SANOCHEMIA
Pharmazeutika AG

The Specialty Pharma Company

# Annual Report 2008/2009

# FINANCIAL HIGHLIGHTS

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Sales revenues | **29,527** | 29,531 |
| EBIT | **-4,638** | -1,225 |
| Cash flow from operating activities | **-3,593** | -5,039 |
| Equity capital | **44,233** | 54,109 |
| Investments* | **15,991** | 3,891 |
| Average headcount during financial year | **190** | 185 |
| | | |
| Productivity | **155.4** | 159.6 |
| Working capital | **637** | 27,997 |
| Current ratio | **102 %** | 255 % |
| Borrowing requirements | **11,319** | -1,001 |
| Capitalisation ratio | **62 %** | 45 % |
| Equity ratio | **54%** | 61 % |
| | | |
| Cash earnings per share in € | **-0.35** | -0.50 |
| Earnings per share in € | **-1.04** | -0.34 |
| Market capitalisation at 30 September in M€ | **26.61** | 52.30 |
| Market capitalisation (free float) in M€ | **7.81** | 15.36 |

* Investments in fixed and intangible assets.

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# SANOCHEMIA – AN OVERVIEW

## Corporate Profile

### Proven three-dimensional business model in speciality pharmaceuticals segment:

- Production of innovative active ingredients for in-house use and third parties
- Development and production of pharmaceuticals and diagnostics
- Sales of diagnostics via own subsidiaries and local partners



### Strategic focus on growing therapeutic areas

The Company's main focus lies on indications with high therapeutic requirements, such as CNS / neurodegeneration, pain and, increasingly, oncology, in addition to imaging diagnostics.

### Covering the entire value-added chain

As a production-oriented pharmaceutical specialist, SANOCHEMIA's activities extend along the full length of the value-added chain from development through to the manufacture of finished formulations: the facility at Neufeld in Austria manages all of the processes from the synthesis of complex, premium quality active pharmaceutical ingredients (APIs) to the GMP-conform manufacture of drugs. Customers in over 30 countries are supplied from a cutting-edge logistics centre.

The sale of clinical diagnostics via the subsidiary SANOCHEMIA Diagnostics represents another profitable area of operations. The manufacture and marketing of radiological products has now developed to become one of the Group's fastest growing business areas.

Current efforts are directed at innovative projects such as PVP hypericin for the photodynamic diagnosis and therapy of bladder cancer, and Secrelux®, a pancreatic function diagnostic.

### Main focuses in the 2008/2009 financial year

- Concentration on radiology and oncology
- Internationalisation of successful products as part of a programme of growth
- Filings for marketing authorisation and market preparation work
- Stable turnover despite difficult business environment
- Wide-ranging steps to increase efficiency and cut costs

# The Board of Management

## Werner Frantsits

Chief Executive Officer and Chief Financial Officer

Founder and for many years CEO of SANOCHEMIA before serving as the Chairman of the Supervisory Board from 1990 to 2009; again CEO since August 2009.

## Anton Dallos

Chief Technical Officer since 1998

Plant Manager since 1993 and employed at the Neufeld production facility for more than 40 years.

## Maria Popova

Corporate Marketing Officer

At SANOCHEMIA since 2007, seconded to the Board of Management and responsible for the areas of R&D, Sales & Marketing and Business Development.

**Departing board members:**
Maximilian Hudl, with effect from 31.05.2009
Herbert Frantsits, with effect from 31.10.2009

# Dear Shareholder,

SANOCHEMIA can look back on an eventful 2008/2009 financial year. On the one hand, we forged ahead with our strategy as a provider of specialty pharmaceuticals and made considerable progress in the fields of research and development. On the other, we fell significantly short of our commercial objectives. It was a year in which we found ourselves facing challenges as a result of the global economic crisis and the rise in competition in a more difficult business environment, all of which had not been foreseeable a year earlier. These new business conditions were compounded by inaccurate internal forecasts and assumptions as well as the decision by our US partner AVIGEN to terminate its contract, a decision entailing significant financial losses for SANOCHEMIA, such that there was a need for far-reaching and effective action in order to bring our fixed costs into line with the completely new circumstances. The new Board of Management decided to write down a number of intangible assets, investments and financial assets at the close of the period under review. The aim is to start afresh in a new era in which all our energies can be focussed on successfully consolidating our position in the face of global competition.



Although we managed to maintain turnover levels during the financial year despite these difficulties, it was not possible to improve the key financial performance figures for our operational business due to the absence of milestone payments contractually agreed with our US partner. Increased pressure on prices and margins combined with a lack of cost management within the Group to impact on our operational business as never before. The bottom line also suffered as a result of the one-off impairment charges and restructuring costs arising from AVIGEN's breach of contract, uncertain or unprofitable equity investments and loss-bearing financial assets.

The Board of Management and the Auditor share different opinions regarding the need for impairment charges following the absence of payments for tolperisone from the US market. While the Board of Management regards the scheduled depreciation of approximately EUR 1.0m as fully sufficient, the Auditor wanted to see an additional write down of tolperisone, a proposal rejected by the Board of Management on the grounds that contracts covering a number of territories are ready to be signed which will yield significant future cash flows.

This challenging year and the poor operating results in the first half made major structural changes necessary. These changes will lead to a considerably stronger focus of the entire Group on all operational processes. The efforts to internationalise our radiological business continued in a targeted manner and will remain a key aspect of our success in the market in the years ahead. The objective is to more closely integrate these activities into our production operations as well as to increasingly specialise in lucrative sub-segments so as to achieve cost-driven improvements in margins and higher value-added. This strategy is to be supplemented by innovative concepts in the area of business development which identify and tap new opportunities in our markets. Our product development activities are now being focused on selected projects which are to be advanced toward market maturity in smaller and more easily financed steps.

## Far-reaching restructuring programme and fresh start

Following the appointment of the new CEO, the Board of Management of SANOCHEMIA rapidly reacted to the indications that business was not developing as expected and introduced an extensive and hard-hitting restructuring programme throughout the entire Group. This involves the rapid and continual optimisation of all operational business processes at both SANOCHEMIA and its subsidiaries. The focus was, is and will remain, on increasing profitability and ensuring the efficient use of resources in all subsidiaries, divisions and departments. The ongoing cost-cutting programme will increase the Group's competitiveness. At the same time, additional discussions and negotiations are taking place with external development partners in order to also secure sufficient external financing to support development projects.

The turnaround of the Company necessitated has led to the most comprehensive restructuring programme ever seen at SANOCHEMIA. Following determined efforts to reassess and revalue certain existing investments and the introduction of strict cost management, our Company is now fit for a new start. Our focus on radiology and sub-segments of the oncology market, combined with our expansion plans for the area of injectables, mean that we are concentrating on growing healthcare markets. The Group's efforts will be directed at a limited number of highly promising areas.

**»Following the impairment of a number of assets due to inaccurate assessments and the breach of contract on the part of Avigen, we are now set to open a new chapter in the history of SANOCHEMIA – one which will require considerable energy on the part of our personnel.**

**With leaner structures, strict cost management and only target-oriented strategies, we will significantly improve the competitive position and the future prospects of the Company.«**

Werner Frantsits

## Radiology as a growth engine – plans for rapid global expansion

Despite the demand-side challenges which persist, we have remained firmly committed to our internationalisation strategy and have taken important steps to expand our radiological business. Through a combination of new marketing models and the rapid extension of the product portfolio, and despite the rising bureaucratic hurdles associated with regulatory approval procedures in our target markets, we have good cards for becoming a key player in this segment. SANOCHEMIA expects to profit in the coming financial year from the receipt of marketing authorisations and launches of its radiological products in several countries. Following the success of Scanlux®, our top-selling imaging agent at present, MR-Lux® (an MRT imaging agent) is forecast to play a major role in terms of future sales volumes. A DCP marketing authorisation application process is currently underway in a total of 13 European markets. SANOCHEMIA expects to be able to initiate European-wide marketing activities for MR-Lux® in the course of 2010. This would lead to a considerable consolidation of our position in the global radiological market.



## R&D – value added through innovation

According to recent forecasts; including those of IMS Health, in 2010 cancer is set to become the most common cause of death – as a result of which oncology has become a central focus of medical research. However, in response to therapy-based innovations, cancer is becoming increasingly curable and can be treated more effectively and for longer. SANOCHEMIA's development focus lies on imaging diagnostics and in specialised oncological sub-segments such as bladder cancer, the third most common form of cancer worldwide. The need for new treatment options continues to increase in this fast-growing segment.

PVP hypericin represents a promising investigational drug for new approaches to treating cancer. Our in-house drug development efforts during the period under review led to a breakthrough and important data for the use of this substance in early clinical trials in man. As such, SANOCHEMIA is pioneering a new form of treatment for superficial bladder cancer which it is highly probable will be able to prevent relapses without resort to chemotherapy, and consequently significantly improve the quality of life of patients. This is the most important therapeutic development of recent years and represents a milestone in SANOCHEMIA's R&D efforts and a great marketing opportunity for our Company.

## Greater integration in the area of production

We are relying more intensively on in-house production in response to the combination of growth in the radiological sector, rising production volumes and the expansion of production capacity. The volatility in these markets, greater pressure on costs, and the aggressive pricing policies of certain raw material suppliers, all represent great challenges for SANOCHEMIA. In order to secure a greater share of production-related value added, the Company is relying on a higher degree of integration of all production-related activities in-house and a commitment to specialisation in complex yet lucrative processes. Another approach involves the planned in-house production of the active pharmaceutical ingredients (APIs) for our radiological products. This would allow SANOCHEMIA to achieve higher profit margins and reduce its dependence on any particular suppliers of raw materials – the keys to decisive and sustainable competitive advantages.

Looking back, 2008/2009 was an extremely turbulent and only partially successful financial year. A number of successes were overshadowed by some major setbacks – and the future looks set to be one in which further challenges posed by the tense global economic environment await us.

It is on the basis of an uncompromising restructuring programme, a clean break with certain aspects of the past, and leaner business processes and structures that we can be confident of being able to navigate the Group in the direction of calmer waters. In the past, changes and cutbacks have often proven to be the keys to tapping new growth potential and increasing productivity, themselves the ingredients for greater value added. We are firmly convinced that the commitment, energy and skills of our employees will enable us to master the challenges we face and ultimately emerge from this crisis stronger than when we entered it.

Werner Frantsits, PhD

# SANOCHEMIA'S SHARE PRICE

## Corporate Governance – Commitment to good management practices

Through its listing in the Prime Segment of the Frankfurt Stock Exchange, SANOCHEMIA has committed to respect high standards of transparency in terms of corporate governance and communication.

Moreover, due to its listing in Frankfurt, the Company will in future also essentially comply with the recommendations of the Government Commission on the German Corporate Governance Code as amended at the plenary meeting on 18 June 2009. As a result, the Annual Report 2009/2010 of SANOCHEMIA shall, pursuant to Article 243b of the German Enterprise Code (UGB), for the first time include a corporate governance report.

The Board of Management regards its "commitment to responsible corporate management" as a key basis for sustainable commercial success and an important step in regaining the confidence of the entire capital market.

## Share price development

Despite positive share price development during the last quarter of the period under review, the overall performance of the share price in the 2008/2009 financial year was disappointing. The loss in value of around fifty percent is largely attributable to the financial crisis and the economic problems faced by international capital markets.

Having opened the financial year at a price of EUR 4.64 (2 October 2008), the share price declined to reach a low for the reporting period of EUR 1.66 (XETRA closing price), before recovering in the last three months to stand at EUR 2.62 at the end of September 2009.

SANOCHEMIA's Board of Management is confident that the success of the major restructuring programme within the Group will continue to be reflected in the development of the share price. At the time of preparing this report (mid December), the share price had already stabilised and stood at 3.60 Euro.

At 30 September 2009

| | |
|---|---|
| Number of shares issued | 10,155,598 |
| Share price | EUR 2.62 |
| MCAP | EUR 26.60 m |
| MCAP (free float) | EUR 7.81 m |
| Free float | 29.36 % |
| SANOCHEMIA Ltd. | 70.64 % |

## Investor Relations

The aim of investor relations is to ensure comprehensive and timely communication with institutional investors, financial analysts, private investors and the press. The Board of Management went to great lengths to personally convey the strategy and the development of the Company at the financial results press conference, annual shareholders' meeting and during financial analyst events. Furthermore, the Company has also improved its investor-based services provided on the internet and now makes available all company presentations under the Investor Relations menu. The website also provides a wide range of company information which is constantly being expanded and regularly updated.

