Consolidated Balance Sheet 2007/2008	Consolidated Balance Sheet 2006/2007	Consolidated Profit & Loss Account 2007/2008	Consolidated Profit & Loss Account 2006/2007
Deferred tax liabilities				
Own work capitalised (development costs)	3,461	3,535	-106	-722
Own work capitalised - group of assets held for sale	0	0	0	422
Tax effective amortisation of investments	0	0	0	542
Valuation adjustment of financial receivables to fair value	18	48	30	25
Valuation adjustment of forward exchange contracts to fair value	0	91	91	26
Valuation adjustment of options to fair value	129	0	-129	0
Valuation adjustment of available for sale financial investments to fair value	0	39	–	–
	3,788	**3,713**		
Deferred tax assets				
Own work capitalised (development costs)	49	66	-17	-16
Tax effective amortisation of investments	794	1,061	-267	1,001
Post-employment obligations	158	141	17	67
Valuation adjustment of available for sale financial investments to fair value	147	0	–	–
Tax deductible losses carried forward, Germany	676	0	676	0
Tax deductible losses carried forward	2,640	2,445	195	-1,325
	4,464	**3,713**		
Deferred tax expenses			**490**	**20**
Balance of deferred taxes	**676**	**0**		

The financial statements of the SANOCHEMIA Group carry deferred tax assets resulting from tax deductible losses in the amount of T€ 4,387 (prior year: T€ 3,272). These losses carried forward can, without any time limit, be set against the future profits of the companies in which the losses were incurred.

During the period under review, the subsidiary SANOCHEMIA Diagnostics Deutschland GmbH, Neuss, Germany, for the first time recognised deferred tax assets in the amount of T€ 676. Deferred taxes in the amount of T€ 857 were not recognised in 2006/2007. On the basis of current forecasts, sufficient taxable income will be generated in the foreseeable future in order to enable the deferred tax assets resulting from earlier losses carried forward to be used in the future.

For SANOCHEMIA Pharmazeutika AG only deferred tax assets in the amount of T€ 2,640 (prior year: T€ 2,445) were recognised due to the fact that current tax planning calculations assume that SANOCHEMIA Pharmazeutika AG will, in the coming financial periods, generate sufficient taxable earnings or sufficient taxable temporary differences relating to the same tax authority and the same taxable entity, from which these deferred tax assets originate. No deferred tax assets have been recognised in respect of the remaining losses carried forward in the amount of T€ 14,842 (prior year: T€ 9,661) given the prevailing uncertainty as to whether these can be consumed in the foreseeable future.

(13) Inventories

in T€	30. 09. 2008	30. 09. 2007
Raw materials	4,159	3,775
Semi-finished goods and work in progress	1,325	1,365
Finshed goods	1,391	2,087
Traded goods	968	1,501
Prepayments to suppliers	940	1,025
Total	**8,783**	**9,753**

Raw materials include in particular pharmaceutical raw materials and intermediate materials for the production of galantamine. The semi-finished goods were predominantly sterile products in primary packaging and products of chemical synthesis.

During the course of the reporting period, as in the prior year, there was no need to write down inventory to its net realisable value.

(14) Accounts Receivable – Trade

in T€	30. 09. 2008	30. 09. 2007
Accounts receivable – trade, gross	5,597	3,958
Valuation adjustments	-78	-68
Total	**5,519**	**3,890**

The accounts receivable, trade are classified as current and non-interest-bearing. There follows a breakdown of the accounts receivable, trade by due date.

in T€	30. 09. 2008	30. 09. 2007
Not overdue	4,092	2,991
Overdue by less than 3 months	891	521
Overdue by more than 3 but less than 6 months	614	446
Less valuation adjustments	-78	-68
Total	**5,519**	**3,890**

The accounts receivable, trade have developed as follows during the period under review:

in T€	30. 09. 2008	30. 09. 2007
Balance of valuation adjustments at 1 October	67	71
Foreign currency translation differences	3	-2
Additions (expenses for valuation adjustments)	8	0
Consumed	0	0
Reversals	0	-1
Balance of valuation adjustments at 30 September	**78**	**68**

On the balance sheet date, there are no indications that the amounts neither written down nor in arrears will not be settled fully. The maximum default value of such positions is their respective carrying value.

(15) Receivables due from Affiliated Companies

in T€	30. 09. 2008	30. 09. 2007
Alvetra und Werfft GmbH	1,113	392
J. Medinger & Söhne	1,595	1,411
Anton von Waldheim	2,141	1,201
Comtel Air Luftverkehr GmbH	0	3
Total	**4,849**	**3,007**

The receivables due from affiliated companies are explained in detail in section E Other information, under the point entitled Transactions with affiliated companies. The due dates of the accounts receivable payable by affiliated companies is set out below:

in T€	30. 09. 2008	30. 09. 2007
Not overdue	3,427	2,816
Overdue by less than 3 months	290	158
Overdue by more than 3 but less than 6 months	686	33
Overdue by more than 6 but less than 12 months	446	0
Total	**4,849**	**3,007**

(16) Other Financial Receivables

in T€	30. 09. 2008	30. 09. 2007
Forex options / forward exchange contracts	85	948
Forward contracts	0	15
Interest receivable on securities	199	155
Total	**284**	**1,118**

The other financial receivables are non-interest bearing and are payable within one year.

