# SANASTERA S.p.A.

**Consolidated Financial Statements**
**as at December, 31st 2010**

**SANASTERA S.p.A.**

**DOMICILED IN BOLOGNA**
**SHARE CAPITAL EUROS 282.865.000**
**COMMERCIAL REGISTER NUMBER AND FISCAL CODE 02755811201**
**REGISTERED AT N.464697 OF R.E.A. OF BOLOGNA**

## CONSOLIDATED FINANCIAL STATEMENTS

| Consolidated Balance Sheet € / 000 | Note | As at 31 December 2010 | As at 31 December 2009 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | **1** | 24.087 | 25.438 |
| Goodwill | **1** | 27.310 | 27.310 |
| Property, plant and equipment | **2** | 191.365 | 191.408 |
| Equity investments | **3** | 1.645 | 67.922 |
| Deferred Income tax assets | **4** | 13.107 | 10.055 |
| Other receivables | **5** | 8.785 | 12.236 |
| | | **266.299** | **334.369** |
| **Current assets** | | | |
| Inventories | **6** | 556.180 | 499.452 |
| Trade receivables | **7** | 631.722 | 626.236 |
| Financial assets at fair value through profit or loss | **8** | 68.883 | 40.920 |
| Other current assets | **9** | 76.936 | 89.147 |
| Cash and cash equivalents | **10** | 1.291 | 1.491 |
| | | **1.335.012** | **1.257.246** |
| **Total assets** | | **1.601.311** | **1.591.615** |
| **Equity** | | | |
| **Capital and reserves attributable to equity holders of the company** | | | |
| Share capital | **11** | 282.865 | 282.865 |
| Share premium | **11** | 132.518 | 132.518 |
| Legal reserve | **11** | 56.573 | 56.573 |
| Other reserves | **11** | 9.304 | (1.919) |
| Available for sale investments | **11** | 531 | 38.088 |
| Cash flow hedge | **11** | (3.717) | (1.838) |
| Profit for the period | | 62.078 | 31.025 |
| | | **540.152** | **537.312** |
| **Minority interest in equity** | | **1** | **2** |
| **Total Equity** | | **540.153** | **537.314** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | **12** | 44.681 | 64.009 |
| Derivative financial instruments | **12** | 6.365 | 3.824 |
| Deferred income tax liabilities | **13** | 8.822 | 9.200 |
| Retirement benefit obligations | **14** | 56.640 | 44.407 |
| Provisions for other liabilities and charges | **15** | 13.057 | 10.837 |
| | | **129.565** | **132.277** |
| **Current liabilities** | | | |
| Trade payables | **16** | 454.563 | 385.704 |
| Current income tax liabilities | **17** | 559 | 3.726 |
| Borrowings | **12** | 182.105 | 259.307 |
| Derivative financial instruments | **12** | 46 | - |
| Other liabilities and charges | **18** | 294.320 | 273.287 |
| | | **931.593** | **922.024** |
| **Total liabilities** | | **1.061.158** | **1.054.301** |
| **Total equity and liabilities** | | **1.601.311** | **1.591.615** |

| Consolidated Statement of comprehensive income € / 000 | Note | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|---|
| **Revenue** | | | |
| Sales revenue | **19** | 7.319.257 | 6.840.754 |
| Other operating income | **20** | 93.224 | 88.162 |
| | | **7.412.481** | **6.928.916** |
| **Cost of raw materials, supplies and merchandise** | **21** | **6.955.249** | **6.486.594** |
| **Gross profit** | | **457.232** | **442.322** |
| **Personnel expenses** | | | |
| Wages and salaries | **22** | 167.641 | 161.164 |
| Social security, retirement benefits and other benefits | **22** | 66.124 | 54.558 |
| | | **233.765** | **215.722** |
| **Other operating expenses** | **23** | **154.146** | **151.145** |
| **Gross Operating Margin** | | **69.321** | **75.455** |
| **Amortization and depreciation** | **24** | **30.577** | **27.328** |
| **Operating Profit** | | **38.744** | **48.127** |
| Income from equity investments | **25** | 42.654 | 2.946 |
| Finance income | **25** | 6.259 | 9.470 |
| Finance costs | **25** | (13.045) | (13.679) |
| **Financial result** | | **35.868** | **(1.263)** |
| **Profit before income tax** | | **74.612** | **46.864** |
| **Income tax expense** | **26** | **12.535** | **15.840** |
| **Profit for the year** | | **62.077** | **31.024** |
| **Attributable to:** | | | |
| Shareholders of the Company | | 62.078 | 31.025 |
| Minority interest | | (1) | (1) |
| | | **62.077** | **31.024** |
| **Earnings per shares for profit attributable to the Shareholders of the Company** | | | |
| - basic | **27** | **21,946** | **10,968** |
| - diluted | **27** | **21,946** | **10,968** |
| **Profit for the year** | | **62.077** | **31.024** |
| **Other comprehensive income:** | | | |
| Changes in the fair value of available-for-sale equity investments | **11** | (37.557) | 16.854 |
| Fair value losses of the derivatives designated as hedging instruments | **11** | (1.879) | (729) |
| Other comprehensive income | **11** | 98 | (49) |
| **Other comprehensive income for the year, net of tax** | | **(39.338)** | **16.076** |
| **Total comprehensive income for the year** | | **22.739** | **47.100** |
| **Attributable to:** | | | |
| Shareholders of the Company | | 22.740 | 47.101 |
| Minority interest | | (1) | (1) |
| | | **22.739** | **47.100** |

## Sanastera S.p.A. Consolidated Financial Statements

### Changes in Equity

| € / 000 | Share Capital | Share Premium | Legal Reserve | Other reserves | Available for sale equity investments | Cash flow hedge | Group's Profit for the period | Equity of the Group | Minority interest | Minority Profit for the period | Equity of the Minor | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***December, 31st 2008*** | *282.865* | *132.518* | *56.573* | *(18.197)* | *21.234* | *(1.109)* | *35.327* | ***509.211*** | *4* | *(1)* | *3* | ***509.214*** |
| **Profit for the period 2008 allocation - April, 29th 2009** | | | | 35.327 | | | (35.327) | **-** | (1) | 1 | - | **-** |
| **Dividend distribution - April, 29th 2009** | | | | (19.000) | | | | **(19.000)** | | | - | **(19.000)** |
| **Changes in the fair value of available-for-sale equity investments** | | | | | 16.854 | | | **16.854** | | | - | **16.854** |
| **Fair value losses of the derivatives designated as hedging instruments** | | | | | | (729) | | **(729)** | | | | **(729)** |
| **Other changes (*)** | | | | (49) | | | | **(49)** | | | - | **(49)** |
| **Profit for the period 2009** | | | | | | | 31.025 | **31.025** | | (1) | (1) | **31.024** |
| ***December, 31st 2009*** | *282.865* | *132.518* | *56.573* | *(1.919)* | *38.088* | *(1.838)* | *31.025* | ***537.312*** | *3* | *(1)* | *2* | ***537.314*** |
| **Profit for the period 2009 allocation - April, 20th 2010** | | | | 31.025 | | | (31.025) | **-** | (1) | 1 | - | **-** |
| **Dividends distribution - April, 20th 2010** | | | | (19.900) | | | | **(19.900)** | | | - | **(19.900)** |
| **Changes in the fair value of available-for-sale equity investments** | | | | | (37.557) | | | **(37.557)** | | | - | **(37.557)** |
| **Fair value losses of the derivatives designated as hedging instruments** | | | | | | (1.879) | | **(1.879)** | | | | **(1.879)** |
| **Other changes (*)** | | | | 98 | | | | **98** | | | - | **98** |
| **Profit for the period 2010** | | | | | | | 62.078 | **62.078** | | (1) | (1) | **62.077** |
| ***December, 31st 2010*** | *282.865* | *132.518* | *56.573* | *9.304* | *531* | *(3.717)* | *62.078* | ***540.152*** | *2* | *(1)* | *1* | ***540.153*** |

**(*) Net of deferred tax**

**Sanastera S.p.A.**
**Consolidated Financial Statements**

| Consolidated Cash Flow Statement € / 000 | Note | Year ended 31, December 2010 | Year ended 31, December 2009 |
|---|---|---|---|
| **Operating Profit** | | **38.744** | **48.127** |
| Income from investments | | 42.654 | 2.946 |
| Finance income | | 6.259 | 9.470 |
| Finance costs | | (13.045) | (13.679) |
| Income tax expense | | (12.535) | (15.840) |
| **Profit for the year** | | **62.077** | **31.024** |
| Amortization and depreciation expense | | 30.577 | 27.328 |
| Changes in provisions | | 9.691 | 11.655 |
| Gain/loss on the disposal of non-current assets | | (39.467) | (70) |
| Changes in inventories | | (56.728) | (111.279) |
| Changes in trade receivables and other assets | | 47.845 | (126.296) |
| Changes in trade payables and other liabilities | | 9.569 | 146.135 |
| Changes of consolidation | | - | 89.050 |
| Other non-cash changes in liabilities | | (1.875) | (598) |
| **Cash flows from operating activities** | **28** | **61.689** | **66.949** |
| Cash receipts from the disposal of non-current assets (residual carrying amount of disposal increased by gains and reduced by losses on the disposal of the assets) | | 69.450 | 1.588 |
| Cash paid/get to acquire intangible assets | | (3.793) | (3.783) |
| Cash paid to acquire property, plant and equipment | | (23.832) | (33.323) |
| Cash paid to acquire financial assets | | (1.524) | (476) |
| Acquisition von-der-Linde Group | | - | (109.191) |
| **Cash flows from investing activities** | **29** | **40.301** | **(145.185)** |
| Cash receipts from borrowing | | - | 150.046 |
| Cash paid to shareholders (dividends, repayment of capital, other distributions) | | (19.900) | (19.000) |
| Changes of consolidation | | - | (55.775) |
| Cash paid for the repayment of loans | | (82.290) | 1.881 |
| **Net cash used in financing activities** | **30** | **(102.190)** | **77.152** |
| **Net increase/decrease in cash and cash equivalents** | | **(200)** | **(1.084)** |
| Cash and cash equivalents at beginning of period | | 1.491 | 2.575 |
| **Cash and cash equivalents at end of period** | **31** | **1.291** | **1.491** |

**Sanastera S.p.A.**
**Consolidated Financial Statements**

| Reconciliation of consolidated equity € / 000 | Profit for the year | | Equity | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Equity and Profit for the year of SANASTERA S.p.A.** | **19.296** | **19.423** | **491.277** | **491.882** |
| Equity and Profit for the year of consolidated companies net of the share attributable of Minority interest | 62.782 | 31.602 | 520.036 | 516.591 |
| Carrying amounts of consolidated investments | | | (471.161) | (471.161) |
| **Consolidation adjustments:** | | | | |
| Dividends | (20.000) | (20.000) | | |
| **Equity and Profit for the year attributable to equity holders of SANASTERA S.p.A.** | 62.078 | 31.025 | 540.152 | 537.312 |
| Equity and Profit for the year attributable to Minority Interest | (1) | (1) | 1 | 2 |
| **Equity and Profit for the year of the consolidated financial statements** | **62.077** | **31.024** | **540.153** | **537.314** |

# SANASTERA GROUP

## NOTES

### TO THE CONSOLIDATED FINANCIAL STATEMENTS

### DECEMBER, 31ST 2010

## Contents

## *A. General information*

Sanastera S.p.A. (hereinafter "Sanastera" or the "Company") has been incorporated as limited liability company on May 25th, 2007 with a cash contribution of 10 thousand of Euro, and it is domiciled in Italy. The address of its registered office is Piazza Galvani 3, Bologna, Italy.
The Company is not listed on the stock exchange.