Finally, the Investor Relations department is on hand to take investors' or journalists' questions. If you are interested in regularly receiving information such as reports and announcements by email, please register for the SANOCHEMIA newsletter either by telephone or directly on the website.

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 the 2009/2010 financial year

| | |
|---|---|
| 25 February 2010 | Publication of Q1 financial results |
| 25 March 2010 | Annual Shareholders' Meeting |
| 27 May 2010 | Publication of H1 financial results |
| 26 August 2010 | Publication of Q3 financial results |

# MANAGEMENT REPORT
## 08 / 09

# MANAGEMENT REPORT

## Economic Environment and Business Overview

### Challenging economic environment

At the outset of the financial year it was already clear that a downward turn in the global economy and an associated impact on the real economy would be the result of the financial crisis triggered by the real estate collapse in the USA. A decline in demand, rising prices for raw materials and energy, as well as a general increase in competitive pressure, are affecting the earnings positions of many companies, SANOCHEMIA included. The sharp falls in the value of certain currencies vis-à-vis the euro and the dollar in recent months are also being felt. Furthermore, the financing conditions have become more difficult given that the restrictive lending policies of banks, in part triggered by the strict application of Basel 2 criteria, are increasing the pressure on many companies. In the second half of 2009, the economic situation appeared to be stabilising somewhat even if, according to some economic experts, signs of a tangible economic recovery are not yet to be expected.



### Pharmaceutical sector – growth forecasts revised upwards

According to a forecast issued by the market research institute IMS Health in April 2009, the global economic crisis has also impacted on the pharmaceutical sector, with global growth in the industry only expected to reach between 2.5 and 3.5 percent. Relatively speaking, however, this means that the pharmaceutical industry is forecast to feel the force of the recession less than other sectors. National healthcare policies and government efforts to achieve cost savings – particularly those associated with prescription drugs – as well as the expiry of patents are more likely to be felt in the industry than the crisis. In fact, in early October, the short and long-term forecasts for the industry were revised upward on the grounds of higher than expected demand in the US market. This in turn should account for a marked improvement in estimates for 2010 and ensure that the global pharmaceutical industry achieves growth of between four and six percent to reach 825 billion dollars. Another driving force behind this growth is broader access to drugs for the populations of emerging markets. The top five countries in Europe are forecast to achieve only moderate growth of between one and three percent in 2010. Germany in particular is regarded as a developed market, i.e. demand for drugs is being driven solely by demographic changes, and therefore at a lower rate than in new markets.

The forecasts issued for the world's largest pharmaceutical market, the USA, have been revised upward moderately, due to recent price increases, and predict between 4.5 and 5.5% growth in 2009. However, 2010 is expected to see a series of blockbuster products coming out of patent. As a result, the estimates issued by IMS Health for the US market in 2010 foretell growth of only three to five percent.

### SANOCHEMIA's markets

This challenging and uncertain economic environment has been felt in the markets relevant to SANOCHEMIA and has significantly increased the market-related risks that we, as an export-oriented company, are exposed to. Adverse changes in foreign exchange rates, particularly those associated with the US dollar and the pound sterling, have had a negative impact on the development of bottom-line results. Furthermore, the pressure on healthcare systems to achieve savings in the area of pharmaceutical costs is on the rise in nearly all countries. This is resulting in greater in pressure on margins due to intensified competition in various national markets. Finally, the commercial success of the Company is also dependent on the pace at which applications for marketing authorisations are processed and granted. Overall, the development of the markets in which SANOCHEMIA operates is currently difficult to forecast and should be evaluated on a country-by-country basis.

Despite the more challenging market environments in which we are presently operating, SANOCHEMIA has managed to perform relatively well, largely due to a comprehensive action plan aimed at improving results. The wide-ranging developments in individual markets and within Group companies are to be taken into account by a restructuring of SANOCHEMIA subsidiaries and the concentration of responsibilities and resources.

### Business operations and commercial development

SANOCHEMIA is a specialty pharmaceuticals company with an increasingly international range of operations. Our core competences lie in the areas of drug development,

synthesis and pharmaceutical production as well as radiology. Our strategy of developing drugs which we can manufacture in-house allows SANOCHEMIA to retain both the associated documentation and knowledge as the keys to achieving decisive competitive advantages. Successful sales activities linked to radiological products have seen SANOCHEMIA develop from a "one-product company" into a diversified enterprise which is continually optimising and extending its product portfolio. The Company is also stepping up its involvement in the area of contract manufacturing. SANOCHEMIA's expertise in API development, manufacturing and formulation is attracting greater interest from other industry players. The commercial development of APIs and formulations will in future be undertaken jointly by the recently established New Business Development department.

The Company's operations are currently structured into three segments, each with its own specific characteristics and customers:

- **Human Pharmaceuticals** – this segment is mainly involved in the sale of diagnostics
- **Production** – the manufacture of APIs and formulation for in-house use and third parties as well as contract manufacturing for other pharmaceutical players
- **Research and Development** – the main focus here is on the development of imaging diagnostics and on special oncological areas.

## Products, markets and pipeline

The Company's main sources of revenues are synthetically manufactured APIs, such as galantamine, as well as the range of radiological products which already accounted for around 50% of total turnover during the period under review. A marked increase in sales was achieved by our imaging agents. This was attributable to a combination of intensifying international sales activities and the launches of new products in new markets.

SANOCHEMIA is also a premium-quality provider of complex synthesis-related services to the pharmaceutical industry. Our new highly active pharmaceutical ingredients (HAPI) plant entered operation during the financial year. As the first plant of its type in Austria, this equipment allows the manufacture of highly specific APIs, substances for which considerable demand exists. Our high-margin pharmaceutical contract manufacturing activities also serve to boost the capacity utilisation of our facilities.

Our *SANOCHEMIA Diagnostics* subsidiaries in Germany, the UK and the US provide the Group with access to key pharmaceutical markets. We also serve numerous other countries on an export basis, the majority by means of partnerships and cooperations. The development of our European markets has varied widely in response to differing healthcare policies and regulatory decisions. Intensive competition and marked increases in the pressure on margins are further factors defining the challenging situation faced in certain markets. On the other hand, SANOCHEMIA has seen encouraging development in Arabian countries and, in part, Eastern Europe, particularly Turkey, one of our new target markets. Russia has also recently become a key sales market and one with considerable growth potential. We are likewise paying particular attention to the US market which, despite growth rates no longer expected to reach the levels seen in the past, still represents one of our primary target markets. According to IMS Health, 2010 could see the US reshape the entire pharmaceutical market following the passing of legislation to provide healthcare insurance to all of its citizens.

SANOCHEMIA currently has several projects in its development pipeline or in clinic. One in-house development project has already been successfully concluded and has entered production – Viveo® (tolperisone), which is marketed in Germany. The main focuses of our development efforts are currently on the area of imaging diagnostics and special oncological fields such as a new method to treat bladder cancer. PVP hypericin and Secrelux® represent two innovative projects which are realisable in the short to mid term, and which fit well into SANOCHEMIA's existing product portfolio. Clinical trials were initiated for both projects in the course of 2009. Our research and development projects are largely financed from operational cash flow which is no longer being generated solely by galantamine, but which is increasingly coming from new growth engines such as radiological products and tolperisone.

SANOCHEMIA also generates growth through the out-licensing of development projects, the manufacture of

the associated APIs, and, ideally, through its associated formulation work (e.g. in the case of tolperisone).

Its broad-based presence in numerous markets and the growing product range are allowing SANOCHEMIA to compensate for volatility in individual markets and to minimise its dependence on certain major customers.

# Facts and Figures

**The 2008/2009 financial year was as challenging as it was successful for SANOCHEMIA Pharmazeutika AG. The personnel changes on the Board of Management led to a revaluation of existing agreements and receivables the outcomes of which were recognised in profit and loss. The impairment charges taken against these assets are aimed at bolstering the Company's competitiveness and making it fit for the future.**



## Analysis of 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 periods to be made.

### Profit and Loss Account

While the costs and expenses related to the restructuring programme and the impairment of certain asset positions in the amount of €7.9m are one-off extraordinary items, they nonetheless had a major impact on this year's financial statements. The sales revenues of €29.6m generated during the period under review were on a par with those of the prior year despite the latter having included €2.0m in milestone payments from R&D projects. This was accounted for mainly by the Human Pharmaceuticals division achieving an increase in sales revenues of 16% due to product launches in new markets. The Production division stagnated, however, reporting a 2% drop in revenues. During the 2008/2009 financial year, the Human Pharmaceuticals division increased its share of consolidated sales revenues from 50% to around 58%, while that of Production declined from 43% to just under 42%. The proportion of revenues achieved by Research and Development fell to less than 1%, having been 7% in the previous financial year. This was largely attributable to our contractual partner Avigen discontinuing the development of tolperisone for the US market, as a result of which no further contractually agreed milestone payments were received. Despite the one-off impairment charges taken, it was still possible to report EBITDA in the amount of €0.03m.

Other operating income in the amount of €3.1m (PY: €3.5m) primarily relates to the reversal of deferred income and the receipt of research grants. The Group's

### Consolidated Profit and Loss Account

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Operating performance | **34,669** | 33,940 |
| Operating result | **-4,638** | -1,225 |
| Financial result | **-6,196** | -2,799 |
| Pre-tax result | **-10,834** | -4,024 |
| Net result for the year | **-10,765** | -3,709 |

operating performance rose year-on-year from €33.9m to €34.7m as a result of a rise in the value of inventories of €0.1m (PY: €-0.7m) and additional own work capitalised.

The costs and expenses incurred during the course of the period under review rose sharply to €39.3m from €36.2m. The cost of materials position increased by €1.5m to €12.3m. Taking the increase in inventory values into account, this represents a rise of only €0.6m from 38% to 42%.

As a consequence of the rise in the headcount, both in Germany and at the production facility in Austria, to a total of 190 (PY: 185), necessitated by the increase in production capacity, personnel expenses rose from €9.1m in 2007/2008 to €9.6m in the period under review. One additional cost factor arose through the replacement of certain personnel in the areas of Sales, Marketing and Production with more highly qualified specialists.

The depreciation of tangible and amortisation of intangible assets amounted to €0.2m less than in the preceding period. Depreciation rose by €0.2m as a result of the acquisition of additional buildings and equipment for packaging and distribution purposes, while the amortisation of intangibles declined by €0.4m following there being no further need to write down certain of the patents on galantamine derivatives.

The value reported under the position other expenses also rose, from €10.4m in the 2007/2008 financial year to €12.8m during the reporting period. This is largely accounted for by restructuring charges as well as higher research expenditure related to the PVP hypericin and Secrelux® projects.

The abovementioned factors combined with greater pressure on prices and margins, not to mention excessive costs and expenses within the Group, partially as a result of changing circumstances and inaccurate estimates, to have a major impact on operating results and to lead to a decline in EBIT on an operating basis to minus €2.2m (PY: minus 1.2m). This was compounded, however, by the extraordinary items restructuring costs and impairment charges relating to agreements and receivables in the amount of €2.5m recognised in income which also account for the negative EBIT of €4.6m (following negative EBIT of €2.8m in 2007/2008).

The financial result declined to a loss of €6.2m (PY: a loss of €2.8m), of which €5.4m were attributable to restructuring costs (PY: €2.8m). These extraordinary items recognised a combination of the impact of the financial crisis on the interest and financing situation, the one-off impairment charges taken against uncertain or uncollectable receivables, and the exit strategy costs and writing off of loss-making investments.