(17) Other Receivables and other Assets

in T€	30. 09. 2008	30. 09. 2007
Receivables due from the financial authorities	657	1,435
Deferred expenses	249	197
Other	186	646
Total	**1,092**	**2,278**

(18) Receivables due from Research Promotion Programmes

in T€	30. 09. 2008	30. 09. 2007
Grants from FFG ForschungsförderungsgmbH	250	362
Grants provided by Wirtschaftsservice Burgenland AG	0	180
Total	**250**	**542**

These receivables relate to research grants that have been awarded and for which a high degree of certainty exists that the preconditions for non-repayment can be met. The receivables from research promotion programmes were neither impaired nor overdue at 30.9.2008 or 30.9.2007.

(19) Marketable Securities

The securities are made up predominantly of investments in fixed interest rate bonds and investment funds. Securities with a carrying value of T€ 6,538 were pledged to cover certain financial liabilities.

Valuation adjustments made to reflect the current market value of securities amounted to T€ 744 (T€ 72 in 2006/2007) were made and, less the associated latent taxes in the amount of T€ 186 (prior year: T€18), these are carried in the position Equity capital. During the 2007/2008 financial year, securities with a carrying value of T€ 4,491 were disposed of (T€ 1,996 in 2006/2007).

Equity and Liabilities

(20) Equity

For details of changes in shareholders' equity during the financial year refer to the table on page 49 of this report.

As in the previous financial year, on the balance sheet date the share capital consisted of 10,155,598 nonpar shares equivalent to an amount of EUR 1.00 per share. The share capital is fully paid up.

As at 30 September 2008, at the close of this reporting period the Company had approved capital in the amount of EUR 5,077,799.00.

At the Annual Shareholders' Meeting held on 27 March 2008, the Board of Management was authorised, for a period of 30 months, to purchase up to 10% of its own capital stock in accordance with § 65, Para. 1, Point 8, of the Austrian Stock Corporation Act (AktG).

The restricted capital reserves include the premium from issuing shares. Pursuant to Austrian legislation, these reserves may only be drawn upon to cover losses. The payment of a dividend is limited to the amount of net profit for the period calculated on the basis of the separate financial statements of the parent company SANOCHEMIA Pharmazeutika AG in accordance with local accounting regulations. In the commercial financial statements of SANOCHEMIA Pharmazeutika AG for the period to and at 30 September 2008, an amount of T€ 23,993 has been allocated from restricted capital reserves in accordance with Section 130 of the Austrian Stock Corporation Act (AktG) to cover the accumulated losses reported. This step meets the requirements for SANOCHEMIA to be able to pay dividends at a later date.

The timing and the amount of possible, future dividends are dependent on the earnings and financial positions of the Company as well as other financial parameters. At this stage it is therefore not possible to provide any assurance that a dividend will be paid at a later point in time. This dividend policy should not be interpreted as any prediction of future profits or earnings.

The reserve for gains / losses from available-for-sale securities contains amounts arising from the valuation of changes in the prices of securities.

The reserve for foreign currency exchange differences contains the translation differences generated by foreign (non-euro) subsidiaries.

Non-current Liabilities

The Company has no liabilities with a residual redemption period longer than five years.

(21) Financial Liabilities (non-current)

The following analysis sets forth non-current bank loans according to currency and interest rates outstanding at 30 September 2008 and 30 September 2007 respectively:

in T€	30. 09. 2008	30. 09. 2007	Interest rate	Maturity
Loans linked to research promotion	457	1,267	3.63–5.5%	2009
Loans linked to ERP funds	5,428	6,300	1–1.25%	2009 - 2012
Equity financing	5,390	5,390	2.4%	31.05.2010
Other bank loans	1,645	1,867	6.5–8.5%	2009 - 2013
Total	12,920	14,824		
of which				
current portion of non-current loans	1,200	1,300		
Financial liabilities (non-current)	**11,720**	**13,524**		

The financial liabilities set out above are secured as follows:

in T€	Book value 30.9.2008
A guarantee in favour of Austria Wirtschaftsservice GmbH	2,500
A guarantee in favour of SANOCHEMIA Ltd., Malta	214
A liability due to the Republic of Austria (OeKB)	5,390
A guarantee and payment obligation of SANOCHEMIA Ltd., Malta	220

(22) Employee Benefits Provisions

in T€	30. 09. 2008	30. 09. 2007
Provisions for severance payments	1,158	1,030
Provisions for long-service bonuses	150	137
Total	**1,308**	**1,167**

The provisions for employee benefit obligations developed as follows over the reporting period:

in T€	2007/2008	2006/2007
Cash value of severance payment obligations at 1 October	1,030	738
Service cost	75	60
Interest cost	51	31
Severance payments	-4	-27
Actuarial losses / gains	6	129
Past service cost (non-forfeitable)	0	99
Balance of provisions at 30 September	**1,158**	**1,030**

The costs associated with the severance payments are recognised fully under personnel expenses.

The long-service obligations and the adjustments based on past experience in the current and previous periods are as follows:

in T€	2007/2008	2006/2007	2005/2006	2004/2005
Long-service obligations	1,158	1,030	738	629
Adjustment of planned debts based on past experience	2	95	43	102

(23) Deferred Income

An amount of T€ 2,442 (2006/2007: T€ 3,626) is carried as deferred income which relates to the non-current amount of a prepayment for galantamine deliveries for the period up to 30.09.2010 and a fixed payment due upon the signing of the licensing agreement with Orion Corporation. Licensing income has been deferred on a pro rata basis over the period up to 31.12.2020.