On November 28, 2007 a capital increase has been successfully completed; the share capital of Sanastera was increased from € 10.000 to € 50.000.000 with a capital surplus amounting to € 421.171.546 (total equity increase amounting to € 471.171.546) through the contribution in kind of the investments in the following subsidiaries, accounted for the following amounts (on a predecessor basis value) in Sanastera statutory financials:

| | |
|---|---|
| 1. CERP Rouen SAS (Rouen – France) | € 141.427.427 |
| 2. Sanacorp Pharmahandel GmbH (Plannegg – Germany) | € 329.734.119 |

The contribution reports, written by an independent auditor, estimated an equity value of each investment of € 350.000.000 for a total amount of € 700.000.000.

On January 10, 2008 a second capital increase has been successfully completed through a re-allocation of reserves; the share capital of Sanastera was increased from € 50.000.000 to € 282.865.000 through the allocation of share premium reserve for an amount of € 232.865.000.

The core business of Sanastera S.p.A. is the acquisition and management of interests in companies involved in the activities of wholesale pharmaceutical and para-pharmaceutical goods.

Both subsidiaries companies are mainly involved in the business of wholesale pharmaceuticals and para-pharmaceutical and produce goods and supply services in the same business area.

Sanastera S.p.A. assumed its denomination during the period, changing from the previous one Millennium S.p.A..

These Group Consolidated Financial Statements were authorised for issue by the Board of Directors on March 28th, 2011, in order to be approved by the Supervisory Board on May 17th 2011.

## *B. Summary of significant accounting policies*

### *Basis of preparation*

The consolidated financial statements of Sanastera S.p.A. and its subsidiaries ( “Sanastera Group” or the “ Group”) have been prepared in accordance with International Financial Reporting Standards. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the paragraph *Critical accounting estimates and judgements*.

*Standards, amendments and interpretations to existing standards effective in 2010 that have been adopted by the Group:*

*IFRIC 18 Transfers of assets from customers*
This interpretation is of particular importance for utility companies. It clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use to provide the customer with ongoing access to a supply of goods or services. The interpretation also comprises cases in which the entity receives cash from a customer that must be used to acquire or produce one of the above-mentioned items. The interpretation will not affect the subgroup’s financial position, cash flows and profit or loss.

*IFRIC 17 Distributions of non-cash assets to owners*
IFRIC 17 covers the previously undefined fact of an entity measuring non-cash assets distributed equally to all owners. This interpretation also applies to transfers giving the owners a choice of taking cash in lieu of non-cash assets. Other non-cash assets cover entire businesses as defined in IFRS 3 and shares in companies or disposal groups as defined in IFRS 5. The interpretation will not affect the subgroup’s financial position, cash flows and profit or loss.

*IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial Instruments: Recognition and Measurement*
Amended IFRIC 9 requires from an entity to assess whether an embedded derivative must be separated from its host contract, if the entity reclassifies a hybrid financial asset out of the fair-value-through-profit-or-loss category. This assessment must be based on facts applicable to the later of the following deadlines: the time when the entity first becomes a party to the contract or the time there was a change in terms of the contract that significantly modified the cash flows. If the fair value of the embedded derivative cannot be determined reliably, the entire combined financial instrument remains designated as at fair value through profit or loss in accordance with IAS 39. The interpretation will not affect the subgroup’s financial position, cash flows and profit or loss.

*IFRS 1 First-time adoption of IFRSs*
The amendments to this standard relate to the standard’s formal structure to make it more readable and provide a better clarity of presentation and to make future amendments easier. The existing provisions of IFRS 1 for first-time adopters of IFRSs will not change. Also, additional exceptions for first-time adopters were included. This amendment will not affect the subgroup’s financial position, cash flows and profit or loss.

*IAS 39 “Financial Instruments: Recognition and Measurement – eligible hedged items*
The amendment clarifies that it is permitted to designate part of the changes in fair value or cash flows of a financial instrument as hedged items. This refers also to the designation of inflation risk or inflation portions as hedged risk in certain circumstances. The amendment will apply retroactively for the first time in the reporting period of a financial year beginning on or after 1 July 2009. This amendment will not affect the subgroup’s financial position, cash flows and profit or loss.

*IAS 27 Consolidated and separate financial statements*
According to this revised standard, acquisitions or disposals of equity interests in subsidiaries without losing control are accounted for as transactions with owners in their capacity as owners. Consequently, such a transaction does neither create goodwill nor gains or losses. In addition, the provisions on the allocation of losses on parent shareholders and non-controlling interests and the accounting rules for

transactions resulting in a loss of control, were revised. These amendments will apply for the first time in the reporting period of a financial year beginning on or after 1 July 2009. This amendment will not affect the subgroup's financial position, cash flows and profit or loss.

*Revised IFRS 3 (Business combinations)*
IFRS 3 introduces major changes to the accounting for business combinations applicable after the time of first adoption. The amendments affect the measurement of non-controlling interests, accounting for transaction costs, initial recognition, contingent consideration and step acquisitions. These amendments will affect the amount recognised for goodwill, the profit or loss in the reporting period in which a business is acquired and future profit or loss. This standard is to be applied prospectively to business combinations from the beginning of the first reporting period of a financial year on or after 1 July 2009. The interpretation will not affect the subgroup's financial position, cash flows and profit or loss.

*Amendment to IFRS 2 (Share-Based Payment)*
The scope of share-based payments was revised. The new definition of share-based payments extends their scope to share-based payments made by shareholders or within the group. IFRS 2 refers to share-based payment transactions in which an entity accounts for goods or services it has received by settling these transactions in equity instruments or in cash. The amendments eliminate the inconsistencies existing in the previous rules. Payments are share-based payments according to the amended version, if a subsidiary receives goods or services and another entity of the same group of companies or a group shareholder pays the obligation to settle this share-based payment. The recipient of the goods or services must account for the share-based payment transaction as an equity-settled share-based payment. The amendments replace the interpretations IFRIC 8 and IFRIC 11. The amended version will not affect the subgroup's financial position, cash flows and profit or loss.

*Standards, amendments and interpretations to existing standards effective in 2010 that have not been early adopted by the Group:*

*Amendments to IFRIC 14 (Prepayments of a minimum funding requirement)*
The amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" was formally adopted by the European Commission on 20/07/2010. This amendment affects companies which make prepayments for minimum funding contributions to their pension plans. The benefit from such a prepayment can now be recognised as an asset. The amendment is effective for financial years beginning after 31/12/2010. The interpretation will not affect the subgroup's financial position, cash flows and profit or loss.

*IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments) and amendments to IFRS 1 (First-time adoption of IFRSs)*
On 23 July 2010 IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" was endorsed by European Law. If equity instruments are issued to repay financial liabilities, the latter must be derecognised. The equity instruments are to be measured at fair value. If the fair value of the equity instruments cannot be determined reliably, they are to be measured at the fair value of the extinguished liability. The difference between the carrying amount of the extinguished liability and the original value of the equity instruments must be recognised in profit or loss. This interpretation should be applied to financial years that begin on or after 01/07/2010. The amendments will not affect the subgroup's financial position, cash flows and profit or loss.

*Amendments to IAS 24 (Related Party Disclosures) and amendments to IFRS 8 (Operating Segments)*
The revised IAS 24 clarifies the definition of a related party and exempts government-related entities from disclosing certain related party transactions. The amendments to IFRS 8 relate to further amendments resulting from the adoption of IAS 24 with reference to the disclosure format for major government clients. The new version is effective for financial years beginning after 31/12/2010. The previous standard will be substituted for the new one. The amendments will not affect the subgroup's financial position, cash flows and profit or loss.

*Amendment to IFRS 1 (First-time adoption of IFRSs) and IFRS 7 (Financial Instruments)*
The previous standard was extended to include a limited exemption for first-time adopters. The amendment applies to financial years that begin on or after 1 July 2010. The interpretation will not affect the subgroup's financial position, cash flows and profit or loss.

## *Consolidation*

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

As mentioned above, Sanastera S.p.A. is a joint venture company formed in 2007, through the contribution in kind of the investments in the following subsidiaries, which have been accounted for the following amounts (on a predecessor basis value) in Sanastera statutory financials:

| | | |
|---|---|---|
| 1. | CERP Rouen SAS (Rouen – France) | € 141.427.427 |
| 2. | Sanacorp Pharmahandel GmbH (Planneg – Germany) | € 329.734.119 |

The contribution reports, written by an independent auditor estimated an equity value of each investment of € 350.000.000 for a total amount of € 700.000.000.

The formation of a joint venture is a transaction which is out of scope of IFRS 3 – Business Combination. As consequence, under IAS 8 the Company had to select a proper accounting policy in order to account for the above mentioned transaction. Following the document Assirevi OPI 1, which deals with transactions between entities under common control, and considering that it is not immediately evident that the transaction will produce a significant impact on the cash flows of the entities involved before and soon after it, the formation of the joint venture has been accounted for on a predecessor basis values. Thus the carrying amounts of assets and liabilities previously booked in the financial statements of the companies that contributed their businesses to the joint venture through the contribution in kind mentioned above, have been used to account for the “acquisition” of the two subsidiaries by the Group.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

*(b) Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

*(c) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group’s investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Where the Group, disregarding the percentage of shareholding, does not have the possibility to exercise a significant influence over an associate, the latter is accounting for under IAS 39.

Sanastera Group comprises Sanacorp Subgroup (Germany), where Sanacorp Pharmahandel Gmbh is the parent company, and Cerp Rouen Subgroup (France), where Cerp Rouen Sas is the parent company.

Sanacorp Pharmahandel GmbH, Planegg - Germany, holds the following subsidiaries:

| Firm Name | Domicile | Share in capital |
|---|---|---|
| Richard A. L. Witt GmbH | Germany, Planegg | 100% |
| U. Perrey Vermittlungsgesellschaft für Versicherungen mbH | Germany, Planegg | 100% |
| PAN Partner-Apotheken-Netzwerk GmbH | Germany, Planegg | 100% |

At the end of the reporting period, the number of companies consolidated in the subgroup changed as compared to the previous year's financial statements. Based on the merger agreement of 23 March 2010 and the shareholder resolutions passed on the same day, DGA Dienstleistungsgesellschaft für Apotheken mbH, Düsseldorf and Linde Arzneimittel GmbH, Düsseldorf, merged with retroactive effect of 1 January 2010. In addition, based on the merger agreement of 23 March 2010 and the shareholder resolutions passed on the same day, Linde Arzneimittel GmbH, Düsseldorf and Sanacorp Pharmahandel GmbH merged with retroactive effect of 1 January 2010. The mergers had no impact on the financial position, cash flows and profit or loss of Sanacorp Pharmahandel subgroup.

CERP Rouen Sas, Rouen - France, holds the following subsidiaries:

| Firm Name | Domicile | Share in capital |
|---|---|---|
| Sobedip SA | Belgium, Brussels | 99,99% |
| CERP SA | Belgium, Brussels | 99,95% |
| Les Pharmaciens Associés SA | Belgium, Brussels | 99,80% |
| Sodiphar Sarl | Luxemburg | 99,99% |

***Intangible assets***

After its initial recognition, an internally generated intangible asset, like a separately acquired intangible asset, is to be recognised at cost less any accumulated amortisation and accumulated impairment losses.

Research expense is recognised in the profit or loss in the period in which it arises.

An intangible asset arising from internal development is recognised if, and only if, all the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use
- the intention to complete the intangible asset and use it
- the ability to use the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria mentioned above. If no internally generated intangible asset can be recognised, the development expenditure is to be recognised as profit or loss in the period in which it was incurred.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

***Property, plant and equipment***

Items of property, plant and equipment are recognised at cost less accumulated depreciation.