## Consolidated Cash Flow Statement

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Net income before taxes | **-10,834** | -4,024 |
| Net cash flow from operating activities | **-3,900** | -5,006 |
| Net cash flow from investment activities | **-9,390** | -3,375 |
| Net cash flow from financing activities | **5,016** | -1,618 |
| Net change in cash and cash equivalents | **-7,967** | -10,032 |
| Cash and cash equivalents at the close of period | **6,329** | 14,296 |

These cumulative factors gave rise to a pre-tax loss (EBT) of €10.8m. From an operational perspective, i.e. excluding one-off restructuring costs and expenses, this is equivalent to a pre-tax loss of €3.0m (PY: a pretax loss of €4.0m). Given that taxes on income were negligible, the net profit / loss for the year was essentially on a par with the pre-tax result at €10,8m (PY: €-3.7m). This is equivalent to a result per share of minus €1.04 (PY: minus €0.34). 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 significant increase in the recognised value of tangible assets to €29.0m (PY: €17.8m) is attributable to the acquisition of the new packaging and logistics centre, the pharmaceutical production facility and the synthesis plant by SANOCHEMIA Pharmazeutika AG at the site in Neufeld, Austria; facilities which were previously only rented. This represents a major increase in the intrinsic value of the Neufeld site and a key step toward developing the site and achieving conformity with FDA acceptance criteria.

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 other intangible assets declined from €2.6m to €1.4m during the course of the period under review.

The value of cash, cash in bank and securities declined from €14.2m to €6.3m, primarily as a result of the closing out of loss-bearing options, the realisation of fund-based losses and the investments in tangible assets.

The position inventory was recognised at €0.4m higher than twelve months earlier. The value of accounts receivable – trade rose modestly to €5.7m (PY: €5.5m), while that of current assets declined on account of the reasons outlined above, in combination with a fall in the value of receivables due from associated companies from €46.1m at the end of 2007/2008 to €30.0m at the close of the reporting period.

The non-current proportion of other financial receivables was recognised at a value of €0.00 following the impairment of claims for compensation asserted against a provider of financial services. The current proportion of other financial receivables rose in value by €0.8m, mainly in response to receivables asserted against a Swiss financial institution associated with the unsatisfactory handling of option-based transactions. Deferred tax assets were recognised at a value of €0.7m (PY: €0.8m). The total value of all assets on 30 September 2009 amounted to €81.7m or €7.2m lower than twelve months previously.

As a result of the cumulative result in the amount of minus €18.6m, the value of shareholders' equity declined to €44.1m (PY: 53.8m). Given the decline in the balance sheet total from €88.9m to €81.7m, the equity ratio followed suit, falling from 61% to 54%.

The decline in the recognised value of non-current liabilities from €16.7m to €8.0m is primarily attributable to lower



## Segment Report

| in T€ | Human Pharmaceuticals | | Production | | R&D | | Reconciliation | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 08/09 | 07/08 | 08/09 | 07/08 | 08/09 | 07/08 | 08/09 | 07/08 | 08/09 | 07/08 |
| Sales revenues/external | **17,033** | 14,787 | **12,323** | 12,605 | **173** | 2,139 | **-2** | 0 | **29,527** | 29,531 |
| Operating performance | **19,635** | 17,158 | **21,320** | 19,123 | **3,595** | 4,692 | **-9,881** | -7,033 | **34,669** | 33,940 |
| Segment operating result | **1,714** | 2,223 | **-1,722** | -321 | **-1,303** | -258 | **-3,327** | -2,869 | **-4,638** | -1,225 |
| Investment | **7,784** | -186 | **4,877** | 1,914 | **2,971** | 1,847 | **359** | 316 | **15,991** | 3,891 |

financial liabilities. However, the provisions for social capital obligations (2008/2009: €1.1m; PY: €1.3m) and those for deferred revenue (2008/2009: €1.5m; PY: €2.4m) also played a role.

In contrast to the non-current liabilities, the carrying value of current liabilities rose by €11.3m, primarily as a result of an increase in financial liabilities from €8.3m to €21.1m. The accounts payable – trade were higher at €5.7m on the balance sheet date (PY: €5.0m).

### Cash Flow Statement

Despite the considerably greater pre-tax losses than in the prior year, the cash flow from operating activities improved from a net outflow of capital in the amount of €5.0m in 2007/2008 to one of €3.6m in 2008/2009. This was accounted for by the positive development of the position change in receivables and other assets (2008/2009: €2.8m; 2007/2008: €-3.8m) during the period under review.

The negative cash flow from investment activities increased as a result of the purchase of the packaging and logistics centre from a net outflow of €3.4m to one of €9.4m.

The positive cash flow from financing activities in the amount of €5.0m (PY: €-1.6m) offset the above outflows to a limited extent; nonetheless, there was a change in the balance of cash and cash equivalents over the course of the period of €-8.0m following an outflow of €10.0m in the preceding period.

### Segment reporting

The **Human Pharmaceuticals division** achieved a 13% increase in sales revenues from €14.8m to €17.0m. The expansion of radiological sales activities to include new international markets accounted for around €1.5m of the additional sales revenues in this segment. It was also possible to generate additional sales in Germany, our largest single market. Due to the difficult situation regarding margins in this segment (major increases in raw material prices), the EBIT from this segment fell from €2.2m to €1.7m.

The **Production** division was almost successful in maintaining revenues at the level of the prior year (€12.3m in 2008/2009; €12.6m in 2007/2008). While it was possible to make considerable gains in the area of drug production, revenues from synthesis activities fell notably. The main reason for this was the postponement of a galantamine production run into the first quarter of 2009/2010. The fact that a competitor product to that based on the substance torsemide came out of patent during the financial year led to a further decline in revenues in this field. There was a resulting increase in pressure on the prices commanded by our synthesis products, which in turn led to declining margins and lower earnings. Consequently, the segment result deteriorated from minus €0.3m in 2007/2008 to minus €1.7m during the reporting period.

The **Research and Development** division was unable to report any significant revenue contributions following the unforeseen termination of a contract expected to generate milestone payments in the amount of €2.5m during the period under review. Despite a rise in the value of own work capitalised from €1.4m to €1.7m and cost-cutting measures, the lack of revenues meant that the EBIT contribution of this segment declined further from €-0.3m to €-1.3m.

The **Reconciliation** segment reports consolidations, income and expenses which cannot be accurately allocated to any given division. It also contains assets and liabilities which cannot be directly allocated to one of the other segments.

## Capital investments

In addition to the own work capitalised associated with the development of PVP hypericin and Scanlux® for the US market, the majority of capital investments made related to the expansion and upgrade of the Neufeld site.

The expansion and adaptation of the pharmaceutical production facilities and the analytical laboratory entailed expenditure of €2.6m and are principally aimed at bringing these up to FDA standards. This is a prerequisite for the Neufeld facility to be able to supply the US market. The acquisition of the packaging and logistics centre as well as the production plant for the sum of €11.6m were a necessary step toward developing the site further and safeguarding future capital investments.

## Quality, Safety & Environment

**As a pharmaceutical company, SANOCHEMIA is required to accept high levels of responsibility in terms of the quality and safety of its products as well as in the area of sustainable environmental protection. We are also firmly committed to ensuring the highest possible levels of occupational safety for the personnel at our production facility in Neufeld, Austria, not to mention the safety of those people living in the immediate vicinity of the plant.**

At SANOCHEMIA, all work processes and procedures, in addition to the associated responsibilities, are exactly defined, continuously reviewed and regularly reassessed in order to identify potential improvements. End-to-end documentation allows organisational deficiencies and errors to be almost entirely eliminated. The production facilities, utilities and other supplies are regularly assessed by SANOCHEMIA for safety-relevant deficiencies and approved by independent experts (TÜV). This ensures that even minor deficiencies or signs of wear and tear are identified in good time – a factor central to maintaining top levels of equipment safety. The production processes and facilities are also continually improved and upgraded in order to limit their impact on the environment and to further reduce energy consumption. All inspections performed by public authorities during the period under review were completed without major findings.

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 to our obligation to environmental protection and aspects of safety. The most important steps in this area include more comprehensive safety training courses both in the area of production as well as that of administration.

One of SANOCHEMIA's top priorities is limiting its impact on resources and the environment. Our primary objective is therefore the sustainable development of the Neufeld production site. In addition to compliance with high levels of legally required environmental protection, the Company also endeavours to achieve continuous improvements in terms of occupational environmental protection. For example, we constantly review and optimise the overall waste management system in place in order to identify, minimise or eliminate the hazards and risks associated with the collection, storage and use of hazardous and high-risk waste materials. Improvements in the area of waste separation have enabled us to significantly reduce the volume of waste materials, which in turn has accounted for a 25% drop p.a. in waste disposal costs. Integrated environmental protection is an important aspect at SANOCHEMIA besides equipment-based changes to cut emissions. Instead of costly efforts to retrospectively remedy environmental damage, our main focus is on a responsible approach to managing and exploiting resources.

## Personnel

The average number of personnel during the period under review rose to 190. This increase is accounted for by new hires in the areas of production and logistics necessitated mainly by higher volumes of in-house manufacturing at the Neufeld site. Personnel expenses correspondingly rose marginally from EUR 9.1m to EUR 9.6m.

The restructuring process introduced in the second half of the financial year and the associated downsizing had already had a significant impact on the headcount at 30 September 2009, which stood at 180. Due to the fact that these restructuring plans will not be completely implemented before the second quarter of 2009/2010, the benefits in terms of lower personnel expenses were not reflected in the figures for the period under review. The most significant changes entailed by the optimisation of essentially all business processes – relating both to the sites in Austria and also Group subsidiaries abroad – were seen in the area of administration.

SANOCHEMIA is and remains one of the most important employers in the Austrian province of Burgenland. As such, the Company again offered several trainees and students the chance to work at SANOCHEMIA and gain an insight into the Company's activities and as a prospective employer. The Company regards these programmes both as a contribution to ensuring access to the best future

personnel and as a means of providing graduates and school leavers with professional opportunities in a growth-oriented pharmaceutical enterprise.

### Career paths

A key focus in the past and today is our comprehensive trainee programme. SANOCHEMIA has been successfully training young people for many years. Clear evidence of this was provided by the excellent grades achieved by the first graduates to complete the so-called *Lehre mit Matura* programme for school leavers. This intensive and practice-oriented training programme, focussing on chemical laboratory and process technology, allows trainees to acquire a broad range of knowledge and, in effect, to become exactly the specialists which the Company will need in the years ahead. A total of nine trainees are currently employed at the Neufeld site.

## Outlook

Despite its extensive geographic presence proving to be an advantage in the current economic climate, SANOCHEMIA has nonetheless been unable to entirely withstand the impact of recent global economic trends. While pressure on prices has been rising in so-called developed markets in response to more intensive competition, certain of SANOCHEMIA's new markets have been generating high growth rates. With activities in over 30 countries around the world, SANOCHEMIA is far from dependent on any single market, product or customer. The Company is increasingly profiting from its greater degree of diversification at the product and geographical levels as well as from the clear strategy introduced by the new management team to stabilise the Company's commercial situation.

### A fresh start – new management team and the restructuring of the entire Group

The turnaround process initiated by the new Board of Management in the second half of 2008/2009 has now been partially concluded; not however the full implementation of the far-reaching restructuring steps. SANOCHEMIA will continue to focus on potential weaknesses and forge ahead with its strict policy of cost management implemented in past months. Following the optimisation of all business processes within the entire SANOCHEMIA Group and a revised business model, SANOCHEMIA's aim is now to achieve an increase in productivity with the available resources and to generate more value added. The Company expects to see significant savings in terms of costs, with the annual potential in this area estimated to be around four million euros. These steps and the impairment charges taken against investments and financial assets in the 2008/2009 financial statements provide the Company with a firm basis for a profitable future.

The Group's efforts will be directed at a limited number of highly promising areas:

**Global expansion of radiological business**

In the increasingly competitive market environment in which it operates, SANOCHEMIA is focussing its marketing activities on countries and addressing customer groups with particular top and bottom-line potential. Demand in emerging markets has largely been unaffected by the economic climate and the most recent member states to join the EU have also been exhibiting growth rates several times higher than those seen in the German market. The Company has sought to counteract the ongoing and extremely challenging demand-side conditions and the associated pressure on margins in Central European markets in particular, by rapidly expanding its product portfolio in its target markets, by intensifying customer relationship management and by means of new marketing strategies.

SANOCHEMIA expects to profit in 2010 from the receipt of marketing authorisations and launches of its radiological products in several countries. Following the success of Scanlux®, our top-selling imaging agent at present, MR-Lux® (an MRT imaging agent) is forecast to play a major role in terms of future sales volumes. A DCP marketing authorisation application process is currently underway in a total of 13 European markets. SANOCHEMIA expects to be able to initiate European-wide marketing activities for MR-Lux® in the course of 2010. On the other hand, the launch of Scanlux® in the US is now expected to be secured in 2011. This delay is accounted for by production-related problems experienced by our US partner and compounded by a fall in prices in the US market necessitating new strategies. As a result,

SANOCHEMIA aims to introduce FDA compliance at its facility in Neufeld, Austria, in order to limit its dependence on development and production partners.