(24) Investment Grants from Public Funds

in T€	30. 09. 2008	30. 09. 2007
WIBAG Wirtschaftsservice Burgenland AG	738	933
ERP fund (regional investment bonus)	244	285
Grants from FFG ForschungsförderungsgmbH	357	384
Total	**1,339**	**1,602**
of which current	1,195	1,450
of which non-current	144	152
Total	**1,339**	**1,602**

The disclosed grants are repayable under certain conditions and have been issued for the construction of the synthesis plant, the pharmaceutical production facility and the extension to the laboratory The grants will be reversed over the useful life of the plant starting from the date of which it enters operation.

The grants awarded are subject to the following main conditions: The funds made available are only to be used in connection with the purpose for which they were granted. All procurements (manufacture) associated with the investment grants cannot de divested within a period of five years. Moreover, it must be established that the associated positions of employment are created and maintained for a minimum period of three years. Based on the current viewpoint these conditions can be met.

Current Liabilities

(25) Loans due to Banks and Credit Institutions

The following overview shows the non-current liabilities due to banks in terms of currencies and interest rates at 30 September 2008 and 30 September 2007 respectively:

in T€	30.09.2008	30.09.2007	Interest rate	Maturity
Bank loans and overdrafts	0	6	8–10%	on request
Bank loans and overdrafts	3,788	3,440	6–7%	on request
Bank loans and overdrafts	4,065	3,899	3.39–5.9%	on request
Research promotion loans	580	900	3.63–5.5%	within one year
Total	**8,433**	**8,245**		

The financial liabilities set out above are secured as follows:

in T€	Book value at 30.9.2008
A guarantee in favour of Österreichische Forschungsförderungsgesellschaft mbH	367
A guarantee in favour of SANOCHEMIA Ltd., Malta	948
A guarantee and payment obligation of SANOCHEMIA Ltd., Malta	220

(26) Liabilities due to Affiliated Companies

in T€	30.09.2008	30.09.2007
Medinger GmbH, Vienna	0	45
Total	**0**	**45**

The relationships to affiliated companies in terms of the services provided are detailed in section E: Other information, Point: Transaction with affiliated companies.

(27) Other financial Liabilities

This position recognises forward exchange contracts concluded by the SANOCHEMIA Group applying a negative fair value. This position is explained in more detail under the section E: Other information, Point: Derivative financial instruments.

(28) Other Liabilities and Accruals

in T€	30.09.2008	30.09.2007
Social security contribution liabilities	152	165
Tax liabilities	107	102
Outstanding holiday entitlements	377	377
One-off payments	425	458
Total	**1,061**	**1,102**

(29) Deferred Income

An amount of T€ 721 (2006/2007: T€ 1,310) has been carried as deferred income. This relates to that proportion of a prepayment for galantamine deliveries applicable to the following financial year and a fixed payment due upon the signing of a licensing agreement with Orion Corporation. The non-current proportion of this amount has been carried as detailed under Point 22 above.

E. Other Information

(30) Research and Development

The operations of the Research and Development division are summarised in the table below. The sales revenues during the financial year relate to a proportion of earned licensing fees from Orion Corporation (prior year: out-licensing of tolperisone to Avigen).

in T€	2007/2008	2006/2007
Sales revenues	2,139	53
Research subsidies	478	1,197
Research grants	134	514
Other income	616	658
Changes in inventory	-64	-9
Own work capitalised	1,389	2,969
Cost of materials	-505	-962
Personnel costs	-1,332	-1,560
Depreciation of tangible assets and amortisation of intangible assets	-119	-92
Amortisation of AlcaSynn holding (patents and goodwill)	0	-3,715
Other operating expenses	-2,994	-4,109
Total	**-258**	**-5,056**

(31) Earnings per Share

When calculating the undiluted result per share, the proportion of the result accrued by the ordinary shares in the parent company held by shareholders is divided by the weighed average number of ordinary shares in circulation during the period under review. Due to the fact that the share options could not be exercised, the diluted earnings per share were equivalent to the actual earnings per share. The number of shares issued remained constant for the entire period at 10.155.598.

Segment Information

Primary Segment Information

The Company operates in the following business areas:

Human Pharmaceuticals covers all pharmaceutical activities with the main focus being on the area of imaging with contrast agents for x-ray, CT and in-vitro diagnostics. These products are marketed and sold partly through subsidiaries (SANOCHEMIA Diagnostics) and through cooperation agreements with selected marketing partners.

Production encompasses synthesis (synthetic galantamine, contract synthesis, internal requirements) and pharmaceutical production. This also includes research and development expenditure and income relevant to production.

Research and Development concentrates on identifying and advancing substances for the treatment of central nervous system disorders and on the innovative further development of tried-and-tested substances. This segment is largely responsible for the Company's own research and development activities. Only minimal externally-generated revenues have as yet obtained through contract R&D activities.

Reconciliation is a segment created to record all income, expenses, assets and liabilities which cannot be directly allocated to the segments listed above.