Construction in progress for the purpose of production, lease or administrative or any other as yet undefined purpose are recognised at cost less any impairment. Cost includes fees for purchased services. Depreciation of such an asset follows the same principles as those applied to comparable other items of property, plant and equipment and begins as soon as it is completed or operates in the manner intended.

The depreciable amount of an asset, except for land or construction in progress, is allocated on a systematic basis over its expected useful life.

The assets useful lives are reviewed, and adjusted if appropriate, at each balance sheet date:

| Type of assets | Expected useful life |
|---|---|
| Buildings | 20 to 50 years |
| Hereditary building rights | 50 years |
| Land improvements | 9 to 25 years |
| Structural works | 20 to 50 years |
| Leasehold improvements and finishing works | 5 to 33 years |
| Roofing | 10 to 20 years |
| Fixtures | 5 to 20 years |
| Conveyor belts, order picking machines | 8 years |
| Equipment & fixtures | 3 to 25 years |
| Operating and office equipment | 3 to 13 years |
| Computer hardware | 3 to 10 years |
| Vehicle fleet | 2,5 to 6 years |

Gains or losses arising from the sale or retirement of an asset are determined as the difference between the disposal proceeds and the carrying amount of the item. They are recognised in profit or loss.

Low-value assets are fully written off in the year of acquisition. They are recognised as disposals in the statement of changes in non-current assets.

***Inventories***

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

Allowances were recognised for inventory risks arising from the range of the product portfolio and the turnover rate of the products.

***Financial instruments***

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments recognised as financial assets or financial liabilities are recognised separately. The financial instruments are recognised as soon as Sanastera becomes a party to the contractual provisions of the instruments.

Financial instruments are initially recognised at their fair values. For the purpose of measuring the financial instruments after initial recognition they are classified into the categories defined in IAS 39.

Transaction costs which are directly attributable to the acquisition or issue of a financial asset are accounted for when determining the carrying amount, if the financial instruments are not measured at fair value through profit or loss. If the trade date and the settlement date (i.e. the day of delivery) differ, Sanastera chooses the trade date for the initial recognition and/or de-recognition.

***Financial assets***

The financial assets mainly comprise trade receivables, receivables from affiliates, receivables from banks, cash in hand, derivative financial assets and marketable securities.

*Financial assets measured at fair value through profit or loss*

Financial assets measured at fair value through profit or loss consist of financial assets held for trading. Financial assets such as interest-bearing securities are classified as held for trading, if they are acquired for the purpose of selling them in the near term.
Derivatives, including embedded derivatives, which were separated from their host contract, are also classified as held for trading, unless they are hedging instruments qualifying for hedge accounting and are effective hedges. Gains or losses on financial assets held for trading are recognised in profit or loss.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand, checks, bank deposits with original maturity of three months or less. Cash and cash equivalents are identical with the respective item in the consolidated cash flow statement.

*Loans and receivables*

Receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market. One example are trade receivables. After their initial recognition, receivables are measured at amortised cost less impairments. Gains and losses are recognised in Group profit, if the receivables are de-recognised or impaired.

*Available-for-sale financial assets*

Available-for-sale financial assets are any non-derivative financial assets designated as available for sale and not classified in one of the above-stated categories. This category includes certain equity instruments.
After their initial recognition available-for-sale financial assets are measured at fair value, with unrealised gains or losses recognised directly in equity in the reserve for available-for-sale financial assets. This does not apply, if there is an objective indication that an asset may be impaired or if fair value changes on a debt instrument result from foreign currency fluctuations. The cumulative gains or losses that were recognised in equity are recognised in profit or loss when the financial assets are de-recognised. If a fair value cannot be reliably measured for equity instruments that do not have a quoted market price, they are measured at amortised cost (less impairment losses where applicable). Interest earned on these financial assets is generally recognised as interest income using the effective interest method. Dividends are recognised in profit or loss as soon as there is a legal entitlement to payment.

*Impairment of financial assets*

By every balance sheet date, the carrying amounts of the financial assets which are not measured at fair value through profit or loss, are assessed to see, whether there is any indication (such as considerable financial difficulties of the debtor, significant changes in the technological, economic, legal and market environment of the debtor) that the asset may be impaired. A sustained or significant decline in the fair value of an equity instrument is an actual indication that the asset may be impaired.

The amount of the impairment of loans and receivables is the difference between the asset's carrying amount and the present value of expected future cash flows (except for future loan losses which have not yet occurred). The impairment is recognised in profit or loss. If the amount of the impairment loss decreases in one of the subsequent reporting periods and if this decrease can be traced to a change that has taken place after the recognition of the impairment loss, the impairment loss recognised in an earlier period is reversed and the reversal is recognised in profit or loss. The impairment of trade receivables is recognised in allowance accounts. Whether a credit risk is recognised in an allowance account or accounted for in an impairment of the receivable, depends on the probability of a credit loss.

If receivables are classified as non-recoverable, the impaired asset is de-recognised.

If an available-for-sale asset is impaired, the amount so far recognised in equity is recognised in profit or loss as the difference between cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Reversals of impairment losses for equity instruments classified as available for sale are not recognised in profit or loss. Reversals of impairment losses for debt instruments are recognised in profit or loss, if the increase in the fair value of the instrument can be traced to an event that took place after the asset was recognised in profit or loss.

***Financial liabilities***

Financial liabilities mainly consist of trade payables, liabilities to banks, derivative financial liabilities and other liabilities.

*Financial liabilities measured at amortised cost*

After their initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

*Financial liabilities measured at fair value through profit or loss*

Financial assets which are measured at fair value through profit or loss include other non-current financial liabilities. Gains or losses on these financial liabilities are recognised in profit or loss.

***Derivative financial instruments and hedging relationships***

Due to its activities the Group is exposed to interest rate risks.
Interest-rate swaps were designated by the Group as a hedge of such exposure. Derivative financial instruments were not used for speculative purposes.

Gains or losses arising from a change in the fair value of derivative financial instruments designated as effective cash flow hedges are recognised in equity. The ineffective portion of the instruments is recognised in profit or loss. If cash flow hedges of risks associated with binding commitments or foreseeable transactions result in the recognition of an asset or a liability, the associated gain or loss originally recognised in equity will be included in the initial cost of the asset or the liability.

For an effective hedge of the exposure to changes in fair value the hedged item is adjusted by gains or losses on fair value attributable to the hedged risk and the associated amount is recognised in profit or loss. Gains or losses from re-measuring derivatives or the foreign currency component of the carrying amount for non-derivatives, are recognised in profit or loss.

Gains or losses arising from a change in fair value of derivative financial instruments which do not qualify for hedge accounting are recognised in profit or loss when they are incurred.

Hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting. In this case the cumulative gain or loss on the hedging instrument remains in equity until the forecasted transaction occurs. If we do no longer expect the hedged transaction to occur, the cumulative net gains or losses recognised in equity are reported in profit or loss.

Embedded derivatives or other host contracts are accounted for as separate derivatives if their risks and characteristics are no longer closely related to those of the host contract and the host contracts are not measured at fair value with unrealised gains or losses recognised in profit or loss.

***Provisions for pensions and other employee benefits***

Pension provisions are measured in accordance with the projected unit credit method. This method is based not only on the pension payments and vested benefits known on the balance sheet date, but also reflects future salary and pension increase prudently including the relevant actuarial assumptions.

The present value of the defined benefit obligation is recognised in the amount defined in the opinion of an actuarial institute less the fair value of plan assets.

The employee benefit obligation recognised is presented as the present value of the defined benefit obligation reduced by past service cost after offsetting it with the fair value of plan assets. Each asset resulting from such a calculation does not exceed past service cost plus the present value of available refunds and the reduction of future contributions to the plan.

***Other provisions***

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation.

***Revenue recognition***

Revenue is measured at the fair value of the consideration received or the amount receivable and is presented as amounts received for services rendered or goods supplied within the normal course of business, less any trade discounts, VAT or other sales-related tax.

Revenue from the sale of goods is recognised upon shipment and after transfer of the risks and rewards of ownership.

Interest income is recognised on an accrual basis taking into account outstanding receivables and the applicable effective interest rate. The effective interest rate is the interest rate, which, when applied, matches the present value of the estimated future cash inflows over the expected useful life of the financial asset with the net carrying amount.

Dividend income from financial investments is recognised as soon as the shareholder is legally entitled to payment.

***Cost of retirement benefits***

The Sanastera Group uses both defined benefit plans and defined contribution plans.

A defined benefit plan is a pension plan fixing a benefit amount to which an employee is entitled upon retirement and whose amount is determined by various assumptions such as age, years of service and salary.

Defined contribution plans are pension plans under which the subgroup pays fixed contributions into a separate entity. Hence, the Group has no legal or constructive obligation to pay further contributions, if the fund does not hold sufficient assets to pay all employee benefits.

Accounting for defined benefit plans involves determining the cost of benefits using the projected unit credit method requiring an actuarial valuation at each balance sheet date. Actuarial gains or losses are fully recognised in profit or loss in the period in which they are incurred. Past service cost is recognised immediately in the amount in which the benefits have vested or straight-line over the average period until the amended benefits become vested.

Under the defined contribution plan the Group pays contractually agreed contributions into a separate pension fund. The Group has no further obligations to pay any amounts beyond the contributions. The respective contributions are recognised under personnel expenses when they become due.

***Government grants***

Government grants for property, plant and equipment are deducted from the respective asset reducing depreciation over the expected useful life accordingly. Cost of the respective asset was reduced by the amount of the government grant received.

***Impairment of assets***

Items of property, plant and equipment and intangible assets are tested for impairment at each reporting date. If any such indication exists the company will have to estimate the recoverable amount of the asset to determine any impairment loss. If the asset does not generate any cash inflows which are independent of other assets, the recoverable amount of the asset will have to be estimated on the basis of the cash generating unit to which the asset belongs. Intangible assets with indefinite useful lives are tested for impairment annually irrespective of whether there is any indication that they may be impaired.

The recoverable amount is the higher amount of the fair value less costs to sell and the value in use of an asset. The value in use is determined on the basis of discounted future cash inflows taking as a basis a pre-tax market price equivalent to the time value of money, which reflects the asset risks not yet recognised in the future cash inflows.

If the recoverable amount of an asset (or a cash-generating unit) is lower than its carrying amount it is written down to its recoverable amount. Any impairment loss is to be recognised immediately in profit or loss, unless the asset has been re-valued. In this case the impairment loss is recognised as a reduction of the revaluation reserve.

The carrying amount of the asset (or the cash-generating unit) is increased to the recoverable amount when reversing an impairment loss in a subsequent period; it may however not exceed the carrying amount that would have been determined, had no impairment loss been recognised before. The reversal of the impairment loss is to be recognised immediately in profit or loss, unless it is recognised as a revaluation amount on the basis of another IFRS standard.

***Borrowing costs***

Borrowing costs are recognised in the period in which they are incurred.

***Taxes on income***

The current income tax charge is calculated on the basis of the tax law enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income.

Tax expense is the aggregate amount of current and deferred income tax.

Current tax is based on the taxable profit for a year. Taxable profit differs from accounting profit as it excludes taxable or deductible items in other years or non-taxable or non-deductible items. The Group's current tax expense is calculated by using the tax rates applicable or fixed by the balance sheet date.

Deferred taxes are the amounts of income taxes payable or recoverable in future periods resulting from the difference between the carrying amounts of the assets and liabilities in the balance sheet and the tax base used to calculate taxable profit. They are recognised using the asset/liability approach. In general, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred taxes are not recognised, if the temporary difference arises from goodwill or the initial recognition of assets and liabilities in a transaction (which is not a business combination) which neither affects taxable or accounting profit.

The carrying amount of a deferred tax asset should be reviewed at each balance sheet date and should be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.
Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred taxes are recognised either as tax income or tax expense, unless they relate to items recognised in equity; the deferred taxes are then also recognised in equity.