**Research & Development – portfolio streamlined further**
In the area of drug development, SANOCHEMIA will in future focus more on projects approaching market maturity and therefore with earlier chances of successful implementation. This is in response to more comprehensive and demanding regulatory requirements introduced in recent years which have led to a sharp rise in development costs. The main foci of our development efforts lie on imaging diagnostics and specific oncological areas in particular.

During the course of the period under review, considerable progress was made with PVP hypericin (for use in the diagnosis and treatment of bladder cancer). The clinical development of this substance as a diagnostic could be completed as early as within the next two years. Photodynamic therapy (PDT) represents a novel approach to the treatment of this form of cancer and is now being used in man for the first time in the course of a Phase 1 clinical trial. The results of this study are expected within one year (November 2010). Being the most important therapeutic development of late, PVP hypericin offers SANOCHEMIA outstanding market potential. Indication areas such as oncology are expected to generate a market potential for innovative products in the order of several billion euros in the next decade given the high patient populations.



**Greater integration in the area of production**
SANOCHEMIA is relying more intensively on in-house production in response to the combination of growth in the radiological sector, increasingly production volumes and the expansion of production capacity (HAPI). The Group's specialty imaging agents are already largely developed, manufactured and shipped from its own production facility in Neufeld, Austria. Raw materials and excipients are mainly sourced from international markets. The volatility in these markets, greater focus on costs, and the aggressive pricing policies of certain raw material suppliers represent great challenges for SANOCHEMIA. In order to secure a greater share of production-related value added, the Company is relying on a higher degree of integration of all production-related activities in-house and a commitment to specialisation in complex yet lucrative processes.

The construction of a cutting-edge logistics centre in 2007 was a key step in this direction. A further aspect is the planned in-house production of active pharmaceutical ingredients (APIs) for the Group's radiological products. This will allow SANOCHEMIA to achieve higher profit margins and reduce its dependence on any particular suppliers of raw materials – the keys to sustainable and decisive competitive advantages.

### Business development forecast: Fit for the future

SANOCHEMIA's future opportunities are based on the internationalisation of its radiological product range, rapid launches in high-growth markets and on significant progress in terms of advancing R&D projects. The Group's expertise in the areas of drug development and production are the top success factors for sustainable growth. Future risks lie in the increasingly regulated nature of certain markets, rising levels of competition and in as yet unforeseeable market developments.

Through its focus on radiology and specialised oncological areas, SANOCHEMIA is targeting market segments which are currently regarded as offering considerable potential. However, reliable and detailed forecasts are complicated and plagued by uncertainties given the prevailing economic situation, greater competition and pressure on margins. The sales and earnings forecasts for 2010 and 2011 are also dependent on the efficacy of the steps implemented and on how rapidly the Group's existing competitive advantages can be consolidated further.

The Board of Management is nonetheless confident that the steps taken and strategies implemented to deal with the new market environment will in due course lead to an improvement in operating results.

## Risk management

In the course of its international activities, SANOCHEMIA is constantly confronted with a wide range of different

opportunities and risks. In terms of the risks encountered, possible negative developments are described and assessed in the Risk Management Report prepared by the Board of Management as the basis for resorting to appropriate risk management strategies. Continual monitoring and assessment of previously identified risks enables SANOCHEMIA to integrate risk management into its on-going corporate planning process.

The following sections provide an industry-typical overview of the risks which SANOCHEMIA regards itself as facing. The findings of the associated risk analyses are taken into account in the rolling process to improve risk management at the Group.

In is far as this is possible and practical, SANOCHEMIA limits the liability and loss risks it faces by means of appropriate insurance cover, the nature and scope of which are continually reviewed and revised to correspond with 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 may been challenged or infringed upon by third parties such as suppliers of generics, for example, prior to the expiry of the underlying patents or marketing authorisations.

Given that the timely identification of risks and legal options is of particular importance in such cases, SANOCHEMIA has taken appropriate precautions. These include, among other steps, regularly monitoring and carefully analysing the current patent portfolio in cooperation with the relevant operational departments.

In the event that it is not possible to successful defend patent rights, this usually leads to an increase in competition and a drop in the market price achievable following the launch of generics.

SANOCHEMIA minimises product liability risks, such as those relating to the conduct of clinical trials, by taking out appropriate product liability insurance policies. As in all other areas of risk the financial impact of which can be limited by insurance policies in the event of a claim, the scope and the amount of cover are regularly reviewed and adapted as circumstances dictate.

A range of non-disclosure agreements concluded with personnel, cooperation partners and other contractual parties represent key aspects in order to protect numerous confidential and sensitive data. Such agreements cannot, however, prevent wilful breaches of contract.

## Research and development risks

On the basis of SANOCHEMIA's dedicated portfolio and project management system tailored specifically to the risks associated with pharmaceutical development, all research and development programmes are subjected to regular risk monitoring.

The high-volume investments made by SANOCHEMIA in the area of research and development inevitably involve the risk of projects being discontinued and there being no return on investment – i.e. of the Company incurring a significant financial loss.

Moreover, due to the long-term nature of development processes, regulatory approval procedures, rapidly out-dated technologies and rising competition, there is no guarantee that any given research and development project will ever culminate in a product being launched onto the market or this achieving the forecast commercial success.

In the North American and European markets in particular, regulatory requirements are expected to become more stringent in the years ahead, which will primarily be reflected in yet more complex and extensive testing procedures. These requirements will lead to an increase in product development costs and longer approval processes.

In order to minimise the risks involved, key project-related decisions such as advancing to the next development phase are taken only after careful consideration.

## Financial risks

Due to the international nature of its business relations and the associated invoicing in various foreign currencies,

in addition to financing risks, SANOCHEMIA is also exposed to interest rate and foreign exchange risks not to mention the risk of a business partner becoming insolvent.

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. The success of such strategic partnerships, however, depends to a large extent on the development work performed by the relevant partner company, a factor over which SANOCHEMIA has only limited influence.

The economic environment in which it operates, particular given the current financial crisis, poses a number of threats to SANOCHEMIA in terms of its corporate growth and liquidity. Despite implementing cost-cutting and restructuring programmes, the resultant savings take some time to materialise.



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

## Liquidity risk

Liquidity risk is also relevant to SANOCHEMIA. This risk relates to the risk of insufficient liquidity in order to meet existing or future payment obligations. The acquisition of the facility in Neufeld during the period under review entailed the commitment of significant liquid funds, albeit with the aim of generating additional cash flows in the years ahead due to the cost savings achieved as a result. The redemption payments in association with existing financial liabilities falling due in the coming business periods can be covered, on the one hand, by the available liquid funds and, on the other, by future operational cash flows based on cash flow forecasts.

The purchase of the production facilities during the course of the period under review did not entail any further restrictions of liquidity. This was backed by means of a guarantee issued by SANOCHEMIA relating to third party bank liabilities. The aim here is to save future rental costs and to generate additional cash flows as a result.

## Information technology risks

Given that both internal and external communication as well as business and production-related processes at SANOCHEMIA are increasingly based and dependent on information technology, key risks faced in this area include the loss of data and the subsequent impact of this on important business and production processes.

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, fire-walls and data protection systems are in place.

Compliance with IT-related regulations is constantly monitored and defined in purpose-specific guidelines which form the basis for a sustainable and on-going risk management system for the departments and divisions involved.

## 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, the Company is exposed to risks that these competitors are successful in obtaining positive research and development data earlier, or are able to launch a product faster.

SANOCHEMIA always attempts to adequately protect its intellectual property rights, with a view to preventing competitors from using technologies developed by the Company, in order to achieve competitive advantages.

In many markets, the prices of pharmaceutical products are increasingly subject to state control and/or monitoring, and, in some cases, are directly influenced by governments. The general trend evident in many markets of reimbursement systems promoting the prescription of generics rather than original drugs is also intensifying the pressure on prices.

## Overall assessment of risk exposure

Despite prudent management of each of the various areas of risk, the incidence of unforeseeable future developments or those previously regarded as highly improbable can have adverse consequences for the asset, financial and earning positions of SANOCHEMIA.

# Events after the Balance Sheet Date

On **10 November 2009**, SANOCHEMIA announced that the Ethics Commission in Belgium had approved the first-time use of PVP hypericin in the phototherapeutic treatment of bladder cancer. This innovative substance, patented by SANOCHEMIA, represents a novel approach to the treatment of this form of cancer and is now being used in man for the first time in the course of this Phase 1 clinical trial.

The clinical trial is a so-called investigator-driven study which is being performed at the Urological Center of the University of Leuven (Belgium). SANOCHEMIA is providing the product, PVP hypericin, as well as the required chemical, pharmaceutical and preclinical documentation. The aim of the study is to evaluate the benefits and safety of PVP hypericin in the photodynamic therapy (PDT) of superficial bladder carcinoma. The results of this study are expected in 2010. Parallel to this clinical trial, SANOCHEMIA is also evaluating the possibilities of further clinical trials to investigate the use of PVP hypericin in PDT with a view to securing marketing authorisation. As such, SANOCHEMIA is pioneering a new form of treatment for superficial bladder cancer which it is highly probable will be able to prevent relapses without resort to chemotherapy, and consequently significantly improve the quality of life of patients. SANOCHEMIA holds all European and US patents for PVP hypericin covering the substance, its synthesis and use in the diagnosis and treatment of various conditions.

On **23 December 2009**, SANOCHEMIA Pharmazeutika AG announced that the Supervisory Board had instructed the Board of Management to write down all loss-bearing financial assets and past investments which were either unprofitable or associated with uncertain returns. The comprehensive one-off impairment charges to be taken in the course of the preparation of the 2008/2009 financial statements will inevitably have an impact on earnings yet will provide the Company with a firm basis for future success.

# 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 26 March 2009, 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).8.

# FINANCIAL STATEMENTS
## 08 / 09

The presentation of the 2008/2009 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, 10/2008 – 09/2009 and 10/2007 – 09/2008**

| in T€ | Notes | 2008/2009 | 2007/2008 |
|---|---|---|---|
| Sales revenues | (1) | 29,527 | 29,531 |
| Other income | (2) | 3,091 | 3,547 |
| Reversal of investment grants | | 180 | 177 |
| Change in inventory | | 146 | -704 |
| Own work capitalised | | 1,725 | 1,389 |
| **Operating performance** | | **34,669** | **33,940** |
| | | | |
| Cost of goods and services | (3) | -12,268 | -10,775 |
| Personnel expenses | (4) | -9,590 | -9,052 |
| Depreciation of tangible assets and amortisation of intangible assets | (5) | -4,672 | -4,892 |
| Other expenses | (6) | -12,777 | -10,446 |
| **Operating result** | | **-4,638** | **-1,225** |
| | | | |
| Interest payments | | -1,815 | -1,079 |
| Interest receipts | | 980 | 1,366 |
| Other financial income / expenses | | -5,361 | -3,086 |
| **Financial result** | (7) | **-6,196** | **-2,799** |
| | | | |
| **Pre-tax profit / loss** | | **-10,834** | **-4,024** |
| | | | |
| Taxes on income | (8) | 69 | 315 |
| **Net profit / loss for the year** | | **-10,765** | **-3,709** |
| | | | |
| of which: | | | |
| Shareholders of the parent company | | -10,587 | -3,449 |
| Minority interests | | -178 | -260 |
| | | **-10,765** | **-3,709** |
| | | | |
| Undiluted earnings per share in € | (31) | -1.04 | -0.34 |
| Diluted earnings per share in € | | -1.04 | -0.34 |
| Weighted average number of shares | | 10,155,598 | 10,155,598 |