Cost accounting between the segments is calculated using the market rates and conditions applicable to transactions with third parties.

in T€	Human Pharmaceuticals		Production		R&D		Reconciliation		Total	
	07/08	06/07	07/08	06/07	07/08	06/07	07/08	06/07	07/08	06/07
Sales revenues/external	**14,787**	12,731	**12,605**	16,849	**2,139**	53	**0**	1	**29,531**	29,634
Sales revenues/internal	**315**	366	**5,335**	5,383	**0**	0	**-5,650**	-5,749	**0**	0
Sales revenues	**15,102**	13,097	**17,940**	22,232	**2,139**	53	**-5,650**	-5,748	**29,531**	29,634
Operating performance	**17,158**	14,418	**19,123**	24,447	**4,692**	5,381	**-7,033**	-6,814	**33,940**	37,432
Operating result	**2,223**	1,713	**-321**	2,212	**-258**	-5,056	**-2,869**	-4,370	**-1,225**	-5,501
Investment	**-186**	106	**1,914**	2,279	**1,847**	3,159	**316**	1,183	**3,891**	6,727
Depreciation and amortisation	**1,737**	873	**2,660**	2,445	**119**	92	**376**	283	**4,892**	3,693
Write down of intangible assets	**0**	0	**0**	0	**0**	3,715	**0**	0	**0**	3,715
Segment assets	**9,841**	13,261	**27,060**	28,479	**20,086**	18,268	**31,880**	37,838	**88,868**	97,846
Segment liabilities	**1,090**	1,005	**5,750**	5,256	**2,510**	3,092	**25,409**	30,574	**34,759**	39,927

A breakdown of revenues, assets and investment by region follows:

in T€	2007/2008	2006/2007
Sales revenues		
Austria	22,354	25,511
Germany	7,095	6,420
UK	868	1,067
Switzerland	4,482	1,997
USA	382	387
Consolidating entries	-5,650	-5,748
Total	**29,531**	**29,634**
Allocated assets		
Austria	49,186	52,212
Germany	2,590	3,021
UK	538	755
Switzerland	3,659	3,407
USA	374	612
Consolidating entries	32,521	37,839
Total	**88,868**	**97,846**
Allocated investments		
Austria	3,715	5,408
Germany	47	31
UK	0	0
Switzerland	-208	79
USA	22	26
Consolidating entries	315	1,183
Total	**3,891**	**6,727**

Financial Instruments

Under IAS 32 and IAS 39, the term financial instruments includes primary financial instruments such as trade accounts receivable and payable as well as financial receivables and financial liabilities. Also included here are derivative financial instruments, which are financial instruments the value of which changes in response to changes in specified interest rates or the value of securities, which require zero or little initial net investment, and which are to be settled at a later point in time. The standard purchase or sale of financial assets is calculated on the day of trading.

Primary financial instruments

The explanations of the balancing and valuation principles above apply to all cash and cash in bank, receivables, securities recorded as financial investments, and liabilities classified here as primary financial instruments.

Additional details on financial instruments

Carrying values, valuation methods and fair values by valuation category

	Book value 30.9.2008	Fair Value 30.9.2008	Valuation method as per IAS 39	Valuation category as per IAS 39: Loans and receivables/ financial liabilities	Valuation category as per IAS 39: Available for sale financial assets (AFS)	Valuation category as per IAS 39: Fair Value recognised in income
Assets						
Other financial receivables	2,346	2,346	AC	2,346	0	0
Accounts receivable – trade	5,519	5,519	AC	5,519	0	0
Accounts receivable – affiliated companies	4,849	4,849	AC	4,849	0	0
Other financial receivables						
Forex options	85	85	FV	0	0	85
interest	199	199	AC	199	0	0
Receivables from research grants	250	250	AC	250	0	0
Available-for-sale securities	10,722	10,722	FV	0	10,722	0
Cash and short-term deposits	14,296	14,296	AC	14,296	0	0
Liabilities						
Financial liabilities	20,153	19,440	AC	20,153	0	0
Accounts payable - trade	5,034	5,034	AC	5,034	0	0
Other financial liabilities						
Forex options	2,521	2,521	FV	0	0	2,521

	Book value 30.9.2007	Fair Value 30.9.2007	Valuation method as per IAS 39	Valuation category as per IAS 39: Loans and receivables/ financial liabilities	Available for sale financial assets (AFS)	Fair Value recognised in income
Assets						
Accounts receivable – trade	3,890	3,890	AC	3,890	0	0
Accounts receivable – affiliated companies	3,007	3,007	AC	3,007	0	0
Other financial receivables						
Forex options	948	948	FV	0	0	948
Forward transactions	15	15	FV	0	0	15
interest	155	155	AC	155	0	0
Receivables from research grants	542	542	AC	542	0	0
Available-for-sale securities	11,793	11,793	FV	0	11,793	0
Cash and short-term deposits	24,328	24,328	AC	24,328	0	0
Liabilities						
Financial liabilities	21,769	20,904	AC	21,769	0	0
Accounts payable - trade	3,615	3,615	AC	3,615	0	0
Other financial liabilities						
Forex options	5,284	5,284	FV	0	0	5,284

Net result by valuation category

	Interest	from subsequent valuation: to Fair Value	currency translation	valuation adjustment	from disposal	net result 07/08
Loans and receivables	1,366	0	-1,974	-8	0	-616
Available for sale	105	0	0	0	104	209
Fair value recognised in income	0	588	-30	0	0	558
Financial liabilities	-1,079	0	0	0	0	-1,079

	Interest	from subsequent valuation: to Fair Value	currency translation	valuation adjustment	from disposal	net result 06/07
Loans and receivables	1,336	0	-235	0	0	1,101
Available for sale	223	0	0	0	-177	46
Fair value recognised in income	0	779	-147	0	0	632
Financial liabilities	-853	0	0	0	0	-853

Risk Exposure Report

The main financial instruments used by the Group – with the exception of derivative-based financial instruments – relate to bank loans and overdraft facilities as well as accounts receivable (trade) liabilities. The main purpose of these financial instruments is to finance the Group's operations. The Group holds various financial assets such as accounts receivable (trade) and funds directly generated through its operations.