***Share-based payment transactions***

There are no share-based payments in Sanastera Group.

***Critical accounting estimates and judgements***

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below:

- Impairment of goodwill
- Income taxes
- Fair value of derivatives and other financial instruments
- Revenue recognition

## *C. Notes to the consolidated balance sheet*

### *Non-current assets*

### (1) Intangible assets and goodwill

Purchased computer software and licenses were amortised on a straight-line basis over their expected useful lives: 1 to 7 years.

Internally generated intangible assets relate to in-house developed software. These intangible assets were amortised on a straight-line basis over their expected useful lives: 5 to 15 years.

Intangible assets' movements in the year 2010 and 2009 are detailed as follows:

| **Amounts in € thousand** | **Purchased** | | **Internally generated** | | **Prepayments** | **Total** |
|---|---|---|---|---|---|---|
| | **Computer software** | **Licenses** | **Software** | **Software in development** | | |
| **Gross carrying amount 31 Dec. 2008** | **9.211** | **5.214** | **37.763** | **1.955** | **139** | **54.282** |
| Addition | 461 | 737 | 187 | 2.461 | 9 | 3.855 |
| Disposal (gross) | 379 | 1.000 | 71 | - | - | 1.450 |
| Transfer | (248) | - | 1.916 | (1.668) | - | - |
| Change in consolidated group | 82 | 266 | - | - | - | 348 |
| Reversal of impairment loss | - | - | - | - | - | - |
| **Gross carrying amount 31 Dec. 2009** | **9.127** | **5.217** | **39.795** | **2.748** | **148** | **57.035** |
| Addition | 466 | 625 | - | 2.703 | - | 3.794 |
| Disposal (gross) | 97 | - | 8 | 2 | - | 107 |
| Transfer | - | 133 | 1.603 | (1.604) | (85) | 47 |
| Change in consolidated group | - | - | - | - | - | - |
| Reversal of impairment loss | - | - | - | - | - | - |
| **Gross carrying amount 31 Dec. 2010** | **9.496** | **5.975** | **41.390** | **3.845** | **63** | **60.769** |
| Cumulative amortisation | 8.424 | 4.916 | 23.342 | - | - | 36.682 |
| **Carrying amount 31 Dec. 2010** | **1.072** | **1.059** | **18.048** | **3.845** | **63** | **24.087** |
| Current amortisation | 536 | 720 | 3.857 | - | - | 5.113 |

Software, both internally generated and purchased, refers mainly to the IT logistic system needed for delivering pharmaceutical goods.

Goodwill movements in the year 2010 and 2009 are detailed as follows:

| **Amounts in € thousand** | **Goodwill** |
|---|---|
| **Gross carrying amount 31 Dec. 2008** | **936** |
| Addition | - |
| Disposal (gross) | 145 |
| Transfer | - |
| Change in consolidated group | 26.519 |
| Reversal of impairment loss | - |
| **Gross carrying amount 31 Dec. 2009** | **27.310** |
| Addition | - |
| Disposal (gross) | - |
| Transfer | - |
| Change in consolidated group | - |
| Reversal of impairment loss | - |
| **Gross carrying amount 31 Dec. 2010** | **27.310** |
| Cumulative amortisation | - |
| **Carrying amount 31 Dec. 2010** | **27.310** |
| Current amortisation | - |

The goodwill of € 27.310 figured as assets represents:

- the contribution value of the veterinary activity brought to CERP Rouen SAS in July 2005 for an amount of € 791 thousand;
- the contribution value of the "von der Linde" group brought to Sanacorp GmbH in 2009 for an amount of € 26.519 thousand.
  The impairment test was performed at the end of the reporting year. The goodwill was allocated on the cash generating unit which comprised the two branches in Düsseldorf and Herne. Net assets including goodwill of the cash generating unit totalled € 161.341 thousand. Using a discount rate of 6.01% the present value amounted to € 207.824 thousand. Hence, the goodwill has not to be impaired. The discount rate used to be a post-tax rate, was based on weighted average cost of capital. The valuation model was based on financial budgets approved by the management board. In the detailed five-year period a sale growth of 2.0% was reflected. Beyond the five-year period a long-term growth rate of 1.25% was used.

### (2) Property, plant and equipment

Property, plant and equipment mainly comprises office buildings, production plants, leasehold improvements, warehouse and production technology as well as motor vehicles, of Sanacorp subgroup in Germany, and of CERP Rouen subgroup in France and Belgium.
Finance leases have been included within "other equipment" for a carrying amount at the closing date of € 15.635 thousand.

Details of property, plant and equipment are included in the table below:

| | Land, land rights and buildings | Other equipment, operating and office equipment | Prepayments and construction in progress | Total |
|---|---|---|---|---|
| **Gross carrying amount 31 Dec. 2008** | **139.563** | **167.338** | **4.357** | **311.258** |
| Addition | 8.830 | 20.262 | 4.432 | 33.523 |
| Transfer | 1.607 | 1.919 | (3.526) | - |
| Disposal | 108 | 13.230 | - | 13.339 |
| Change in consolidated group | 30.199 | 20.354 | - | 50.553 |
| Reversal of impairment loss | - | - | - | - |
| **Gross carrying amount 31 Dec. 2009** | **180.091** | **196.642** | **5.263** | **381.996** |
| Addition | 8.256 | 14.486 | 770 | 23.512 |
| Transfer | 4.472 | 451 | (4.969) | (46) |
| Disposal | 748 | 7.390 | - | 8.138 |
| Change in consolidated group | - | - | - | - |
| Reversal of impairment loss | - | - | - | - |
| **Gross carrying amount 31 Dec. 2010** | **192.072** | **204.188** | **1.064** | **397.323** |
| Cumulative depreciation | 67.973 | 137.952 | 33 | 205.958 |
| **Carrying amount 31 Dec. 2010** | **124.099** | **66.236** | **1.031** | **191.365** |
| Current depreciation | 6.299 | 15.929 | - | 22.228 |

One new agency was opened in France during this fiscal year; it represent an increase of € 1.800 thousand of the investments in tangible assets.

## (3) Equity investments

Investments in associates are shown in the table below:

| **Amounts in € thousand** | **Equity investments** |
|---|---|
| **Gross carrying amount 31 Dec. 2008** | **50.994** |
| Addition | 73 |
| Transfer | - |
| Disposal | - |
| Change in consolidated group | 1 |
| Gains/losses on fair value recognized in equity | 16.854 |
| **Gross carrying amount 31 Dec. 2009** | **67.922** |
| Addition | - |
| Transfer | - |
| Disposal | 66.206 |
| Change in consolidated group | - |
| Gains/losses on fair value recognized in equity | (71) |
| **Gross carrying amount 31 Dec. 2010** | **1.645** |
| Cumulative impairment loss | - |
| **Carrying amount 31 Dec. 2010** | **1.645** |
| Current impairment loss | - |

Sanacorp Pharmahandel GmbH sold his interest of 24.99% in Andreae-Noris Zahn AG, Frankfurt, in the financial year 2010. The company gained a profit of € 39.700 thousand of the selling price of € 69.410 thousand.
Investments in associates and other investment can be detailed as follows:

| **Amounts in € thousand** | | **Carrying amount 31 Dec. 2010** | **Carrying amount 31 Dec. 2009** |
|---|---|---|---|
| Andreae-Noris-Zahn AG | Listed | - | 66.206 |
| DZ-Bank | Listed | 1.554 | 1.646 |
| IPSO International Pharmaceutical Serv. Organisation BV | Not listed | 23 | 23 |
| Beteilingus-AG der bayerischen Volksbanken | Not listed | 44 | 23 |
| Other investments | Listed | 4 | 4 |
| Other investments | Not listed | 20 | 20 |
| **Total** | | **1.645** | **67.922** |

### (4) Deferred income tax assets

The deferred tax assets totalled € 13.107 thousand and were recognised primarily for deductible temporary differences between the pension provisions, finance lease liabilities, financial instruments and the other provisions in the IFRS financial statements and their tax base. Deferred tax assets were also recognised for differences arising from the measurement of receivables and low-value assets.

Deferred tax assets were composed as follows:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Non-current assets | 381 | 222 |
| Current assets | 647 | 931 |
| Provisions for pensions and other employee benefits | 6.014 | 4.439 |
| Other liabilities | 467 | (902) |
| Finance lease liabilities | 3.869 | 4.453 |
| Finance instruments | 1.729 | 912 |
| **Total** | **13.107** | **10.055** |

## (5) Other receivables

Other receivables can be detailed as follows:

| Amounts in € thousand | Securities and other long term investment | Long term loans | Prepayments | Corporation Tax credit | Total |
|---|---|---|---|---|---|
| **Gross carrying amount 31 Dec. 2008** | **97** | **2.532** | **463** | **7.511** | **10.603** |
| Addition | - | 231 | - | 1.562 | 1.793 |
| Disposal | - | 116 | - | 1.360 | 1.476 |
| Change in consolidated group | 9 | 60 | (463) | 1.748 | 1.354 |
| Gains/losses on fair value recognised in equity | - | - | - | - | - |
| **Gross carrying amount 31 Dec. 2009** | **106** | **2.706** | **-** | **9.461** | **12.273** |
| Addition | 1.325 | 199 | - | - | 1.524 |
| Disposal | - | 159 | - | 1.635 | 1.794 |
| Change in consolidated group | - | - | - | 248 | 248 |
| Gains/losses on fair value recognised in equity | - | - | - | - | - |
| Restatements | 380 | (380) | - | (3.428) | |
| **Gross carrying amount 31 Dec. 2010** | **1.811** | **2.366** | **-** | **4.646** | **8.823** |
| Cumulative impairment loss | (38) | - | - | - | (38) |
| **Carrying amount 31 Dec. 2010** | **1.773** | **2.366** | **-** | **4.646** | **8.785** |
| Current impairment loss | - | - | - | - | - |

<u>Securities and other long term investments</u> includes equity investments in three Belgian companies related to pharmacies, those companies are Automnia S.p.r.l., Lenans S.A. and Beeckmans Tongres S.A. and are not consolidated as the group has no significant control; they are accounted at their fair value at the closing date.

<u>Long term loans</u> includes long-term loans to employees for a present value of € 2.146 thousand (€ 1.960 thousand in 2009), the nominal value of € 3.522 thousand (€ 3.392 thousand in 2009) being discounted at a rate of 4,75% (5,50% in 2009).

<u>Corporation tax credit</u> for the entire amount of € 4.646 thousand at the reporting date relates to Sanacorp Pharmahandel GmbH, and will be paid from German Tax Authorities in ten years period. The present value recognised for the refund claim from the corporation tax credit amounted to € 4.646 thousand as of 31 December 2010 (previous year: € 5.188 thousand). The interest rate is 5.0%.

With reference to the reimbursements requested by Sanastera SpA to Federal Republic of Germany’s Treasury for withholding taxes from dividends resolved by the company Sanacorp Pharmahandel GmbH, the whole carriyng amount as of 31 December 2009 (€ 4.273 thousand) has been collected during the period. The credit has been collected by Sanastera SpA for an amount of € 844 thousand, and by Sanacorp Pharmahandel GmbH for an amount of € 3.429 and has been classified as a restatement.

***Current assets***

### (6) Inventories

Inventories breakdown is as follows:

| Amounts in € thousand | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Raw materials and supplies | 1.691 | 1.839 |
| Finished goods and work in progress | 548.911 | 492.087 |
| Advances paid | 5.577 | 5.526 |
| **Total** | **556.180** | **499.452** |

Write-downs of inventories to net realisable value which were made to take account of their low turnover rate and of price reductions amounted approximately to € 2.917 thousand.