# Consolidated Balance Sheet

SANOCHEMIA Pharmazeutika AG

**IFRS, 30 September 2009 and 30 September 2008**

| in T€ | Notes | 30. 09. 2009 | 30. 09. 2008 |
|---|---|---|---|
| **Assets** | | | |
| Buildings on non-owned land | | 18,928 | 8,087 |
| Property, plant and equipment | | 6,017 | 6,457 |
| Other equipment, furniture and fixtures | | 1,376 | 1,232 |
| Property, plant and equipment under construction | | 2,722 | 2,023 |
| **Tangible assets** | (9) | **29,043** | **17,799** |
| Goodwill | | 3,391 | 3,391 |
| Capitalised development costs | | 17,189 | 15,901 |
| Other intangible assets | | 1,411 | 2,664 |
| **Intangible assets** | (10) | **21,991** | **21,956** |
| Other financial receivables | (11) | 0 | 2,346 |
| Deferred tax assets | (12) | 643 | 676 |
| **Non-current assets** | | 51,677 | 42,777 |
| Inventory | (13) | 9,221 | 8,783 |
| Accounts receivable – trade | (14) | 5,724 | 5,519 |
| Accounts receivable – affiliated companies | (15) | 1,941 | 4,849 |
| Other financial receivables | (16) | 1,094 | 284 |
| Other receivables and assets | (17) | 1,707 | 1,092 |
| Income tax receivables | | 13 | 296 |
| Receivables from research grants | (18) | 613 | 250 |
| Available for sale securities | (19) | 3,381 | 10,722 |
| Available-for-sale securities | | 6,329 | 14,296 |
| **Current assets** | | **30,023** | **46,091** |
| **Total assets** | | **81,700** | **88,868** |
| **Equity and liabilities** | | | |
| **Equity held by the parent company** | | | |
| Issued capital | | 10,156 | 10,156 |
| Share premium | | 14,443 | 24,768 |
| Net gain/loss on available-for-sale securities | | -118 | -440 |
| Currency translation differences | | 1,030 | 463 |
| Profit and loss account | | 18,601 | 18,863 |
| | | **44,112** | **53,810** |
| Minority interests | | 121 | 299 |
| **Total equity** | (20) | **44,233** | **54,109** |
| Financial liabilities | (21) | 4,080 | 11,720 |
| Employee benefit provisions | (22) | 1,097 | 1,308 |
| Deferred income | (23) | 1,459 | 2,442 |
| Investment grants | (24) | 1,445 | 1,195 |
| **Non-current liabilities** | | **8,081** | **16,665** |
| Financial liabilities | (25) | 21,088 | 8,433 |
| Accounts payable – trade | | 5,739 | 5,034 |
| Other financial liabilities | (26) | 0 | 2,521 |
| Other liabilities and accruals | (27) | 1,644 | 1,061 |
| Deferred income | (28) | 626 | 721 |
| Investment grants | (24) | 149 | 144 |
| Income tax payable | | 140 | 180 |
| **Current liabilities** | | **29,386** | **18,094** |
| **Total equity and liabilities** | | **81,700** | **88,868** |

# Consolidated Cash Flow Statement

SANOCHEMIA Pharmazeutika AG

**IFRS, 10/2008 – 09/2009 and 10/2007 – 09/2008**

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Net income before taxes | -10,834 | -4,024 |
| Depreciation, amortisation and write down of tangible and intangible assets | 4,672 | 4,892 |
| Proceeds from the disposal of tangible and intangible assets | 2 | 15 |
| Income from the disposal of securities | 1,170 | -104 |
| Interest payments | 1,815 | 1,079 |
| Interest receipts | -980 | -1,366 |
| Purchase of securities | -107 | -105 |
| Net gain / loss through foreign currency translation | 603 | 452 |
| Reversal of investment grants | 254 | -263 |
| Change in inventories | -438 | 970 |
| Change in receivables and other assets | 2,810 | -3,752 |
| Change in receivables from research grants | -363 | 292 |
| Change in accounts payable including those due to affiliated companies | 703 | 1.202 |
| Change in other liabilities and accruals | -2,996 | -4,435 |
| Change in provisions for employee benefits | -211 | 141 |
| **Cash flow from current operating activities** | **-3,900** | **-5,006** |
| Interest payments | -900 | -1,049 |
| Interest receipts | 819 | 1,283 |
| Receipts from the sale of securities | 152 | 137 |
| Income tax paid | 236 | -404 |
| **Net cash flow from operating activities** | **-3,593** | **-5,039** |
| Purchase of intangible assets | -2.322 | -1,380 |
| Purchase of tangible assets | -13.669 | -2,511 |
| Purchase of securities | -6 | -4,164 |
| Receipts from the disposal of tangible assets | 1 | 85 |
| Receipts from the disposal of available-for-sale securities | 6,606 | 4,595 |
| **Net cash flow from investment activities** | **-9,390** | **-3,375** |
| Change in current borrowings | 6,195 | 288 |
| Repayment of non-current borrowings | -671 | -771 |
| Proceeds from non-current borrowings | 0 | 549 |
| Proceeds from research grants | 72 | 89 |
| Repayment of research grants | -580 | -1,773 |
| **Net cash flow from financing activities** | **5,016** | **-1,618** |
| **Net change in cash and cash equivalents** | **-7,967** | **-10,032** |
| **Net cash and cash equivalents** | | |
| Balance at beginning of the period | 14,296 | 24,328 |
| Change in cash and cash equivalents | -7,967 | -10,032 |
| Balance at end of period as per Balance Sheet [1)] | 6,329 | 14,296 |

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

# Consolidated Statement of Changes in Equity

SANOCHEMIA Pharmazeutika AG

**IFRS, 30 September 2009 and 30 September 2008**

| 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. 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. 09. 2008** | **10,156** | **24,768** | **-440** | **463** | **18,863** | **53,810** | **299** | **54,109** |
| Valuation of available-for-sale financial assets | 0 | 0 | 322 | 0 | 0 | 322 | 0 | 322 |
| Reallocation from capital reserves to cover accumulated losses | 0 | -10,325 | 0 | 0 | 10,325 | 0 | 0 | 0 |
| Foreign currency translation | 0 | 0 | 0 | 567 | 0 | 567 | 0 | 567 |
| Total income/expenses for the year recognised directly in equity | 0 | -10,325 | 322 | 567 | 10,325 | 889 | 0 | 889 |
| Net result for the period | 0 | 0 | 0 | 0 | -10,587 | -10,587 | -178 | -10,765 |
| Consolidated result for the period | 0 | -10,325 | 322 | 567 | -262 | -9,698 | -178 | -9,876 |
| **Balance at 30. 09. 2009** | **10,156** | **14,443** | **-118** | **1,030** | **18,601** | **44,112** | **121** | **44,233** |

# Notes to the Financial Statements
at 30 September 2009

## A. Corporate Information

SANOCHEMIA Pharmazeutika AG, Vienna, and its subsidiaries are engaged in the production and sale of human pharmaceuticals and diagnostics and in the synthetic production of active pharmaceutical ingredient such as 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 2008 and 30 September 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the financial year 2008/2009. In interpreting IFRS, the IFRICs applicable to the financial year 2008/2009 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 [2)]
- IAS 23 Borrowing Costs [1)]
- IAS 32 Financial Instruments: Presentation [1)]
- IAS 39 Financial Instruments: Recognition and Measurement [3)]
- IFRS 2 Share-Based Payment [1)]
- IFRS 8 Operating Segments [2)]
- IFRIC 15 Agreements for the Construction of Real Estate [2)]
- IFRIC 17 Distributions of Non-cash Assets to Owners [1)]
- IFRIC 18 Transfers of Assets from Customers [1)]
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments [3)]

[1)] No material influence on the consolidated financial statements is expected.
[2)] In particular, additional disclosure requirements associated with the consolidated financial statements are expected.
[3)] The influence on the consolidated financial statements cannot yet be determined with any degree of accuracy.

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

| in T€ | Registered in | Interest |
|---|---|---|
| **Parent Company** | | |
| SANOCHEMIA Pharmazeutika AG | Vienna | |
| **Subsidiaries** | | |
| SANOCHEMIA Diagnostics UK Ltd. | Bristol | 100 % |
| 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., London, 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. During the period under review, this holding was increased to 100%. SANOCHEMIA Ltd. declared its willingness to assign its 50% of the shares in this subsidiary to SANOCHEMIA Pharmazeutika AG for the nominal price of GBP 1. The operating activities of this company in the UK relate to the sale and distribution of radiological products.

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 following standards have been applied on a voluntary basis before becoming mandatory:

- IAS 27 Consolidated and Separate Financial Statements
- IFRS 3 Business Combinations

The first-time application of IAS 27 and IFRS 3 led to changes to the accounting and valuation policies in terms of the reporting of minority interests and changes in equity interests without any influence on control of the company.

## 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 2009, the carrying value of the Company's deferred tax assets amounted to T€14,527 (prior year: T€12,817). For further details, refer to Note 8 and Note 12.



**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 2009, the Company's provisions to cover these obligations amounted to T€979 (prior year: T€1,158). 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 and buildings on non-owned land | 3.5 – 45 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 2008/2009, development expenses in the amount of T€2,295 (2007/2008: T€1,525) 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 2009 an impairment test of the goodwill of the entities SANOCHEMIA Diagnostics Deutschland 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: 11 %). 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: 11 %). The operational cash flow has be planned in detail for the periods 2009/10 to 2013/14; for the years after 2014/15, 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, comparison 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.<br><br>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 asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; 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. 09. 2009 | 30. 09. 2008 |
|---|---|---|
| Interest rate for accounting purposes | 5.50 % | 5.50 % |
| Wage/salary trend | 4.00 % | 4.00 % |
| Deducation for fluctuation | 0 % | 0 % |
| 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€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Sales of goods | 26,137 | 26,724 |
| Contract manufacturing | 3,253 | 2,786 |
| Provision of services | 137 | 21 |
| **Total** | **29,527** | **29,531** |

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

### (2) Other Income

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Income from the disposal or write up of tangible and intangible assets | 4 | 57 |
| Research grants | 62 | 149 |
| Personnel expenses passed on to third parties | 378 | 301 |
| Income from exchange rate variations | 475 | 290 |
| Reversal of deferred income | 1,007 | 1,702 |
| Income from research and training grants | 754 | 540 |
| Other income | 411 | 508 |
| **Total** | **3,091** | **3,547** |



### (3) Cost of Materials and Services

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Raw materials and manufacturing supplies | 11,195 | 9,412 |
| of which for Research & Development purposes | 294 | 505 |
| Services | 779 | 858 |
| **Total** | **12,268** | **10,775** |

### (4) Personnel Expenses

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Wages | 986 | 917 |
| Salaries | 6,535 | 6,187 |
| Expenditure for social security and payroll-related charges and compulsory contributions | 1,750 | 1,684 |
| Expenditure for defined contribution-based severance payments | 132 | 50 |
| Expenditure for length-of-service-based severance payments | 152 | 168 |
| Other personnel-related expenses | 35 | 46 |
| **Total** | **9,590** | **9,052** |

The position Salaries above includes remuneration for the members of the Board of Management in the amount of T€363 (2007/2008: T€411) in addition to expenditure in the amount of T€12 (2007/2008: T€32) for severance payments. The expenditure for

severance payments also relates to provisions for severance payments (Note 22) relating to members of the Board of Management in the amount of T€ 171 which will be paid in instalments.

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

| | 2008/2009 | 2007/2008 |
|---|---|---|
| Workers | 45 | 40 |
| Employees | 142 | 142 |
| Trainees | 3 | 3 |
| **Total** | **190** | **185** |

### (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€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Maintenance | 843 | 1,125 |
| Insurance premiums | 277 | 311 |
| Vehicle-related expenses | 140 | 171 |
| Travel expenses | 321 | 368 |
| Marketing and advertising | 762 | 596 |
| Legal and other consultancy fees | 951 | 886 |
| Foreign currency exchange differences | 937 | 660 |
| Rental and leasing expenses | 1,248 | 987 |
| Other expenses | 3,778 | 2,348 |
| Research and development expenditure | 3,520 | 2,994 |
| **Total** | **12,777** | **10,446** |



## Result of Investing and other Financial Activities

### (7) Interest and other Financial Result

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Interest payments | -1,815 | -1,079 |
| Interest and similar income | 980 | 1,366 |
| Sale of securities | -1,063 | 209 |
| Management fees for option-based transactions | 0 | 122 |
| Exchange rate differences on fixed-term deposits | -218 | -1,975 |
| Income from options and futures contracts [1)] | -4,080 | -1,442 |
| **Total** | **-6,196** | **-2,799** |

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

The above position "interest and similar income" includes interest rate subsidies of T€ 6 (2007/2008: T€ 21).