The risks for the Group arising out of the use of these financial instruments include interest-based cash flow risks in addition to liquidity, currency and credit risks. The Management engages in strategies and procedures to minimise certain forms of risk as set out below.

Interest rate risk

The interest rate risk is to be regarded as immaterial. Interest on deposits with banks is based on market interest rates.

Interest rate risks do exist for fixed-interest securities booked as assets. Since these can be converted to cash at any time this interest rate risk is also regarded as immaterial. The average interest rate applicable to the fixed-interest securities was 7%.

The SANOCHEMIA Group has elected to take out certain of its loans based on variable interest rates. The Management regards the risks associated with interest rate fluctuations associated with financial assets and liabilities as calculable. The risk of fluctuations in market rates of interest that the Company is exposed to results largely from long-term financial liabilities with variable interest rates. If the market rates of interest had been 50 basis points higher (lower) on the relevant balance sheet date, the financial result on 30 September 2008 (30 September 2007) would have been T€ 97 (T€ 104) higher or lower.

The management and control of the interest payments owned by the Company is effected through a combination of fixed and variable interest rate loans. The Company's guidelines for borrowing aim to ensure that between 40% and 60% of its borrowings are based on fixed interest rates. In order to reach this objective, the Company exploits the option of financing by means of research grants which are characterised by their particularly favourable fixed interest rates.

Risk concentration

A major proportion of the sales revenues of the Production segment are generated with two large customers. As a result, there is a certain concentration of risk with regard to accounts receivable – trade. These customers are subjected to credit checks, and the amounts of receivables open with regard to these customers are constantly monitored such that the Group is not exposed to any considerable risk of non-payment.

Foreign exchange risk

The exposure to foreign exchange risks through operating activities can be regarded as relatively low. Foreign exchange transactions occur between SANOCHEMIA UK Ltd, and SANOCHEMIA Diagnostics International Ltd, Switzerland. Certain products, particularly diagnostics, are exported to the USA. Since most US customers, however, settle their accounts rapidly, the foreign exchange risk here can also be regarded as low. For this reason, the Company has not entered into hedging transactions as a means of limiting its exposure to foreign exchange risks. The foreign exchange risk associated with the investment in foreign exchange options is dealt with separately under a dedicated section below. Foreign exchange risks in the area of financing result from loans granted for the purposes of financing foreign subsidiaries. In the area of operations, the individual Group companies largely undertake their respective commercial activities in their local currency.

This is another reason why the foreign exchange risk of SANOCHEMIA Pharmazeutika AG arising out of operating activities may be regarded as low. In order to reflect market risks, IFRS 7 requires sensitivity analyses to be performed which demonstrate the impact of hypothetical changes in relevant risk variables on results and equity.

Were the EUR to be have been 5% higher (lower) against the USD on 30 September 2008, the value of shareholders' equity would have been T€ 92 higher (lower) (30 September 2007: T€ 75 lower (higher)). Had the EUR – USD exchange rate been 5% higher (lower) on 30 September 2008 (30 September 2007), this would have resulted in an increase (decrease) in the financial result at 30 September 2008 (30 September 2007) of T€ 43 (T€ 0.5). Furthermore, under the same preconditions, the value of shareholders' equity at 30 September 2008 (30 September 2007) would have increased or decreased by T€ 43 (T€ 43).

Credit risk

The amounts recorded in the balance sheet are subject to both full credit risk and non-payment risk since no general counterbalancing agreements exist. The risks associated with banks can be regarded as very low since these concern banks with unquestionable creditworthiness. The same applies to the issuers of the securities held by the Company. The risks with regard to receivables can be regarded as moderate since the Management attempts to keep the risks within acceptable limits by means of maintaining a suitable customer base and carrying out regular credit checks of its customers. In addition, valuation adjustments in the amount of T€ 78 (T€ 68 in 2006/2007) have been set up.

The following table sets forth the contractually agreed (undiscounted) interest and principal repayment instalments of the primary financial liabilities:

in T€		Cash flows 08/09			Cash flows 09/10			Cash flows 10/11–11/12		
	Book value 30.09.2008	Interest fixed	Interest variable	Repay-ment	Interest fixed	Interest variable	Repay-ment	Interest fixed	Interest variable	Repay-ment
Primary financial liabilities										
Financial liabilities (non-current)	12,920	131	125	1,200	87	72	7,648	202	48	4,072
Other non-interest bearing liabilities	5,034	0	0	5,034	0	0	0	0	0	0
Derivative financial liabilities										
Foreign exchange derivatives excluding hedging	2,521	0	0	2,521	0	0	0	0	0	0

Current market values

The market value of the cash resources and short-term investments, current receivables and liabilities remain largely consistent with the book value due to the short maturities of such positions. The market values of the foreign exchange options held by SANOCHEMIA as an element of its investment policy are determined through the ratio of the strike price to expected future exchange rate developments.