### (7) Trade receivables

Trade receivables are detailed as follows:

| Amounts in € thousand | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Gross amount | 646.702 | 644.422 |
| Allowances | (14.980) | (18.186) |
| Carrying amount (net) | **631.722** | **626.236** |

An allowance was recognised for amounts due from the sale of goods presumed to remain not collectible. The allowance was determined on the basis of the probable collectability of an amount receivable taking into account past experience of debt default.

The trade receivables also include prolongations. Some of the payments deferred are not due within one year. These receivables are due in four years or less. Trade receivables with a residual term of more than one year total € 3.206 thousand.

Allowances for trade receivables are composed as follows:

| | |
|---|---|
| **Gross carrying amount 31 Dec. 2009** | **18.186** |
| Change in consolidated group | - |
| Additions - net | (346) |
| Utilization | (2.471) |
| Other changes | (389) |
| **End of period 31 Dec. 2010** | **14.980** |

Sanacorp subgroup sold receivables as part of true sale factoring in the amount of € 150.000 thousand. All risks under these receivables were transferred to the factor. Receivables in an amount of € 19.939 thousand were sold as part of an improper factoring. The risk remained by the Company. The net liability amounted to € 18.942 thousand.

### (8) Financial assets at fair value through profit or loss

The Financial assets at fair value through profit or loss are composed as follows:

| Amounts in € thousand | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Securities - fair value through P&L | 26.331 | - |
| Other securities - fair value through P&L | 42.552 | 40.920 |
| **Total** | **68.883** | **40.920** |

The entire amount of € 68.883 thousand was composed of marketable securities owned by CERP Rouen SAS.

The difference between *Securities* and *Other securities* is based on the terms of realising these activities: *Securities* can be realised in one day, while *Other securities* can be realised in a short time period (within three months).
Other financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the cash flow statement.

### (9) Other current assets

Other current assets are detailed as follows:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Prepaid expenses | 27.964 | 24.575 |
| Receivables from related parties | 14.537 | 18.331 |
| Receivables from other long-term investees and investors | - | 6 |
| Income tax claims | 988 | 1.242 |
| Tax receivables | 1.423 | 3.561 |
| Securities - held to maturity | - | 2.513 |
| Other assets | 32.025 | 38.918 |
| **Total** | **76.936** | **89.147** |

Prepaid expenses include mainly advances to suppliers (€ 23.300 thousand). Secondarily they also refer to insurance, maintenance contracts, rent, prepaid personnel and non-personnel costs.

Receivables from related parties refers to Sanacorp subgroup (€ 24 thousand) and CERP Rouen subgroup (€ 14.513 thousand) financial receivables. The related parties are detailed in the Note 38.

Income tax claims and tax receivables refers to Sanacorp subgroup (€ 988 thousand), Cerp Rouen subgroup (€ 1.330 thousand) and Sanastera SpA (€ 93 thousand).

Other assets combined receivables from suppliers and other current receivables. This item did not include any receivables with residual terms of more than one year.

There are no more securities held to maturity; a loss of € 13 thousand was accounted in 2010.

### (10) Cash and cash equivalents

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Cash at bank and on hand | 1.291 | 1.491 |
| **Total** | **1.291** | **1.491** |

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Cash at bank and on hand | 1.291 | 1.491 |
| Bank overdrafts | (179.646) | (259.307) |
| **Total** | **(178.355)** | **(257.816)** |

Bank overdrafts are disclosed in the note 12.

## *Equity*

### (11) Equity

Sanastera S.p.A. has a share capital for an amount of € 282.865 thousand and a premium in the amount of € 132.518 thousand.

The total authorised number of ordinary shares is 2.828.650 with a par value of € 100 per share. All issued shares are fully paid.

Gains and losses on the fair value evaluation are recognised in Equity as follows:

- with reference to *Available for sale investments* the impact of the period on Equity at the reporting date amounts to € (37.557) thousand, the change is mainly related to the reversal of the fair value of ANZAG investments (€ 37.486 thousand).
- with reference to *Cash flow hedge* the fair value net of deferred tax at the reporting date amounts to € (3.717) thousand and the impact of the period on Equity at the reporting date amounts to € (1.879) thousand.

In the period deferred tax were deducted from Equity in the amount of € 810 thousand.

The components of equity and their increase/decrease are disclosed in the statements of changes in equity and reconciliation of consolidated equity.

## *Non-current liabilities*

### (12) Borrowings and derivative financial instruments

Borrowings can be detailed as follows:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Bank borrowings | 26.684 | 46.301 |
| Lease liabilities | 11.967 | 14.355 |
| Other financial liabilities | 6.030 | 3.353 |
| **Total Borrowings – Non current** | **44.681** | **64.009** |
| Bank borrowings | 134.634 | 198.065 |
| Lease liabilities | 2.272 | 2.866 |
| Bank overdrafts | 45.131 | 58.309 |
| Other | 68 | 66 |
| **Total Borrowings – Current** | **182.105** | **259.307** |
| **Total Borrowings** | **226.786** | **323.316** |

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Less than 1 year | 182.106 | 259.307 |
| Between 1 year and 2 years | 6.216 | 19.156 |
| Between 2 years and 5 years | 34.046 | 35.491 |
| Over 5 years | 4.418 | 9.362 |
| **Total Borrowings** | **226.786** | **323.316** |

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| 6 months or less | 120.694 | 190.726 |
| 6-12 months | 15.888 | 9.174 |
| 1-5 years | 39.067 | 56.550 |
| Over 5 years | 4.172 | 8.872 |
| **Total Borrowings** | **179.821** | **265.322** |

Sanastera Group has not interest rate changes exposure for an amount of € 46.732 thousand.

The carrying amounts of the Group's borrowings are denominated in Euro.

The table below represents the fair value of the derivative financial instruments qualifying for hedge accounting (interest rate exposure) which has its counterpart in the equity:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Derivative financial instruments with counterpart Equity (non-current quota) | 6.365 | 3.824 |
| **Total** | **6.365** | **3.824** |

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Derivative financial instruments with counterpart Equity (current quota) | 46 | - |
| **Total** | **46** | **-** |

### (13) Deferred income tax liabilities

Deferred tax liabilities were recognised for tax payable in future periods in respect of differences between IFRS accounting profit and taxable profit. The differences resulted mainly from the measurement of non-current assets.

Deferred tax liabilities developed as follows:

| **Amounts in € thousand** | **31 Dec. 2009** | **Use** | **Reversal** | **Appropriation** | **31 Dec. 2010** |
|---|---|---|---|---|---|
| Deferred tax liabilities | 9.200 | 588 | 159 | 369 | 8.822 |

## (14) Retirement benefit obligations

Retirement benefit obligations developed as follows:

| Amounts in € thousand | 2010 | 2010 |
|---|---|---|
| Present value of all unfunded benefit obligations | 59.423 | 47.113 |
| Other defined benefit obligations | 7.236 | 6.363 |
| **Present value of all defined benefit obligations** | **66.659** | **53.476** |
| Unrecognised actuarial gain/loss | - | - |
| Unrecognised past service cost | - | - |
| Reinsurance policy and Present value of plan assets recognised against liability | (10.019) | (9.069) |
| Other recognised/unrecognised amounts | - | - |
| **Retirement benefit obligations as of 31 Dec. 2009** | **56.640** | **44.407** |

The retirement benefit obligations refer to Germany for an amount of € 52.481 thousand and to France for an amount of € 4.159 thousand.

The German retirement benefit obligations include:

- a pension plan applicable to all employees,
- commitments made to provide additional benefits to individual employees,
- the benefit agreements concluded with senior employees, the benefit plan of the support fund transferred,
- collective arrangements on continued salary in the case of death and
- lump-sum benefits payable from bonuses or service periods and claims to premiums accrued for such payment.

The present value of all defined benefit obligations totalled € 66.659 thousand on December 31st, 2010. The total amount both of insurance cover (€ 6.942 thousand) and of plan assets (€ 3.077 thousand), taken out to protect benefit obligations, was deducted from pension provisions.

The reconciliation of pension provisions from the beginning to the end of the current financial year was as follows taking account of the individual expense items:

| Amounts in € thousand | 2010 |
|---|---|
| **Pension provision as of 31 Dec. 2009** | **44.407** |
| Service cost | 831 |
| Interest cost | 2.875 |
| Pensions paid | (2.668) |
| Capital payments | 775 |
| Recognised actuarial net gain/loss for the year | 12.005 |
| Contributions to plan assets | (700) |
| Change in claim to refund from reinsurance policy | (885) |
| **Pension provision as of 31 Dec. 2010** | **56.640** |

The major actuarial assumptions were:

| | |
|---|---|
| Discount rate | 4.50 % - 4.75 % p.a. |
| Future salary levels | 2.50 % - 3.00 % p.a. |
| Inflation rate | 2.00 % p.a. |
| Future pension levels | after 3 years in each case |
| Future level of benefits accrued | 2.00 % p.a. |

### (15) Provisions for other liabilities and charges

Non-current provisions developed as follows:

| Amounts in € thousand | 31 Dec. 2009 | Use | Reversal | Appropriation | 31 Dec. 2010 |
|---|---|---|---|---|---|
| Other non-current provisions | | | | | |
| Obligations from operating activities | 329 | 392 | - | 313 | 250 |
| Obligations in relation to personnel and social security | 5.735 | 347 | - | 2.072 | 7.460 |
| Employee profit sharing | 4.773 | 346 | - | 919 | 5.347 |
| Other non-current liabilities | - | - | - | - | - |
| **Total non-current provisions** | **10.837** | **1.085** | **-** | **3.304** | **13.057** |

Obligations in relation to personnel and social security refers to long service awards recognized by the German Subgroup to the employees and to pension provisions for retired employees.
Provisions for employee profit sharing, that are bonuses, were recognised in accordance with French Law and CERP Rouen SAS internal regulations.

***Current liabilities***

### (16) Trade payables

The trade payables developed as follows:

| Amounts in € thousand | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| Trade notes & accounts payable | 447.950 | 380.675 |
| Amounts due to related parties | 6.613 | 5.029 |
| **Total** | **454.563** | **385.704** |

Amounts due to related parties are detailed in the note 38.

### (17) Current income tax liabilities

The income tax liabilities are detailed as follows:

| Amounts in € thousand | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| German Current income tax liabilities | 552 | 3.494 |
| French Current income tax liabilities | 7 | - |
| Italian Current income tax liabilities | - | 232 |
| **Total tax provisions** | **559** | **3.726** |

## (18) Other liabilities and charges

Other liabilities and charges are detailed below:

| **Amounts in € thousand** | **31 Dec. 2010** | **31 Dec. 2009** |
|---|---|---|
| Advance payments received | 137.913 | 120.523 |
| Amounts due to related parties | 61.269 | 55.998 |
| Obligations in relation to personnel and social security | 37.856 | 36.848 |
| Payments received on account of orders | 10.387 | 14.046 |
| Tax liabilities (except Income Tax) | 3.733 | 3.635 |
| Employee profit sharing - under 1 year | 755 | 794 |
| Retirement provisions - under 1 year | 634 | 593 |
| Loss provisions for  tax reassessment - under 1 year | 2.377 | - |
| Deferred income | 159 | 241 |
| Contingencies provisions | 330 | 285 |
| Other current liabilities | 38.909 | 40.324 |
| **Total** | **294.320** | **273.287** |

Advance payments received are composed by cash deposits of Astera SA shareholders (pharmacists clients of CERP Rouen SAS), interest bearing at the interest rate of 2,5% (3% in 2009).

Amounts due to related parties consist of Sanacorp subgroup cash pooling (€ 15.571 thousand), CERP Rouen subgroup liabilities (€ 45.047 thousand) and Sanastera liabilities (€ 651 thousand).
Sanastera liabilities relate to interests accrued on the current accounts with parent companies, for an amount of € 646 thousand, and to other liabilities for an amount of € 5 thousand.