## (8) Income Taxes

Tax expenditure for the period was as follows:

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Corporation tax current year | -2 | -175 |
| Corporation tax previous years | -3 | 0 |
| Deferred tax expenses | 74 | 490 |
| **Total** | **69** | **315** |

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€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Pre-tax result | -10,834 | -4,024 |
| Income tax based on corporation tax rate of 25 % | 2,709 | 1,006 |
| Differences due to varying foreign tax rates | -13 | 51 |
| Permanent differences due to research subsidies | 179 | 123 |
| Corporation tax previous periods | -3 | 0 |
| Other non-deductible expenses | 201 | 482 |
| Non-application / impairment of losses carried forward | -3,004 | -1,347 |
| **Effective tax expenditure** | **69** | **315** |
| **Effective tax rate** | **-0.63 %** | **-7.83 %** |

The deferred taxes recognised directly in equity amount to T€ 108 (prior year: T€ 186). For further details, please refer to Point 19.

# D. Notes to the Consolidated Balance Sheet

## Assets

### (9) Property, Plant and Equipment

| in T€ | Leasehold improvements | Plant and machinery | Other equipment, furniture & fixtures | Fixed assets under construction | Total |
|---|---|---|---|---|---|
| **Cost of acquisition** | | | | | |
| Balance at 01.10.2007 | 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 |
| Reclassifications | 94 | 156 | 183 | -433 | 0 |
| Additions | 11,824 | 369 | 343 | 1,147 | 13,683 |
| Disposals | -300 | 0 | -19 | -15 | -334 |
| Foreign currency translation differences | 0 | -1 | 1 | 0 | 0 |
| **Balance at 30.09.2009** | **26,757** | **13,339** | **4,070** | **2,722** | **46,888** |
| **Accumulated depreciation** | | | | | |
| Balance at 01.10.2007 | 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 |
| Additions | 1,077 | 964 | 380 | 0 | 2,421 |
| Disposals | -300 | 0 | -15 | 0 | -315 |
| Foreign currency translation differences | 0 | 0 | -1 | 0 | -1 |
| **Balance at 30.09.2009** | **7,829** | **7,322** | **2,694** | **0** | **17,845** |
| **Net carrying value at 01.10.2007** | **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** |
| **Net carrying value at 30.09.2009** | **18,928** | **6,017** | **1,376** | **2,722** | **29,043** |

[1] See Note 18 to the Consolidated Balance Sheet.

## (10) Goodwill and other Intangible Assets

| in T€ | Goodwill | Capitalised development costs | Trademarks and similar rights and licenses | Total |
|---|---|---|---|---|
| **Cost of acquisition** | | | | |
| Balance at 01.10.2007 | 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 |
| Additions | 0 | 2,295 | 27 | 2,322 |
| Disposals | 0 | 0 | 0 | 0 |
| Foreign currency translation differences | 0 | -40 | 6 | -34 |
| **Balance at 30.09.2009** | **5,376** | **20,894** | **19,204** | **45,474** |
| **Accumulated depreciation** | | | | |
| Balance at 01.10.2007 | 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 |
| Additions | | 967 | 1,285 | 2,252 |
| Foreign currency translation differences | 0 | 0 | 1 | 1 |
| **Balance at 30.09.2009** | **1,985** | **3,705** | **17,793** | **23,483** |
| **Net carrying value at 01.10.2007** | **3,391** | **15,347** | **4,480** | **23,218** |
| **Net carrying value at 30.09.2008** | **3,391** | **15,901** | **2,664** | **21,956** |
| **Net carrying value at 30.09.2009** | **3,391** | **17,189** | **1,411** | **21,991** |



[1] See Note 18 to the Consolidated Balance Sheet.

The goodwill recorded resulted through the acquisition of shares in SANOCHEMIA Diagnostics Deutschland GmbH. and are 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 September 2009 was T€690 (2007/2008: T€1,380).

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€0 at 30 September 2009 (2007/2008: T€343).

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 as set out below:

| in T€ | 30.09.2009 | 30.09.2008 |
|---|---|---|
| Tolperison | 7,652 | 8,619 |
| Scanlux | 6,020 | 4,843 |
| Hypericin | 2,789 | 1,842 |
| Secrelux | 728 | 597 |
| | **17,189** | **15,901** |

Despite the termination of the contract concluded between SANOCHEMIA Pharmazeutika AG and Avigen, the Board of Management is of the considered opinion that no grounds exist for an impairment charge to be taken against the development work capitalised in connection with the tolperisone project. This opinion is foremostly based on the fact that the Board of Management is currently negotiating with new potential partners. On the basis of these ongoing negotiations, the Board of Management is confident that agreements can be concluded in the coming months. This opinion is reinforced by the fact that negotiations are being pursued covering both the US and European markets.



## (11) Other Non-current Financial Receivables

Due to the fact that those other financial receivables from derivative financial transactions already impaired in the 2007/2008 financial year have subsequently been written down in their entirety, the balance of other financial receivables at 30 September 2009 stood at T€0 (prior year: T€2,346).

| in T€ | 30.09.2009 | 30.09.2008 |
|---|---|---|
| Other financial receivables | 4,567 | 4,346 |
| Valuation adjustments | -4,567 | -2,000 |
| **Total** | **0** | **2,346** |

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

| in T€ | 30.09.2009 | 30.09.2008 |
|---|---|---|
| Balance of valuation adjustments at 1 October | 2,000 | 0 |
| Exchange rate differences | 0 | 0 |
| Additions (impairment charges) | 2,567 | 2,000 |
| Consumed | 0 | 0 |
| Reversed | 0 | 0 |
| **Balance of valuation adjustments at 30 September** | **4,567** | **2,000** |

## (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 | | Consolidated Profit & Loss Account | |
|---|---|---|---|---|
| | 2008/2009 | 2007/2008 | 2008/2009 | 2007/2008 |
| **Deferred tax liabilities** | | | | |
| Own work capitalised (development costs) | 3,830 | 3,461 | -189 | -106 |
| Own work capitalised - group of assets held for sale | 0 | 18 | 18 | 30 |
| Valuation adjustment of forward exchange contracts to fair value | 0 | 0 | 0 | 91 |
| Valuation adjustment of options to fair value | 0 | 129 | 129 | -129 |
| | **3,830** | **3,788** | | |
| **Deferred tax assets** | | | | |
| Own work capitalised (development costs) | 32 | 49 | -17 | -17 |
| Tax effective amortisation of investments | 527 | 794 | -267 | -267 |
| Post-employment obligations | 135 | 158 | -23 | 17 |
| Valuation adjustment of available-for-sale financial investments to fair value | 39 | 147 | | |
| Tax deductible losses carried forward, Germany | 643 | 676 | -23 | 676 |
| Tax deductible losses carried forward, Austria | 3,096 | 2,640 | 457 | 195 |
| | **4,472** | **4,464** | | |
| **Deferred tax expenses** | | | **69** | **490** |
| **Balance of deferred taxes** | **643** | **676** | | |

The financial statements of the SANOCHEMIA Group carry deferred tax assets resulting from tax deductible losses in the amount of T€12,126 (prior year: T€4,387). 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€643 (prior year: T€676). 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€3,096 (prior year: T€2,640) 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€25,144 (prior year: T€14,842) given the prevailing uncertainty as to whether these can be consumed in the foreseeable future.

## (13) Inventories

| in T€ | 30. 09. 2009 | 30. 09. 2008 |
|---|---|---|
| Raw materials | 4,169 | 4,159 |
| Semi-finished goods and work in progress | 1,372 | 1,325 |
| Finshed goods | 1,643 | 1,391 |
| Traded goods | 2,037 | 968 |
| Prepayments to suppliers | 0 | 940 |
| **Total** | **9,221** | **8,783** |

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. 2009 | 30. 09. 2008 |
|---|---|---|
| Accounts receivable – trade, gross | 5,799 | 5,597 |
| Valuation adjustments | -75 | -78 |
| **Total** | **5,724** | **5,519** |



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. 2009 | 30. 09. 2008 |
|---|---|---|
| Not overdue | 4,195 | 4,092 |
| Overdue by less than 3 months | 1,192 | 891 |
| Overdue by more than 3 but less than 6 months | 412 | 614 |
| Less valuation adjustments | -75 | -78 |
| **Total** | **5,724** | **5,519** |

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

| in T€ | 30. 09. 2009 | 30. 09. 2008 |
|---|---|---|
| Balance of valuation adjustments at 1 October | 78 | 67 |
| Foreign currency translation differences | 4 | 3 |
| Additions (expenses for valuation adjustments) | 0 | 8 |
| Consumed | -7 | 0 |
| **Balance of valuation adjustments at 30 September** | **75** | **78** |

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. 2009 | 30. 09. 2008 |
|---|---|---|
| Alvetra und Werfft GmbH | 428 | 1,113 |
| J. Medinger & Söhne | 153 | 1,595 |
| Anton von Waldheim | 1,360 | 2,141 |
| **Total** | **1,941** | **4,849** |

The receivables due from Alvetra und Werfft GmbH and J. Medinger & Söhne relate to supplies of goods and services. The receivables due from Anton von Waldheim relate to advance rental payments for the office complex at Boltzmanngasse 9a, Vienna, and are based on established rights. The due dates of the accounts receivable payable by affiliated companies are set out below:

| in T€ | 30. 09. 2009 | 30. 09. 2008 |
|---|---|---|
| Not overdue | 1,941 | 3,427 |
| Overdue by less than 3 months | 0 | 290 |
| Overdue by more than 3 but less than 6 months | 0 | 686 |
| Overdue by more than 6 but less than 12 months | 0 | 446 |
| **Total** | **1,941** | **4,849** |



## (16) Other Financial Receivables

| in T€ | 30. 09. 2009 | 30. 09. 2008 |
|---|---|---|
| Forex options / forward exchange contracts | 0 | 85 |
| Forward contracts | 1,000 | 0 |
| Interest receivable on securities | 94 | 199 |
| **Total** | **1,094** | **284** |

The other financial receivables are non-interest bearing and are payable within one year. On 23 December 2009, an agreement was concluded between SANOCHEMIA Ltd. and SANOCHEMIA Pharmazeutika AG on the basis of which SANOCHEMIA Ltd. was assigned all of the rights and obligations arising out of forex option transactions between SANOCHEMIA Pharmazeutika AG and a Swiss financial institution. The basis for this at that point in time was a legal dispute between the Swiss financial institution and SANOCHEMIA Pharmazeutika AG relating to the entering into option-based transactions on the part of the financial institution which SANOCHEMIA Pharmazeutika AG regarded as being in breach of contract. The most important precondition for entering into the aforementioned assignment agreement was the assumption held by SANOCHEMIA Ltd. at that point in time that this Swiss financial institution alone was without doubt responsible for entering into these options. During the course of the subsequent legal proceedings and negotiations, it was not possible to completely establish that the said financial institution was solely responsible in this respect, as a result of which not only the legal position changed, but also the basis for the assignment agreement between SANOCHEMIA Ltd. and SANOCHEMIA Pharmazeutika AG no longer applied. Consequently, it was mutually agreed to dissolve the agreement between SANOCHEMIA Ltd. and SANOCHEMIA Pharmazeutika AG, as a result of which the ongoing legal proceedings and negotiations again lie within the sphere of responsibility of SANOCHEMIA Pharmazeutika AG. Although it is not possible to provide more details due to the ongoing legal proceedings and the risk of consequently undermining the Company's

legal position, based on discussions with the legal experts involved in the case, it is estimated that SANOCHEMIA Pharmazeutika AG holds claims for compensation which can be fairly recognised of at least T€1,000 (prior year: T€0).

### (17) Other Receivables and other Assets

| in T€ | 30.09.2009 | 30.09.2008 |
|---|---|---|
| Receivables due from the financial authorities | 1,305 | 657 |
| Deferred expenses | 210 | 249 |
| Other | 192 | 186 |
| **Total** | **1,707** | **1,092** |

### (18) Receivables due from Research Promotion Programmes

| in T€ | 30.09.2009 | 30.09.2008 |
|---|---|---|
| Grants from FFG Forschungsförderungsgmbh | 178 | 250 |
| Grants provided by Wirtschaftsservice Burgenland AG | 435 | 0 |
| **Total** | **613** | **250** |

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 30.9.2009 or 30.9.2008.