The following table illustrates the book values and market values of long-term financial liabilities. The market values of equity financing loans as well as subsidised ERP loans were calculated by discounting future cash flows applying standard market interest rates.

in T€	Book value 30. 09. 2008	Book value 30. 09. 2007	Market value 30. 09. 2008	Market value 30. 09. 2007
Loans linked to research promotion	457	1,267	457	367
Loans linked to ERP funds	5,428	6,300	4,918	5,706
Equity financing	5,390	5,390	5,187	5,119
Other bank loans	1,645	1,867	1,645	1,467
Total	12,920	14,824	12,207	12,659
of which				
current portion of non-current loans	1,200	1,300		
Non-current financial liabilities	**11,720**	**13,524**		

The cost of acquisition and market value of investment securities as of 30 September 2008 and 2007 respectively are set out in the following analysis:

in T€	Current market value
30 September 2007	
Fixed-interest Austrian bonds	687
Investment fund certificates and shares	11,106
Total	**11,793**
30 September 2008	
Fixed-interest Austrian bonds	606
Investment fund certificates and shares	10,116
Total	**10,722**

All securities have been classified as "available for sale" in accordance with IAS 39. The market values of securities are determined on the basis of published rates from public securities trading.

The cost of acquisition and market values of marketable securities as of 30 September 2008 and 2007 respectively, according to maturities, are shown in the following table:

in T	2007/2008 Cost of acquisition	2007/2008 Current market value	2006/2007 Cost of acquisition	2006/2007 Current market value
Realisable at any time	6,706	5,966	11,249	11,106
< 1 year	4,994	4,756	0	0
> 1 year < 5 years	0	0	0	0
> 5 years < 10 years	0	0	844	687
> 10 years	0	0	0	0
Total	**11,700**	**10,722**	**12,093**	**11,793**

Derivative financial instruments

During the 2007/2008 financial year – as in the previous financial period - the Company invested in derivative financial instruments in the form of foreign exchange options and forward exchange contracts through the agency of Amafin Asset Management und Finance S.A., Zug, Switzerland – as it had in previous financial period. Amafin Asset Management und Finance S.A. is an independent asset management company. In accordance with the terms and conditions of Bank Leu for handling option and futures contracts, the bank concludes options and futures contracts on behalf of SANOCHEMIA

albeit it in its own name. These transactions involve SANOCHEMIA as the writer of both put and call options.

In accordance with IAS 39, financial instruments are recorded at their market value (without deduction of any transaction costs which would be incurred) on the balance sheet date.

The risks attached to foreign currency transactions lie in the purchase of one currency against another. The leverage on the contractual volume assigned to Amafin Asset Management und Finance S.A. is limited to the five-fold amount of the sum invested by SANOCHEMIA. Amafin Asset Management und Finance S.A. uses a stop loss in the event of an adverse exchange rate trend amounting to 5% of the capital plus premium received. This effectively limits the risks involved.

The foreign exchange options and forward exchange contracts were concluded in the following currencies: EUR, CHF, USD, ISK, TRY, JPY, NZD and NOK. The contracts concluded were short-term contracts.

The following sensitivity analysis is based on the forward exchange contracts open at 30 September 2008 and is prepared in order to demonstrate the possible effects of exchange rate variations on the market value / leverage of options. This model demonstrates the effects of a 7.5% negative development of the currency:

Based on actual development

The foreign exchange contracts open at 30 September 2008 amounted to option revenues of T€ 1,698 (T€ 3,894 in 2006/2007). To cover these open options at the market prices prevailing on 30 September 2008 would have involved the outlay of T€ 2,436 (2006/2007: T€ 4,344). Therefore on the balance sheet date there was an unrealised loss of T€ 738 (2006/2007: T€ 449 gain) subsequently carried in the financial statements.

Based on a negative exchange rate development of 7.5%

On the basis of an agreed stop loss limit of 7.5% (prior year 5%) on open forex contracts, the maximum possible loss would amount to T€ 894 (prior year: T€ 3,422) being equivalent to 7.5% (prior year: 5%) of T€ 11,920 (prior year: T€ 68,443). Taking account of previous realised losses in the amount of T€ 738 (prior year: T€ 449 gain), this gives rise to a maximum amount at risk of T€ 156 (prior year: T€ 2,973).

in T€	2007/2008	2006/2007
Foreign exchange options		
Other receivables from foreign exchange options	85	948
Other liabilities from foreign exchange options	2,521	5,284

All of the foreign exchange options are either exercisable or will mature within a period of one year.

The foreign currency options and forward exchange contracts had the following influence on results in the period from 1 October 2007 to 30 September 2008:

in T€	2007/2008	2006/2007
Foreign exchange options		
Expenses arising out of foreign exchange options	-29,338	-11,407
Income derived from foreign exchange options	27,926	12,079
Forward exchange contracts		
Write down	-243	-157
Write up	213	116

Other Financial Obligations

The Company has assumed the following obligations under long-term leasing and rental agreements:

in T€	2007/2008	2006/2007
Obligations under leasing contracts		
in the subsequent year	132	110
in the second to fifth years	167	102
Obligations under rental contracts		
in the subsequent year	749	689
in the second to fifth years	2,997	2,757
from the fifth year	4,095	4,646

The Group has entered into leasing arrangements concerning various vehicles and technical equipment. The average tenor of these leasing agreements lies between three and five years. The leasing agreements contain no options to extend. The lessee is not subject to any limitations to its operations as a result of the leasing agreements.

The majority of obligations under rental agreements exist towards affiliated companies and joint owners. The rental agreements with a remaining tenor of over five years relate to offices in Vienna in addition to offices and the site in Neufeld.