Loss provision for tax reassessment consists of the best evaluation at date of closing of the liability related to the tax audit that occuring to the French Subsidiary CERP  Rouen Sas.

Related parties disclosure is detailed in the note 38.

## *D. Notes to the Consolidated statement of comprehensive income*

### (19) Sales revenue

Revenue of the consolidated companies was mainly generated from the sales of drugs to German, French and Belgium pharmacies during the fiscal period 2010. Commercial rebates and discounts granted to customers are included at this level.

Revenue was recognised at fair value, when risks and rewards of ownership were transferred to the buyer, when the amount of revenue was measured reliably and when payment appeared probable.

### (20) Other operating income

Other operating income included income from services, advertising cost allowances, cost refund, disposals of other non-current assets and income from the reversal of redundant provisions and valuation allowances. The major items of other operating income were as follows:

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| Revenue from advice to pharmacies, workshops and fees | 32.817 | 31.456 |
| Revenue from sale of data/clearing unit | 15.068 | 15.240 |
| Rental income | - | 43 |
| Advertising cost allowances | 4.708 | 3.749 |
| Refund of transport and fuel costs | 2.791 | 2.374 |
| Reversal of provisions and valuation allowances | 4.413 | 6.277 |
| Commissions from affiliated companies | 5.040 | 4.367 |
| Commissions from laboratories | 18.663 | 13.764 |
| Other income | 9.724 | 10.891 |
| **Total** | **93.224** | **88.162** |

Other operating income was recognised at fair value. The amount of income could be reliably measured. The inflow, if not received, was probable.

### (21) Cost of raw materials, supplies and merchandise

Cost of raw materials, supplies and merchandise includes also commercial rebates and discounts granted by laboratories (€ 13.755 thousand) and specific French Social Security Tax for € 50.349 thousand (€ 47.375 for the previous year).

### (22) Personnel expenses

Personnel expenses consist of wages and salaries costs, costs of social security, retirement benefits and other benefits, employee profit-sharing plan. Their break-down can be seen in the income statement.

### (23) Other operating expenses

Other operating expenses included in particular costs of sub-contracted personnel, sub-contracted forwarding agents, rent, advertising, energy, maintenance as well as office and administration cost.

The major items of other operating expenses were as follows:

| Amounts in € thousand | 2010 | 2009 |
|---|---|---|
| Shipping and freight | 58.453 | 54.913 |
| Cost of land and office space | 18.449 | 18.158 |
| IT, data transfer | 9.124 | 7.921 |
| Subcontracted labour, training fees | 16.141 | 17.455 |
| Allocation of allowances and impairment loss of receivables | 1.236 | 2.972 |
| Advertising cost, advice to pharmacies | 11.259 | 13.068 |
| Other non-personnel expenses | 3.892 | 5.790 |
| Non inventory supply | 7.929 | 6.985 |
| Taxes on wages and other taxes | 8.130 | 7.977 |
| Maintenance and repairs | 4.713 | 4.460 |
| Rental | 2.814 | 2.862 |
| Insurance premiums | 1.823 | 1.797 |
| Other expenses | 10.184 | 6.786 |
| **Total** | **154.146** | **151.145** |

Other operating expenses were recognised at fair value. The amount of expenses could be measured reliably and the payment, if not yet made, could be reasonably assured.

### (24) Amortisation and depreciation

Amortisation and depreciation developed as follows:

| Amounts in € thousand | 2010 | 2009 |
|---|---|---|
| Intangible assets | 5.112 | 4.784 |
| Tangible assets | 22.228 | 22.113 |
| Reinstatements of provision | 3.237 | 431 |
| **Total** | **30.577** | **27.328** |

Reinstatements of provision includes the best evaluation at date of closing of the liability related to the tax audit that occuring to the French Subsidiary CERP Rouen Sas for an amount of € 2.377 thousand.

### (25) Income from equity investments and Finance income and costs

This item included primarily interest income from customer relationships and interest expenses relating to the financing of the business operation. In addition the item included dividends received from other long-term investees and investors.

Interest income was recognised pro rata temporis taking into account the effective rate of return. Dividends were recognised as soon as the legal claim to payment arose.

In the previous year the performance of the investment in Andreae-Noris Zahn AG was recognised in equity. The disposal of the investment in 2010 occurred through profit and loss in the financial year.

### (26) Income tax expense

Income taxes included German, French, Belgian and Italian taxes. This was the result of the fact, that all incomes were generated in these countries.

The difference between income tax expense expected and recognised was accounted for by the following facts:

| **Amounts in € thousand** | **2010** |
|---|---|
| Profit before tax | 74.612 |
| | |
| Income tax expense expected | 28.542 |
| Tax increase due to non-deductible expenses | 260 |
| Tax-exempt asset increases | (12.307) |
| Addition/reduction trade tax | 574 |
| Different rates for deferred taxes | 8 |
| Additional tax payments for previous years | 990 |
| Other differences | (5.533) |
| **Income tax expense recognised** | **12.535** |
| **Effective tax rate** | **16,80%** |
| | |
| **Profit from ordinary activities** | **74.612** |
| **Income tax** | **12.535** |
| **Net profit for the year** | **62.077** |

The Other differences are mainly related to the tax-exempt dividends distributed to Sanastera from its subsidiaries. The rate of tax-exemption of these dividends is 95%.

Deferred taxes were based on the application of current tax rates or tax rates already fixed for the assessment period and are presented as follows:

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| Deferred tax income | 4.039 | 1.926 |
| Deferred tax expense | (1.420) | (1.907) |
| **Balance** | **2.619** | **19** |

The increase in deferred tax expense is mainly due to the significant decline in the pension provision and to the temporary taxation difference on the dividends distribution in Italy. This effect reduced deferred tax assets accordingly.

### (27) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| Profit attributable to equity holders of the company | 62.077 | 31.024 |
| Weighted average number of ordinary shares in issue | 2.829 | 2.829 |
| **Basic earnings per share** | **21,946** | **10,968** |

Diluted earnings per share has the same calculation of basic earning per share.

## *E. Segment reporting*

Segment information has not been disclosed as IAS 14 must be mandatorily applied only by enterprises whose debt or equity securities are publicly traded and those in the process of issuing such securities in public securities markets, and Sanastera S.p.A. is not included in this case.

## *F. Notes to the cash flow statement*

### (28) Cash flows from operating activities

The cash flow statement was prepared in accordance with the indirect method and starts with the operating profit.

### (29) Cash flows from investing activities

Net cash from investing activities comprises all investments and sales made in the reporting period.

### (30) Net cash used in financing activities

Net cash used in financing activities in the reporting year was defined by the dividend, which was credited to the parent companies intercompany accounts and by the increase in current financial liabilities.

### (31) Cash and cash equivalents at end of period

Cash and cash equivalents comprised cash and bank balances at each balance sheet date.

## *G. Other notes to the annual financial statements*

### (32) Financial instruments

### *a) Carrying amounts and fair values of financial instruments*

The following table sets out the carrying amounts and fair values of the Group's financial instruments. Fair value is the amount for which the rights and/or obligations from such financial instrument would be exchanged between two parties in an arm's length transaction. Given the variety of factors the fair values shown are an indicator of the values actually realisable on the market.

| **Amounts in € thousand** | **Carrying amount 31 Dec. 2010** | **Fair value 31 Dec. 2010** | **Carrying amount 31 Dec. 2009** | **Fair value 31 Dec. 2009** |
|---|---|---|---|---|
| Trade receivables | 631.722 | 631.722 | 626.236 | 626.236 |
| Cash and cash equivalents | 1.291 | 1.291 | 1.491 | 1.491 |
| Other financial assets: | | | | |
| - Assets available for sale | 27.960 | 27.960 | 67.907 | 67.907 |
| - Assets at fair value through profit and loss | 42.552 | 42.552 | 40.920 | 40.920 |
| - Assets held to maturity | - | - | 2.500 | 2.513 |
| - Derivative financial instruments qualifying for hedge accounting | 23 | 23 | 176 | 176 |
| - Other receivables and assets | 36.133 | 34.757 | 48.260 | 46.828 |
| **Total financial assets** | **739.681** | **738.305** | **787.490** | **786.071** |
| | | | | |
| Financial liabilities | 226.553 | 226.807 | 323.024 | 323.579 |
| Trade payables | 454.563 | 454.501 | 385.703 | 385.703 |
| Miscellaneous financial liabilities: | | | | |
| - Financial liabilities recognised at fair value through profit or loss | 235 | 235 | 294 | 294 |
| - Derivative financial instruments qualifying for hedge accounting | 6.411 | 6.411 | 3.824 | 3.824 |
| - Other miscellaneous financial liabilities | 228.116 | 227.465 | 200.211 | 200.211 |
| **Total financial liabilities** | **915.878** | **915.419** | **913.056** | **913.611** |

The fair values of the financial instruments were determined on the basis of the market information available on the balance sheet date and the following methods and assumptions:

*Trade receivables and cash and cash equivalents*

Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

*Other financial assets*

*Available-for-sale financial assets include:*

- Equity shares measured at fair value. The equity shares recognised at fair value were measured on the basis of the quoted market price available on 31 December.
- Equity shares measured at cost. No fair value was determined for equity shares measured at cost, as there was no active market that could have established price quotations or market prices. These are shares in enterprises not listed on a stock exchange, which, as there are no reliably determinable cash flows, were not measured by discounting expected future cash flows. In these cases, the fair values were assumed to equal the carrying amounts.
- Liability components. Most of the liability components were measured at the market prices quoted as of 31 December. Some of the fair values of these components were established by using

valuation techniques which are based on market data; the fair value of a small part of the liability components was established by using valuation techniques which were not based on market data.

*Assets at fair value through profit and loss:*
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

*Assets held to maturity:*
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturity less than 12 months from the balance sheet date, which are classified as current assets.

*Derivative financial instruments qualifying for hedge accounting:*
Derivative contracts to hedge interest rate exposure. The fair values of the interest rate hedging instruments (e.g. interest rate swaps) were determined on the basis of discounted expected future cash flows using the market interest rates applicable to the remaining period to maturity of the financial instruments.

*Other receivables and assets include:*
Current other receivables and short-term borrowing. These financial instruments are recognised at cost. Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

*Financial liabilities.*
The fair values of long-term loans are determined as the present values of estimated future cash flows. Interest rates customary in the market are used for discounting in relation to the respective maturity. Given their short maturity, the carrying amounts of current financial liabilities are assumed to be a reasonable approximation of fair value.

*Trade payables.*
Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

*Miscellaneous financial liabilities.*
The financial liabilities at fair value through profit or loss include non-current obligations. The non-current liabilities are generally recognised at their present value in the balance sheet; it is assumed, the present values are assumed to equal the fair values of these financial instruments.

*Derivative financial instruments qualifying for hedge accounting.*
Derivative contracts to hedge interest rate exposure. The fair values of the interest rate hedging instruments (e.g. interest rate swaps) were determined on the basis of discounted expected future cash flows using the market interest rates applicable to the remaining period to maturity of the financial instruments.

*Other miscellaneous financial liabilities*. Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

### *b) Net gains or losses*

The following table presents the net gains or losses on financial instruments recognised in the income statement (less derivative financial instruments which qualify for hedge accounting):

| Amounts in € thousand | 2010 | 2009 |
|---|---|---|
| Financial assets and liabilities recognised at fair value through profit or loss | (13) | 98 |
| Available-for-sale financial assets | 39.700 | - |
| Loans and receivables | 3.636 | 2.357 |
| Financial liabilities measured at cost | (164) | 99 |

The net gains or losses on the financial assets and liabilities recognised at fair value through profit or loss include interest expenses and income for these financial instruments along with the gains or losses on fair value changes.