### (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€3,346 were pledged to cover certain financial liabilities.

Valuation adjustments made to reflect the current market value of securities amounted to T€430 (T€744 in 2007/2008) were made and, less the associated latent taxes in the amount of T€106 (prior year: T€108), these are carried in the position Equity capital. During the 2008/2009 financial year, securities with a carrying value of T€3,112 were disposed of (T€4,491 in 2007/2008).

## Equity and Liabilities

### (20) Equity

For details of changes in shareholders' equity during the financial year refer to the table on page 27 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 2009, 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 the issue of shares. There has been no change in this reserve since the previous period. In accordance with Austrian legal requirements, these reserves can only be used to cover losses.

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.

With regard to capital management, the Board of Management aims in the mid terms for an equity ratio between 59 % and 62 %. The objective is for this target figure to be reached primarily through the appropriate use of existing resources and financed from the Company's own cash flows.

## 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 2009 and 30 September 2008 respectively:

| in T€ | 30. 09. 2009 | 30. 09. 2008 | Interest rate | Maturity |
|---|---|---|---|---|
| Loans linked to research promotion | 161 | 457 | 3.63 – 5.5 % | 2009 |
| Loans linked to ERP funds | 5,214 | 5,428 | 1 – 1.25 % | 2009 – 2012 |
| Equity financing | 5,390 | 5,390 | 2.4 % | 31. 05. 2010 |
| Other bank loans | 975 | 1,645 | 6.5 – 8.5 % | 2009 – 2013 |
| | 11,740 | 12,920 | | |
| of which | | | | |
| current portion of non-current loans | 7,660 | 1,200 | | |
| **Financial liabilities (non-current)** | **4,080** | **11,720** | | |

The financial liabilities set out above are secured as follows:

| in T€ | Book value 30. 09. 2009 |
|---|---|
| A guarantee in favour of Austria Wirtschaftsservice GmbH | 2,500 |
| A liability due to the Republic of Austria (OeKB) | 5,390 |

### (22) Employee Benefits Provisions

| in T€ | 30. 09. 2009 | 30. 09. 2008 |
|---|---|---|
| Provisions for severance payments | 979 | 1,158 |
| Provisions for long-service bonuses | 118 | 150 |
| **Total** | **1,097** | **1,308** |

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

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Cash value of severance payment obligations at 1 October | 1,158 | 1,030 |
| Service cost | 68 | 75 |
| Interest cost | 62 | 51 |
| Severance payments | -331 | -4 |
| Actuarial losses / gains | 22 | 6 |
| Past service cost (non-forfeitable) | 0 | 0 |
| **Balance of provisions at 30. September** | **979** | **1,158** |

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€ | 2008/2009 | 2007/2008 | 2006/2007 | 2005/2006 |
|---|---|---|---|---|
| Long-service obligations | 979 | 1,158 | 1,030 | 738 |
| Adjustment of planned debts based on past experience | 0 | 2 | 95 | 43 |



## (23) Deferred Income

An amount of T€ 1,459 (2007/2008: T€ 2,442) 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€ | 30.09.2009 | 30.09.2008 |
|---|---|---|
| WIBAG Wirtschaftsservice Burgenland AG | 635 | 738 |
| ERP fund (regional investment bonus) | 203 | 244 |
| Grants from FFG Forschungsförderungsgmbh | 756 | 357 |
| **Total** | **1,594** | **1,339** |
| of which current | 1,445 | 1,195 |
| of which non-current | 149 | 144 |
| | **1,594** | **1,339** |

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 2009 and 30 September 2008 respectively:

| in T€ | 30. 09. 2009 | 30. 09. 2008 | Interest rate | Maturity |
|---|---|---|---|---|
| Bank loans and overdrafts | 4,606 | 3,788 | 5.5 – 7 % | on request |
| Bank loans and overdrafts | 0 | 4,065 | 3 – 5.5 % | on request |
| Bank loans and overdrafts | 14,465 | 0 | 1.5 – 3 % | on request |
| Research promotion loans | 137 | 580 | 3.63 – 5.5 % | within one year |
| Research promotion loans | 1,880 | 0 | 1 – 3.63 % | within one year |
| | **21,088** | **8,433** | | |

The financial liabilities set out above are secured as follows:

| in T€ | Book value at 30. 09. 2009 |
|---|---|
| A guarantee in favour of SANOCHEMIA Ltd., Malta | 975 |
| A guarantee and payment obligation of SANOCHEMIA Ltd., Malta | 220 |



### (26) 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.

### (27) Other Liabilities and Accruals

| in T€ | 30. 09. 2009 | 30. 09. 2008 |
|---|---|---|
| Social security contribution liabilities | 147 | 152 |
| Tax liabilities | 695 | 107 |
| Outstanding holiday entitlements | 414 | 377 |
| One-off payments | 388 | 425 |
| **Total** | **1,644** | **1,061** |

### (28) Deferred Income

An amount of T€ 626 (2007/2008: T€ 721) 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

## (29) 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€ | 2008/2009 | 2007/2008 |
|---|---|---|
| Sales revenues | 173 | 2,139 |
| Research subsidies | 714 | 478 |
| Research grants | 62 | 134 |
| Other income | 977 | 616 |
| Changes in inventory | -56 | -64 |
| Own work capitalised | 1,725 | 1,389 |
| Cost of materials | -294 | -505 |
| Personnel expenses | -1,000 | -1,332 |
| Depreciation of tangible assets and amortisation of intangible assets | -84 | -119 |
| Other operating expenses | -3,520 | -2,994 |
| **Summe** | **-1,303** | **-258** |

## (30) 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 08/09 | 07/08 | 08/09 | 07/08 | 08/09 | 07/08 | 08/09 | 07/08 | 08/09 | 07/08 |
| Sales revenues/external | **17,033** | 14,787 | **12,323** | 12,605 | **173** | 2,139 | **-2** | 0 | **29,527** | 29,531 |
| Sales revenues/internal | **1,281** | 315 | **7,453** | 5,335 | **0** | 0 | **-8,734** | -5,650 | **0** | 0 |
| Sales revenues | **18,314** | 15,102 | **19,776** | 17,940 | **173** | 2,139 | **-8,736** | -5,650 | **29,527** | 29,531 |
| Operating performance | **19,635** | 17,158 | **21,320** | 19,123 | **3,595** | 4,692 | **-9,881** | -7,033 | **34,669** | 33,940 |
| Operating result | **1,714** | 2,223 | **-1,722** | -321 | **-1,303** | -258 | **-3,327** | -2,869 | **-4,638** | -1,225 |
| Investment | **7,784** | -186 | **4,877** | 1,914 | **2,971** | 1,847 | **359** | 316 | **15,991** | 3,891 |
| Depreciation and amortisation | **2,429** | 1,737 | **1,774** | 2,660 | **84** | 119 | **385** | 376 | **4,672** | 4,892 |
| Segment assets | **25,966** | 9,841 | **22,378** | 27,060 | **18,829** | 20,086 | **14,527** | 31,880 | **81,700** | 88,867 |
| Segment liabilities | **1,888** | 1,090 | **3,487** | 5,750 | **3,266** | 2,510 | **28,826** | 25,409 | **37,467** | 34,759 |

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



| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| **Sales revenues** | | |
| Austria | 28,841 | 22,354 |
| Germany | 7,897 | 7,095 |
| UK | 762 | 868 |
| Switzerland | 4,349 | 4,482 |
| USA | 414 | 382 |
| Consolidating entries | -8,736 | -5,650 |
| **Total** | **29,527** | **29,531** |
| **Allocated assets** | | |
| Austria | 59,676 | 49,186 |
| Germany | 3,926 | 2,590 |
| UK | 527 | 538 |
| Switzerland | 2,713 | 3,659 |
| USA | 330 | 374 |
| Consolidating entries | 14,528 | 32,521 |
| **Total** | **81,700** | **88,868** |
| **Allocated investments** | | |
| Austria | 15,487 | 3,715 |
| Germany | 131 | 47 |
| UK | 0 | 0 |
| Switzerland | 12 | -208 |
| USA | 2 | 22 |
| Consolidating entries | 359 | 315 |
| **Total** | **15,991** | **3,891** |

# 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. 09. 2009 | Fair Value 30. 09. 2009 | 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** | | | | | | |
| **Non-current assets** | | | | | | |
| Other financial receivables | 0 | 0 | AK | 0 | 0 | 0 |
| **Current assets** | | | | | | |
| Accounts receivable – trade | 5,724 | 5,724 | AK | 5,724 | 0 | 0 |
| Accounts receivable – affiliated companies | 1,941 | 1,941 | AK | 1,941 | 0 | 0 |
| Other financial receivables | | | | | | |
| Claims for compensation – forex options | 1,000 | 1,000 | FV | 0 | 0 | 1,000 |
| Interest-based receivables | 94 | 94 | AK | 94 | 0 | 0 |
| Receivables from research grants | 613 | 613 | AK | 613 | 0 | 0 |
| Available-for-sale securities | 3,381 | 3,381 | FV | 0 | 3,381 | 0 |
| Cash and short-term deposits | 6,329 | 6,329 | AK | 6,329 | 0 | 0 |

| | Book value 30. 09. 2009 | Fair Value 30. 09. 2009 | 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 |
| **Liabilities** | | | | | | |
| **Non-current liabilities** | | | | | | |
| Financial liabilities | 4,080 | 4,008 | AK | 4,080 | 0 | 0 |
| **Current liabilities** | | | | | | |
| Financial liabilities | 21,088 | 21,180 | AK | 21,088 | 0 | 0 |
| Accounts payable – trade | 5,739 | 5,739 | AK | 5,739 | 0 | 0 |

| | Book value 30. 09. 2008 | Fair Value 30. 09. 2008 | 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** | | | | | | |
| **Non-current assets** | | | | | | |
| Other financial receivables | 2,346 | 2,346 | AK | 2,346 | 0 | 0 |
| **Current assets** | | | | | | |
| Accounts receivable – trade | 5,519 | 5,519 | AK | 5,519 | 0 | 0 |
| Accounts receivable – affiliated companies | 4,849 | 4,849 | AK | 4,849 | 0 | 0 |
| Other financial receivables | | | | | | |
| Forex options | 85 | 85 | FV | 0 | 0 | 85 |
| interest | 199 | 199 | AK | 199 | 0 | 0 |
| Receivables from research grants | 250 | 250 | AK | 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 | AK | 14,296 | 0 | 0 |
| **Liabilities** | | | | | | |
| **Non-current liabilities** | | | | | | |
| Financial liabilities | 11,720 | 11,007 | AK | 11,720 | 0 | 0 |
| **Current liabilities** | | | | | | |
| Financial liabilities | 8,433 | 8,433 | AK | 8,433 | 0 | 0 |
| Accounts payable – trade | 5,034 | 5,034 | AK | 5,034 | 0 | 0 |
| Other financial liabilities | | | | | | |
| Forex options | 2,521 | 2,521 | FV | 0 | 0 | 2,521 |

**Net result by valuation category**

| | Interest | from subsequent valuation to Fair Value | from subsequent valuation currency translation | from subsequent valuation valuation adjustment | from disposal | net result 08/09 |
|---|---|---|---|---|---|---|
| Loans and receivables | 980 | 1,000 | -221 | -2,560 | 0 | -801 |
| Available for sale | 107 | 0 | 0 | 0 | -1,170 | -1,063 |
| Fair value recognised in income | 0 | -520 | -1,992 | 0 | 0 | -2,512 |
| Financial liabilities | -1,815 | 0 | 0 | 0 | 0 | -1,815 |

| | Interest | from subsequent valuation to Fair Value | from subsequent valuation currency translation | from subsequent valuation valuation adjustment | from disposal | net result 07/08 |
|---|---|---|---|---|---|---|
| Loans and receivables | 1,366 | 0 | -1,974 | -2,008 | 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 |



**Risk Exposure Report**

The main financial instruments used by the Group 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 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 2009 (30 September 2008) would have been T€97 (T€122) 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 several 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. 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 GBP on 30 September 2009, the value of shareholders' equity would have been T€ 109 lower (higher) (30 September 2008: T€ 92 lower (higher)). Had the EUR – USD exchange rate been 5 % higher (lower) on 30 September 2009 (30 September 2008), this would have resulted in an increase (decrease) in the financial result at 30 September 2009 (30 September 2008) of T€ 4 (T€ 43). Furthermore, under the same preconditions, the value of shareholders' equity at 30 September 2009 (30 September 2008) would have increased or decreased by T€ 64 (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 2007/2008) have been set up.