Transactions with Associated Companies

Throughout the group's history, the individual entities of the SANOCHEMIA group have maintained close relations in the areas financing, services and supplies.

The associated companies of the Group are classified as such due to the fact that members of the management of SANOCHEMIA Pharmazeutika AG hold key positions in these companies.

Interest on balances outstanding within the SANOCHEMIA group and its associated companies is compounded monthly on a current account basis and charged to the respective company. The interest rate was on average 5.15% in the financial year 2007/2008 following a rate of 4.80% in 2006/2007.

There exist various lease agreements concluded on the basis of commercially standard conditions between the Company and J. Medinger & Söhne and Anton von Waldheim chemisch pharmazeutische Fabrik in respect of buildings erected on non-owned land at Neufeld where the pharmaceuticals production, the research laboratory and the synthesis plant are located. The Company has concluded a sub-lease agreement based on commercially standard conditions with Anton von Waldheim chemisch pharmazeutische Fabrik assigning the use of offices in Vienna. This rental agreement, with a term of over five years, relates to existing properties. The newly erected office building located in Boltzmanngasse, Vienna, owned by Anton von Waldheim chemisch pharmazeutische Fabrik is already partially in use by SANOCHEMIA Pharmazeutika AG.

SANOCHEMIA Pharmazeutika AG has issued guarantees in the amount of T€ 9,218 (prior year: T€ 7,179) in favour of Alvetra und Werfft GmbH, including a guarantee for a current account loan (up to a maximum of T€ 5,000) with an expiry date on 31.10.2008. Furthermore, letters of comfort in connection with current account loans in the amount

of T€ 1,379 (prior year: T€ 1,342) have been issued in favour of J. Medinger & Söhne, and another in favour of Anton von Waldheim in the amount of T€ 1,538 (prior year: T€ 1,672). These letters of comfort are related to the provision of rights arising out of the abovementioned rental agreements.

SANOCHEMIA Pharmazeutika AG also acts as a contract manufacturer for Alvetra u. Werfft GmbH and, as such, regularly receives production orders from the latter.

J. Medinger & Söhne is a group service company which is regularly appointed by SANOCHEMIA Pharmazeutika AG to provide services and carry out conversion, extension and construction work relating to the production equipment and premises owned and/or used by SANOCHEMIA Pharmazeutika AG.

Comtel Air Luftverkehr GmbH is private charter airline the services of which are occasionally used by SANOCHEMIA Pharmazeutika AG.

In addition, there also exist intra-group invoicing arrangements which relate mainly to pharmaceuticals supplied, consulting services, the charging of supplies and various cost transfers (e.g. a lease for the IT system, telephone systems, the provision of personnel services and the use of office equipment) and which relate, in particular, to J. Medinger & Söhne and Alvetra u. Werfft GmbH, Vienna.

Intra-group transactions are performed using non-group cost rates.

in T€	Receipts 2007/2008	Receipts 2006/2007	Expenses 2007/2008	Expenses 2006/2007
Alvetra und Werfft GmbH	1,095	921	0	24
Medinger GmbH	0	47	0	425
J. Medinger & Söhne	98	20	1,053	1,208
Anton von Waldheim	2	2	122	796
Comtel Air Luftverkehr GmbH	7	31	0	15

The remuneration received by the members of the Board of Management is detailed under Point 4 above (Personnel costs). Fees and expenses awarded to members of the Supervisory Board during the course of the financial year amounted to T€ 141 (2006/2007: T€ 146).

Board of Management and Supervisory Board

Board of Management

The following members of the Board of Management served during the financial year:

Anton Dallos, resident in Neufeld/Leitha
Herbert Frantsits, resident in Vienna
Maximilian Hudl, resident in Vienna

Supervisory Board

The following members of the Supervisory Board served during the reporting period:

Werner Josef Frantsits, industrialist, resident in Vienna (Chairman)
Eveline Frantsits, commercial employee, resident in Vienna (Vice Chairwoman)
Johannes Respondek, Managing Director, resident in Germany
Heinrich Unger-Krayer, resident in Switzerland
Günter Kahler, resident in Vienna

Shares held by Executive Officers

The following shares and authorised options were held by the Company's executive officers at 30 September 2008:

The option programme was approved by the Supervisory Board at its meeting on 24.2.1999.

	Shares held	Options
Anton Dallos	25,340	0
Herbert Frantsits	25,170	0
Maximilian Hudl	11,350	0
Werner Frantsits	2,100	0
Eveline Frantsits	1,350	0
Günter Kahler	615	0
Johannes Respondek	2,000	0
Heinrich Unger-Krayer	500	0

There were no options outstanding on the balance sheet date of 30 September 2008.

Events after the Balance Sheet Date

In December 2008, SANOCHEMIA Ltd. and SANOCHEMIA Pharmazeutika AG reached an agreement under which SANOCHEMIA Ltd. has assumed the majority of the financial derivatives held by SANOCHEMIA Pharmazeutika AG. As a result of this assignment, SANOCHEMIA Ltd. assumes all of the rights and obligations associated with these derivative transactions.

Responsibility Statement

"To the best of our knowledge, and in accordance with generally accepted principles for consolidated financial reporting, these financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the consolidated management report of the Group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the Group's expected development."