Net gains or losses on available-for-sale financial assets include among other items income from equity investments and gains recognised on the disposal of these shares.

Net gains or losses on loans and receivables mainly include the amounts resulting from impairment losses and reversals.

### *c) Total interest income and expense*

Total interest income and expense for financial assets or financial liabilities that are not measured at fair value through profit or loss, are as follows:

| Amounts in € thousand | 2010 | 2009 |
|---|---|---|
| Total interest income | 5.973 | 9.146 |
| Total interest expense | (12.987) | (13.618) |

### *d) Disclosures on derivative financial instruments, use of derivatives*

The Group designates cash flow hedges to secure interest rate risks. Changes in the fair value of these derivative financial instruments designated as effective cash flow hedges were recognised in equity.

The following derivatives were used to hedge the interest rate exposure:

| Amounts in € thousand | up to 1 year | | 1 to 5 years | | more than 5 years | | Average |
|---|---|---|---|---|---|---|---|
| Derivatives: | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2010 | 31 Dec. 2009 | interest rate |
| Interest-rate swaps (nominal value) | 8.100 | 18.375 | 57.400 | 59.400 | 101.375 | 102.750 | 3,05% |
| Interest-rate caps | 0 | 0 | 10.000 | 10.000 | 0 | 0 | 5,00% |

The market price of all the derivatives held totalled losses for € 6.387 thousand on the balance sheet date.

Interest rates will be fixed every six months over the entire term of the contracts. The Company receives a variable return at the respective 6-month EURIBOR and pays the fixed interest rate agreed. Thus, the respective volume corresponded in substance to a fixed-term loan. In addition, there are fixed-rate loans and variable interest income which further reduce the interest rate exposure.

## (33) Risk management

The Group risk policy in the use of financial instruments is to be regarded as very conservative. All derivative financial instruments are used solely for hedging an underlying transaction and are held to maturity. Risks on financial instruments arise from interest rate changes, defaults (credit risk) and a lack of liquidity. Management has established an appropriate risk management system to deal with each of these risks.

Given its activities the Group was exposed to financial risks arising from changes in interest rates. Interest rate exposure is mainly to be seen in connection with current and non current liabilities to banks. All of these loans were granted on a variable basis plus a margin.

The Group is not exposed to currency risks, since the purchases and sales of goods are almost all transacted in Euro.

The pharmaceutical wholesale market is heavily regulated by law. Hence, there is no commodity risk in its narrow sense. The purchase prices for prescription drugs are regulated. Selling prices are defined by a profit/price margin less discounts granted. An active accounts receivable management prevents Sanastera from major default risks. The default risk depends mainly on the regulatory measures introduced by the government. There is no concentration of major default risks.

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating are accepted. Customers are not independently rated and risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. However, credit risk of primary financial instruments is limited to their carrying amount which does not significantly differ from the carrying amount.

There is no liquidity risk at present. The Group has available short-term credit lines to a sufficient extent to run its business. The market price risk of all financial instruments is regularly monitored.

### (34) Contingent liabilities and other financial obligations

There were the following financial obligations not disclosed in the balance sheet:

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| *As a counterpart to financial liabilities in form of:* | | |
| - Mortgage | 21.614 | 29.295 |
| - Guarantee | 149 | 149 |
| *As a counterpart to authorised overdraft credit:* | | |
| - Letter of intent | 37.829 | 34.142 |
| - Other bank guarantee | 411 | 410 |
| - Rental agreements | 10.511 | 11.440 |
| - Leases | - | - |
| **Total** | **70.514** | **75.436** |

### (35) Members of the Supervisory Board

| **Name** | **Residence** |
|---|---|
| BERTHEUIL ALAIN PIERRE JAQUES - Chairman | Franqueville Saint Pierr - France |
| FUNKE JURGEN JOST HINRICH - Vice Chairman | Wiesbaden - Germany |
| BOUILLON CHRISTIAN ALAIN JEAN-LUC - Member | Saint Lo - France |
| ROUDIERES CORINNE HUGUETTE - Member | Salses Chateau - France |
| SCHNEIDER MATTHIAS - Member | Finnigen - Germany |
| IVEN HOLGER KARL WALTER - Member | Lubeck - Germany |
| FIORITTI ALBERTO - Member | Bologna - Italy |

### (36) Members of Board of Directors

| Name | Residence |
|---|---|
| LANG HERBERT - Chairman | Germering - Germany |
| KEROUEDAN YVES JEAN PIERRE - Vice Chairman | Martain - France |
| BRONCHAIN OLIVIER CHRISTIAN - Director | Rouen - France |
| EDELMANN KLAUS – Director | Stadtteil Hechestheim - Germany |

### (37) Remuneration of the Board of Directors and the Supervisory Board

For 2010 were resolved emoluments only for the Supervisory Board, for an amount of € 45 thousand for fixed annual indemnity plus a meeting participation indemnity of € 300 per day. The total cost for the period amounts to € 74 thousand.

### (38) Related party disclosures

Transactions between the Company and its subsidiaries, which are to be considered related parties, were eliminated upon consolidation and will not be discussed in this paragraph.
The following companies are classified as related parties as of 31 December 2010:

German side:

| Firm Name | Domicile |
|---|---|
| Sanacorp Pharmaholding AG | Germany, Planegg |
| Sanacorp Grundstuecksverwaltung GmbH | Germany, Planegg |
| Sanacorp eG Pharmazeutische Grosshandlung | Germany, Planegg |

French side:

| Firm Name | Domicile |
|---|---|
| Astera S.A. | France, Rouen |
| Eurodep S.A.S. | France, Rouen |
| Eurodep Exploitant S.A.S. | France, Rouen |
| Premiere Ligne S.A.S. | France, Reims |
| Eurolease S.A.S. | France, Rouen |
| Centrale des Pharmaciens S.A.S. | France, Rouen |
| Pharmaciens Associés S.A. | France, Rouen |
| Sophese S.A. | France, Rouen |
| Isipharm S.A. | France, Rouen |
| Fadam E.u.r.l. | France, Rouen |
| Oxypharm S.A. | France, Rouen |
| Hado S.A.S. | France, Redon |
| Horizon Medical S.A.S. | France, Bourges |
| Prieur Medical S.A.S. | France, Angoulême |
| CERP France | France, Paris |
| CERP Martinique | Martinique, Le Lamentin |
| Automnia S.p.r.l. (a) | Belgium, Bruxelles |
| Lenans S.A. (a) | Belgium, Saint Symphorien |
| Beeckmans Tongres S.A. (a) | Belgium, Bruxelles |

(a) Companies included as related parties since 2010

Italian side:

| Firm Name | Domicile |
|---|---|
| Sociedad Europea de Cooperacion Farmaceutica SA | Seville, Spain |

Related parties are the members of key management, supervisory bodies and members of their family of all related entities and/or the companies included in the subgroup financial statements.

The amounts of related party transactions are disclosed in the following table:

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| **Revenue** | | |
| - Turnover sale | 8.497 | 8.654 |
| - Other operating income | 9.190 | 8.138 |
| - Maintenance income | - | - |
| - Management service income | 117 | 117 |
| - Interest income | 220 | 257 |
| **Total revenue** | **18.024** | **17.166** |
| | | |
| **Purchase** | | |
| - Goods | 42.699 | 39.023 |
| - Rent | 4.131 | 4.131 |
| - Sublease | 5.087 | 5.139 |
| - Other services | 1.927 | 1.663 |
| - Interest expense | 665 | 447 |
| **Total purchase** | **54.509** | **50.403** |

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| **Assets** | | |
| Trade receivables | 556 | - |
| Financial receivables | 14.607 | 18.331 |
| **Total assets** | **15.163** | **18.331** |
| | | |
| **Liabilities** | | |
| Trade liabilities | 6.613 | 5.029 |
| Financial liabilities | 62.028 | 55.788 |
| **Total liabilities** | **68.641** | **60.817** |

The receivables from corporate board members do not contain any information on interest rates or other material conditions, because the amounts due related to the procurement of goods.

**(39) Full-time employees**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Reporting date** | **Average** | **Reporting date** | **Average** |
| Office-based staff | 1.937 | 1.947 | 1.948 | 1.969 |
| Blue-collar staff | 2.637 | 2.642 | 2.630 | 2.610 |
| Apprentices | 102 | 97 | 110 | 104 |
| Pre pensioned | 12 | 12 | 12 | 11 |
| **Total** | **4.688** | **4.698** | **4.700** | **4.694** |

Part-time employment was recomputed as full-time-employment.

With reference to the information regarding the performance of the Group, including its forecasted development, as well as the significant events occurring after the reporting date are disclosed in Management Report.

Bologna, March, 28th 2011

On behalf of the Board of Directors
The Chairman

(Herbert Lang)

On behalf of the Board of Directors
The Vice Chairman

(Yves Jean Pierre Kerouedan)

Sanastera S.p.A.

**Domiciled in Bologna, Piazza Galvani, 3**
**Share Capital Euro 282.865.000**
**Commercial Register number and Fiscal Code 02755811201**
**Bologna Business Register no. 464697**

# Management Report

# on the

# Consolidated Financial Statements as at December, 31st 2010

Shareholders and Members of Supervisory Board,

The Consolidated Financial Statements as at December 31st, 2010 presented for your examination and approval by the Board of Directors, report a Net Profit amounting to € 62.077 thousand, after taxes of € 12.535 thousand.

This Management Report has been prepared covering financial information on Sanastera S.p.A. Consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS").

With reference to the comparative data regarding Sanacorp Pharmahandel subgroup figures, one must consider that the figures v.d. Linde Arzneimittel group during the financial year 2009 was only included effective April, 1st 2009.

## Financial data

The following table shows the Consolidated Income Statements key figures:

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| Revenues | 7.412.481 | 6.928.916 |
| Gross Profit | 457.232 | 442.322 |
| Gross Operating Margin | 69.321 | 75.455 |
| Operating Profit | 38.744 | 48.127 |
| **Profit for the year** | **62.077** | **31.024** |

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| Equity holders of the company | 62.078 | 31.025 |
| Minority interest | (1) | (1) |
| **Profit for the year** | **62.077** | **31.024** |

The following table shows the Consolidated Balance Sheet key figures:

| **Amounts in € thousand** | **December, 31st 2010** | **December, 31st 2009** | **Change** | **Change %** |
|---|---|---|---|---|
| Non-current assets | 266.299 | 334.369 | (68.070) | -20% |
| Current assets | 1.335.012 | 1.257.246 | 77.766 | 6% |
| **Total assets** | **1.601.311** | **1.591.615** | **9.696** | **1%** |
| Equity | 540.153 | 537.314 | 2.839 | 1% |
| Non-current liabilities | 129.565 | 132.277 | (2.712) | -2% |
| Current liabilities | 931.593 | 922.024 | 9.569 | 1% |
| **Total equity and liabilities** | **1.601.311** | **1.591.615** | **9.696** | **1%** |

The following table shows the breakdown of Equity:

| **Amounts in € thousand** | **December, 31st 2010** | **December, 31st 2009** | **Change** | **Change %** |
|---|---|---|---|---|
| Share capital | 282.865 | 282.865 | - | 0% |
| Share premium | 132.518 | 132.518 | - | 0% |
| Legal reserve | 56.573 | 56.573 | - | - |
| Other reserves | 9.304 | (1.919) | 11.223 | -585% |
| Available for sale investments | 531 | 38.088 | (37.557) | -99% |
| Cash flow hedge | (3.717) | (1.838) | | |
| Profit for the period | 62.078 | 31.025 | 31.053 | 100% |
| **Group's Equity** | **540.152** | **537.312** | **2.840** | **1%** |
| Minority reserve | 2 | 3 | (1) | -33% |
| Minority Profit for the period | (1) | (1) | - | 0% |
| **Total Equity** | **540.153** | **537.314** | **2.839** | **1%** |