Liquidity risk

Liquidity risk is also relevant to SANOCHEMIA. This risk relates to the risk of insufficient liquidity in order to meet existing or future payment obligations. The acquisition of the facility in Neufeld during the period under review entailed the commitment of significant liquid funds, albeit with the aim of generating additional cash flows in the years ahead due to the cost savings achieved as a result. The repayments in association with existing

financial liabilities falling due in the coming business periods can be covered, on the one hand, by the available liquid funds and, on the other, by future operational cash flows based on cash flow forecasts.

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

| in T€ | | Cashflows 08/09 | | | Cashflows 09/10 | | | Cashflows 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) | 11,740 | 87 | 72 | 7,648 | 202 | 38 | 2,264 | - | 11 | 1,828 |
| Other non-interest bearing liabilities | 5,739 | 0 | 0 | 5,739 | 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 30.09.2009 | Book value 30.09.2008 | Market value 30.09.2009 | Market value 30.09.2008 |
|---|---|---|---|---|
| Loans linked to research promotion | 161 | 457 | 161 | 457 |
| Loans linked to ERP funds | 5,214 | 5,428 | 5,187 | 4,918 |
| Equity financing | 5,390 | 5,390 | 5,437 | 5,187 |
| Other bank loans | 975 | 1,645 | 975 | 1,645 |
| | 11,740 | 12,920 | 11,760 | 12,207 |
| of which | | | | |
| current portion of non-current loans | 7,660 | 1,200 | | |
| **Non-current financial liabilities** | **4,080** | **11,720** | | |

The cost of acquisition and market value of investment securities as of 30 September 2009 and 2008 respectively are set out in the following analysis:

| in T€ | Current market value |
|---|---|
| **30 September 2008** | |
| Fixed-interest Austrian bonds | 606 |
| Investment fund certificates and shares | 10,116 |
| **Total** | **10,722** |
| **30 September 2009** | |
| Fixed-interest Austrian bonds | 35 |
| Investment fund certificates and shares | 3,346 |
| **Total** | **3,381** |

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 2009 and 2008 respectively, according to maturities, are shown in the following table:



| in T€ | 2008/2009 Cost of acquisition | 2008/2009 Current market value | 2007/2008 Cost of acquisition | 2007/2008 Current market value |
|---|---|---|---|---|
| Realisable at any time | 3,679 | 3,346 | 6,706 | 5,966 |
| < 1 year | 0 | 0 | 4,994 | 4,756 |
| **Total** | **3,679** | **3,346** | **11,700** | **10,722** |

**Derivative financial instruments**

During the 2008/2009 financial year, the remaining derivative financial instruments in the form of forex options and futures concluded in financial periods matured. No new derivative-based financial instruments were purchased or sold.

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 contracts concluded were short-term contracts.

Based on actual development

The foreign exchange contracts open at 30 September 2009 amounted to option revenues of T€0 (30 September 2008: T€1,698). To cover these open options at the market prices prevailing on 30 September 2009 would have involved the outlay of T€0 (30 September 2008: T€2,346.

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| **Foreign exchange options** | | |
| Other receivables from foreign exchange options | 0 | 85 |
| Other liabilities from foreign exchange options | 0 | 2,521 |

The foreign currency options and forward exchange contracts had the following influence on results in the period from 1 October 2008 to 30 September 2009:

| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| **Foreign exchange options** | | |
| Expenses arising out of foreign exchange options | -6,381 | -29,338 |
| *of which impairment charges relating to a financial services provider: T€ 2,567 (PY: T€ 2,000)* | | |
| Income derived from foreign exchange options | 4,293 | 27,926 |
| **Forward exchange contracts** | | |
| Write down | -2,015 | -243 |
| Write up | 23 | 213 |

# Other Financial Obligations

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



| in T€ | 2008/2009 | 2007/2008 |
|---|---|---|
| **Obligations under leasing contracts** | | |
| in the subsequent year | 107 | 132 |
| in the second to fifth years | 138 | 167 |
| **Obligations under rental contracts** | | |
| in the subsequent year | 621 | 749 |
| in the second to fifth years | 2,339 | 2,997 |
| from the fifth year | 3,207 | 4,095 |

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 5.75 % in the financial year 2008/2009 following a rate of 5.15 % in 2007/2008.

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. During the course of the period under review, SANOCHEMIA Pharmazeutika AG acquired the majority of the production facilities as well as the associated land from J. Medinger & Söhne. The value of the land, buildings and facilities upon which the purchase was based, a value determined by means of valuations performed by certified public surveyors, amounted to € 11,015,483.41 and relates to parts of the production facility at Landeggerstrasse 7 and Landeggerstrasse 33 in Neufeld an der Leitha, Austria.



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 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€ 900 (prior year: T€ 9,218) in favour of Alvetra und Werfft GmbH. Furthermore, letters of comfort in connection with current account loans in the amount of T€ 516 (prior year: T€ 1,379) have been issued in favour of J. Medinger & Söhne, and another in favour of Anton von Waldheim in the amount of T€ 1,397 (prior year: T€ 1,538). 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.

Intra-group billing relates predominantly to supplies of pharmaceuticals, consulting, the passing on of the costs of business supplies, the cost-sharing of IT and telephone systems, personnel services and office equipment, and involve J. Medinger & Söhne and Alvetra u. Werfft GmbH, Vienna in particular.

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

| in T€ | Receipts 2008/2009 | Receipts 2007/2008 | Expenses 2008/2009 | Expenses 2007/2008 |
|---|---|---|---|---|
| Alvetra und Werfft GmbH | 1,363 | 1,095 | 36 | 0 |
| J. Medinger & Söhne | 119 | 98 | 1,706 | 1,053 |
| Anton von Waldheim | 2 | 2 | 114 | 122 |
| Comtel Air Luftverkehr GmbH | 0 | 7 | 9 | 0 |

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€ 123 (2007/2008: T€ 141).

# 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 [1)]
Werner Frantsits, resident in Vienna [2)]

[1)] Maximilian Hudl left the Board of Management on 31 May 2009 under a mutual agreement.
[2)] In accordance with § 90 (2) of the Austrian Stock Corporation Act (AktG), Werner Frantsits is representing Herbert Frantsits during the period between 6 August 2009 and 5 May 2010.

On 29 January 2010, the Board of Management approved the presentation of the Consolidated Financial Statements of SANOCHEMIA Pharmazeutika AG to the Supervisory Board. The Supervisory Board is tasked with deliberating whether the Consolidated Financial Statements are subsequently approved.

## 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 (Chairman)
**Richard Bock**, resident in Vienna [3)]

[3)] Richard Bock was elected to the Supervisory Board at the last Annual Shareholders' Meeting on 26 March 2009.

## Shares held by Executive Officers

The following shares and authorised options were held by the Company's executive officers at 30 September 2009:

The option programme was approved by the Supervisory Board at its meeting on 24. 2. 1999.

| | Shares held | Options |
|---|---|---|
| Anton Dallos | 35,340 | 0 |
| Herbert Frantsits | 25,170 | 0 |
| Werner Frantsits | 25,030 | 0 |
| Eveline Frantsits | 1,350 | 0 |
| Günter Kahler | 4,000 | 0 |
| Johannes Respondek | 2,000 | 0 |
| Heinrich Unger-Krayer | 500 | 0 |
| Richard Bock | 0 | 0 |

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



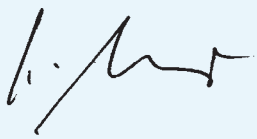
## Events after the Balance Sheet Date

For health reasons, Herbert Frantsits resigned from the Board of Management at the end of October 2009.

# RESPONSIBILITY STATEMENT

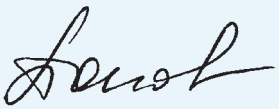
"To the best of our knowledge, and in accordance with generally accepted principles for consolidated financial reporting, these financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the consolidated management report of the 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, 29 January 2010
**The Board of Management**



Werner Frantsits

Anton Dallos



Maria Popova

# AUDITOR'S REPORT

## Auditor's 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 2008 to 30 September 2009. Those financial statements comprise the balance sheet as at 30 September 2009, 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 gave rise to the following objections:

Impairment tests according to IAS 36 were carried out for capitalised development costs. Basis for the impairment tests are the discounted, budgeted future cash flows of the particular product developments. When performing impairment testing, the existing uncertainties of the budgeted cash flows can have material impact on the value in use of the capitalised development costs. Capitalised development costs for Tolperison amount to KEUR 7.652. The budgeted future cash flows for Tolperison could not confirm the recoverability of the capitalised development costs. Capitalised development costs for Tolperison as of 30 September 2009 have to be adjusted by KEUR 2.000 according to budgeted figures.

Based on the results of our audit, in our opinion – except to the qualification mentioned above - the consolidated financial statements present fairly the financial position of the group as of 30 September 2009 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.

Without qualifying our opinion, we draw attention to the fact that capitalised development costs amounting to KEUR 17.189 (after taking into account our qualification amounting to KEUR 15.189) are only recoverable in the case that budgeted figures will be achieved. Without qualifying our opinion, we further draw attention to the specifications made by management in the summary of significant accounting policies and other explanatory notes, section risk exposure report and the management report for the group, section liquidity risks, concerning going concern.



*Comments on the Management Report for the Group*

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. The auditor's opinion also has to contain a statement as to whether the management report for the group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the Group Management Report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 29 January 2010

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

Harald Weiler
Austrian Certified Public Accountant

# SUPERVISORY BOARD REPORT

The Supervisory Board of SANOCHEMIA Pharmazeutika AG was regularly informed by the Board of Management about the development of business during the 2008/2009 financial year and undertook the tasks appointed to it according to the relevant legislation and the Company's statutes with the greatest of care and to the full extent prescribed therein.

The Supervisory Board of SANOCHEMIA sat on four occasions during the course of the financial year 2008/2009, namely on 18.12.2008, 26.03.2009, 26.05.2009 and 26 and 27.08.2009. These meetings were also attended by the Board of Management.

In addition to these meetings, certain Supervisory Board members held regular discussions with the Board of Management on business developments and in particular on the development of the Company and upcoming decisions. The Supervisory Board discussed at great length and during a number of the above meetings major issues such as the breach of contract on the part of Avigen, the risk situation and the necessary strategic and organisational realignment of SANOCHEMIA. These discussions focussed in particular on matters such as the Company's future strategy and business policy as well as the decision to take the opportunity presented by the preparation of these financial statements to take impairment charges against a number of past investments, financial assets and receivables; a decision which also led to personnel changes on the Board of Management.



The Financial Committee of the Supervisory Board also sat on four occasions during the twelve months under review. At these meetings, the financial development of the Company and major investment decisions were discussed at length and advice offered to the Supervisory Board. Furthermore, members of the Supervisory Board also attended sittings of SANOCHEMIA's International Scientific Advisory Board.

## Audit of the consolidated financial statements for 2008/2009

The Profit and Loss Account, Balance Sheet, Management Report and Consolidated Management Report presented by the Board of Management for the financial year 2008/2009 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 audit certificate for the 2008/2009 financial year.

On the basis of its own determinations and the 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. Furthermore, the Supervisory Board fully shares the opinion of the Board of Management that no additional write down of tolperisone is necessary, as was proposed by the Auditor, other than scheduled depreciation in the amount of €1.0m.

## Miscellaneous

At the Annual General Meeting held on 25 March 2009, the supervisory board members Eveline Frantsits, Johannes Respondek, Heinrich Unger-Krayer, Günter Kahler and Werner Frantsits were reappointed to serve on the Supervisory Board for the maximum period of five years as defined in the company statues.

In August 2009 and at short notice, there was a need to make personnel changes at the management level of SANOCHEMIA Pharmazeutika AG following the sudden deterioration in the health of CEO / CFO Herbert Frantsits. With immediate effect, Werner Frantsits took over the positions of CEO / CFO on an interim basis for a period of nine months. The chairmanship of the Supervisory Board has been taken over by Günter Kahler for the same period.



## Acknowledgements

The Supervisory Board wishes to express its gratitude to the Board of Management, the general managers of the subsidiaries and all Group employees for their outstanding efforts and commitment during the course of the past financial year.

Günter Kahler
**Chairman of the Supervisory Board**

26 January 2010

# 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 2 February 2010.

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 Wien, Österreich
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