Vienna, 26 January 2009
The Board of Management

Herbert Frantsits Anton Dallos Maximilian Hudl

Auditor's Report

Auditor's Unqualified Opinion

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

SANOCHEMIA Pharmazeutika AG,
Vienna, Austria,

for the financial year from 1 October 2007 to 30 September 2008. Those financial statements comprise the balance sheet as at 30 September 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing and International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 30 September 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on Other Legal Requirements

Law and regulation applicable in Austria require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group.

In our opinion, the Group Management Report is consistent with the consolidated financial statements.

Without qualifying our opinion, we draw attention to the fact that capitalised development costs amounting to KEUR 15.901 are only recoverable in the case that budgeted figures will be achieved.

Vienna, 26 January 2009

Weiler & Weiler
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft m.b.H.

Harald Weiler
Austrian Certified Public Accountant

Report of the Supervisory Board

The Supervisory Board of SANOCHEMIA sat on four occasions during the course of the financial year 2007/2008, namely on 18.12.2007, 27.03.2008, 26.05.2008 and 26.08.2008. These meetings were also attended by the Board of Management.

In addition to these meetings, certain Supervisory Board members have held regular discussions with the Board of Management on business developments and major investment decisions. Besides following current developments, the Supervisory Board is mainly concerned with the strategic direction, further development and risk situation of SANOCHEMIA.

The Financial Committee of the Supervisory Board also sat on four occasions during the past twelve months. At these meetings, the financial development of the Company was discussed at length. Furthermore, members of the Supervisory Board also attended sittings of SANOCHEMIA's International Scientific Advisory Board.

The Profit and Loss Account, Balance Sheet, Management Report and Consolidated Management Report presented by the Board of Management for the financial year 2007/2008 have been audited by Weiler und Weiler Wirtschaftsprüfungs- und Steuerberatungsgesellschaft m.b.H.

Following its completion, the audit highlighted no grounds for complaint. The legal requirements and the Company's statutes were complied with. Consequently, the auditor issued an unqualified audit certificate for the 2007/2008 financial year.

On the basis of its own determinations and the unqualified audit opinion expressed by the Company's auditors, the Supervisory Board has established that the Board of Management has conducted its business in accordance with the company statutes and the code of procedure laid down by the Supervisory Board. The Supervisory Board was also appropriately consulted by the Board of Management on all commercial matters subject to supervisory board approval.

The Supervisory Board and the Financial Committee have therefore approved the Annual Report inclusive of the Profit and Loss Account, Chief Executive's Report and the proposal regarding the results of the financial year put forward by the Board of Management.

The Supervisory Board also wishes to express its gratitude for the work performed by the Board of Management and all Group employees during the course of the past financial year.

Werner Josef Frantsits, PhD.
Chairman of the Supervisory Board

26 January 2009

Disclaimer

The contents of this business report comprise in part forward-reaching statements concerning actual events and developments, which inter alia could affect the financial status, future achievements and the financial standing of SANOCHEMIA Pharmazeutika AG ("SANOCHEMIA") and its segments. Such statements are subject to known, and as yet unknown risks and uncertainties, the materialisation of which could result in the financial status, the actual results as well as the financial standing of SANOCHEMIA differing substantially from such statements and forecasts. Such risks and uncertainties include inter alia risks in conjunction with the appraisal of market growth and the business activities of SANOCHEMIA and its competitors; in particular, fluctuations in exchange rates, fluctuations in turnover, unforeseen commercial developments within the segments, changes in the competition situation for SANOCHEMIA in its procurement markets, including workplaces and outlets, insecurities on the grounds of its business activities outside Austria, unexpectedly rapid or new technological developments, a possible decrease in demand for SANOCHEMIA products as well as developments within the general commercial and political framework.

Further risks and uncertainties, which could have a negative effect on SANOCHEMIA's actual results, are contained in the regular reports and other publications which SANOCHEMIA has submitted to the Frankfurt Securities Exchange or has published.

Regularly, but not exclusively, those risks and uncertainties may be characterised by the use of the following terminology: "can", "will", "expect", "hope", "continue", "predict", "estimate", "plan" and "intend".

The publication of forward-reaching statements in this company report does not obligate SANOCHEMIA to adhere to the content of such statements or to correct the same, other than provided for in the general statutory obligations. Furthermore, apart from the statutory obligations generally pertaining, SANOCHEMIA is not obligated to publish the correction of a revised statement, in order to publicise developments and circumstances which have arisen and which were not foreseeable.

Insofar as is legally permissible, SANOCHEMIA and those persons acting in its name do not assume any kind of responsibility whatsoever in conjunction with the use of this company report or the information contained therein.

This company report does not represent a public offer nor is it an invitation to subscribe for SANOCHEMIA shares.

Annual Report presented at the Annual Results Press Conference in Vienna on 29 January 2009.

Available in German and English.

This document is an English translation of a German original. It is provided for information purposes only. The original German version of the annual report is binding and authoritative in all cases.

Available online at www.sanochemia.at

Imprint

Published by
SANOCHEMIA Pharmazeutika AG
Boltzmanngasse 11
A-1091 Vienna, Austria
www.sanochemia.at
office@sanochemia.at
Tel.: +43 (0)1/319 14 56-0
Fax: +43 (0)1/319 14 56-344

Concept
SANOCHEMIA Pharmazeutika AG

Translation
Anglo-Austrian Communications

Layout
Designbureau Simone Kager

Images
SANOCHEMIA Pharmazeutika AG
Fotostudio Franz Pfügl

Printed by
Druckerei Robitschek & Co GesmbH