The following table sets out the carrying amounts and fair values of the Group's financial instruments.

| **Amounts in € thousand** | **Carrying amount 31 Dec. 2010** | **Fair value 31 Dec. 2010** | **Carrying amount 31 Dec. 2009** | **Fair value 31 Dec. 2009** |
|---|---|---|---|---|
| Trade receivables | 631.722 | 631.722 | 626.236 | 626.236 |
| Cash and cash equivalents | 1.291 | 1.291 | 1.491 | 1.491 |
| Other financial assets: | | | | |
| - Assets available for sale | 27.960 | 27.960 | 67.907 | 67.907 |
| - Assets at fair value through profit and loss | 42.552 | 42.552 | 40.920 | 40.920 |
| - Assets held to maturity | - | - | 2.500 | 2.513 |
| - Derivative financial instruments qualifying for hedge accounting | 23 | 23 | 176 | 176 |
| - Other receivables and assets | 36.133 | 34.757 | 48.260 | 46.828 |
| **Total financial assets** | **739.681** | **738.305** | **787.490** | **786.071** |
| | | | | |
| Financial liabilities | 226.553 | 226.807 | 323.024 | 323.579 |
| Trade payables | 454.563 | 454.501 | 385.703 | 385.703 |
| Miscellaneous financial liabilities: | | | | |
| - Financial liabilities recognised at fair value through profit or loss | 235 | 235 | 294 | 294 |
| - Derivative financial instruments qualifying for hedge accounting | 6.411 | 6.411 | 3.824 | 3.824 |
| - Other miscellaneous financial liabilities | 228.116 | 227.465 | 200.211 | 200.211 |
| **Total financial liabilities** | **915.878** | **915.419** | **913.056** | **913.611** |

## Relations with related parties

The following companies are identified as related parties of Sanastera Group as of December 31, 2010:

German side:

| Firm Name | Domicile |
|---|---|
| Sanacorp Pharmaholding AG | Germany, Planegg |
| Sanacorp Grundstuecksverwaltung GmbH | Germany, Planegg |
| Sanacorp eG Pharmazeutische Grosshandlung | Germany, Planegg |

French side:

| Firm Name | Domicile |
|---|---|
| Astera S.A. | France, Rouen |
| Eurodep S.A.S. | France, Rouen |
| Eurodep Exploitant S.A.S. | France, Rouen |
| Premiere Ligne S.A.S. | France, Reims |
| Eurolease S.A.S. | France, Rouen |
| Centrale des Pharmaciens S.A.S. | France, Rouen |
| Pharmaciens Associés S.A. | France, Rouen |
| Sophese S.A. | France, Rouen |
| Isipharm S.A. | France, Rouen |
| Fadam E.u.r.l. | France, Rouen |
| Oxypharm S.A. | France, Rouen |
| Hado S.A.S. | France, Redon |
| Horizon Medical S.A.S. | France, Bourges |
| Prieur Medical S.A.S. | France, Angoulême |
| CERP France | France, Paris |
| CERP Martinique | Martinique, Le Lamentin |
| Automnia S.p.r.l. (a) | Belgium, Bruxelles |
| Lenans S.A. (a) | Belgium, Saint Symphorien |
| Beeckmans Tongres S.A. (a) | Belgium, Bruxelles |

(a) Companies included as related parties since 2010

Italian side:

| Firm Name | Domicile |
|---|---|
| Sociedad Europea de Cooperacion Farmaceutica SA | Seville, Spain |

With reference to the information required about transactions with related parties for the period ended at December, 31st 2010, occurred on an arm length's basis, see tables below:

- **Balance Sheet data**

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| **Assets** | | |
| Trade receivables | 556 | - |
| Financial receivables | 14.607 | 18.331 |
| **Total assets** | **15.163** | **18.331** |
| | | |
| **Liabilities** | | |
| Trade liabilities | 6.613 | 5.029 |
| Financial liabilities | 62.028 | 55.788 |
| **Total liabilities** | **68.641** | **60.817** |

- **Profit and Loss data**

| **Amounts in € thousand** | **2010** | **2009** |
|---|---|---|
| **Revenue** | | |
| - Turnover sale | 8.497 | 8.654 |
| - Other operating income | 9.190 | 8.138 |
| - Maintenance income | - | - |
| - Management service income | 117 | 117 |
| - Interest income | 220 | 257 |
| **Total revenue** | **18.024** | **17.166** |
| | | |
| **Purchase** | | |
| - Goods | 42.699 | 39.023 |
| - Rent | 4.131 | 4.131 |
| - Sublease | 5.087 | 5.139 |
| - Other services | 1.927 | 1.663 |
| - Interest expense | 665 | 447 |
| **Total purchase** | **54.509** | **50.403** |

## Financial indicators

Pursuant to art. 2428 of the Italian Civil Code, the following tables contain the main financial indicators:

Riclassified Balance sheet:

| **ASSETS** | | **LIABILITIES** | |
|---|---|---|---|
| Operating working capital | 1.521.998 | Equity | 540.152 |
| Extra-operating capital | 79.313 | Financial liabilities | 233.198 |
| | - | Operating liabilities | 827.961 |
| **Total assets** | **1.601.311** | **Total liabilities and equity** | **1.601.311** |

Riclassified Income statement:

| | |
|---|---|
| Sales | 7.319.257 |
| Operating production value | 7.319.257 |
| Production costs | 6.955.249 |
| Gross profit | 364.008 |
| Personnel expenses | 233.765 |
| Gross Operating Margin | 130.243 |
| Amortization and depreciation | 30.577 |
| Operating Profit | 99.666 |
| Other operating income/charge result | - 60.922 |
| Financial incomes | 48.913 |
| EBIT | 87.657 |
| Extraordinary area result | - |
| EBIT | 87.657 |
| Financial expenses | 13.045 |
| Profit before income tax | 74.612 |
| Income tax | 12.535 |
| Minority interest | - 1 |
| **Net profit** | **62.078** |

| ***Non-current asset financing margins and ratios*** | | |
|---|---|---|
| Primary structure margin | *Equity - Non-current asset* | 286.960 |
| Primary structure ratio | *Equity / Non-current asset* | 213% |
| Secondary structure margin | *(Equity + Non-current financial liabilities) - Non-current asset* | 416.526 |
| Secondary structure ratio | *(Equity + Non-current financial liabilities) / Non-current asset* | 265% |

| ***Financial structure ratios*** | | |
|---|---|---|
| Global liabilities ratio | *(Non-current liabilities + Current liabilities) / Equity* | 196,46% |
| Financial liabilities ratio | *Financial liabilities / Equity* | 43,17% |

| ***Profitability ratios*** | | |
|---|---|---|
| Net Return on Equity | *Profit for the year / Equity* | 11,49% |
| Gross Return on Equity | *Profit before taxes on income / Equity* | 13,81% |
| Return on investment | *Gross profit / Net working capital* | 14,36% |
| Return on sales | *Gross profit / Sales* | 1,36% |

| ***Liquidity indicators*** | | |
|---|---|---|
| Current margin | *Current asset - Current liabilities* | 416.526 |
| Current ratio | *Current asset / Current liabilities* | 145% |
| Treasury margin | *(Cash and cash equivalent + receivables) - Current liabilities* | - 139.654 |
| Treasury ratio | *(Cash and cash equivalent + receivables) / Current liabilities* | 85% |

## Risk report

The risks can be classified into the following risk categories:

### Environmental and market risk

The main risk on the pharmaceutical market is seen in the government intervention into the health care system. The past and future financing of the welfare systems is of importance in this context as well as changes in the health care costs. We must assume that a general economic downturn will

raise unemployment rates burdening the social security systems additionally. It can therefore not be ruled out that the legislator will continue to intervene in the short term and affect the expenditure side. These measures, such as the AMNOG in Germany (Law on realignment of the pharmaceutical market), could burden pharmaceutical wholesalers.
Depending on the nature and scope of the intervention, pharmaceutical wholesalers may be forced to change their pricing models and the scope of their services fundamentally. As a result, customer migration and related changes in the respective market shares are conceivable.
In spite of the ban on third-party ownership we must assume, that interested market participants will continue in the mean and long term to try and have these ownership structures changed. As parties related to pharmacists, neither Sanacorp Pharmahandel GmbH in Germany nor the companies of CERP S.A.S. in France and Belgium will participate in these activities. By consistently developing and expanding existing cooperation models for independent pharmacies the companies are gearing themselves and their customers up to remain successful on the market in a changed environment.
Along with a change in the legal conditions, it is in particular the further development of competitiveness on the respective markets, that impacts earnings performance. It compels wholesalers to grant discounts at hardly justifiable operational terms resulting in a sometimes significant deterioration of the earnings performance. As the net of branches becomes more closely meshed and the existing locations are expanded, the competitiveness on the German and French markets increased compared with the previous year - not only in the affected regions. In Germany, a contributing factor to this trend was also the positioning of market participants with regard to the repercussions which the AMNOG is likely to have in 2011.
The current changes in the legal environment deteriorate the pharmacists‘ gross profits. The operating companies counter this risk by implementing an active accounts receivable management.

**Financial and capital market risks**

Financial and capital market risks arise for the operating companies primarily from the business volume to be financed by the money and capital market. They relate to liquidity and interest rate risks as well as risks from the non-compliance with agreed key ratios in connection with borrowings.
The companies use various instruments such as cash pools or factoring to limit the liquidity risks. The regular monitoring of credit lines and the long-term co-operation with a large number of banks also help to keep a liquidity risk at bay. The cash flows resulting from the sale of the ANZAG investment significantly improved the liquidity of Sanacorp Pharmahandel GmbH in Germany in financial year 2010.
The companies use derivatives to hedge interest rate risk; their use is monitored closely and on a timely basis. In addition, capital expenditure for equity investments, land and buildings is generally financed on a long-term basis. By granting long periods of credit and large prepayments, which is customary on the French market, the financial and capital market risk may be considerably reduced.
Any liquidity surpluses are safely invested in the respective key-relationship banks. For this purpose, we only consider banks with a first-class credit rating.

**Operating risk**

Especially where accounts receivable are concerned, the operating units could be exposed to risks from a customer's liquidity problems or a deterioration of his creditworthiness. A permanent and timely accounts receivable management is in place to enable swift reaction, if a customer has any payment difficulties. There are also guidelines on the deferment of goods supplies to public pharmacies and of large-scale sales. There is a positive correlation between the default risk and the risk of higher interest rates.
Operating risk potential is also inherent in the inventory management of drugs. Fire or other damage may interrupt the operation of a branch for a long time. Regular controls by the Company's safety management and public authorities, the use of modern fire alarm systems and the insurance of the inventory help to limit these risks. A network of branches ensures the availability of inventories for the customers at all customers at all times. Deliveries may be made from other branches should the operation of one branch break down.

**Risk of research and development**

In order to guarantee technical improvement of operational processes, IT systems are constantly modified or replaced. Implementation in a live environment can lead to a partial or full system failure. Losses of sales and profit may be the result. To reduce this risk, the systems are carefully tested before implementation and are not implemented in several branches at the same time. After implementation of the systems, they are regularly maintained and adjusted to new environments. In addition, the network of branches ensures a timely supply of customers from the location which is closest to them.

**Legal risk**

Both Sanastera S.p.A. and the operating companies may incur risks from changes in company or tax law. We keep this risk at a minimum at each company by providing in-house analyses and maintaining close contact with external lawyers and tax advisors.

**Risks arising from financial instruments**

In general, the risk policy in the use of financial in struments is to be regarded as very conservative. All derivative financial instruments are used to hedge the hedged items and the acquisition of the "von der Linde"-Group in financial year 2009 by Sanacorp Pharmahandel GmbH. Financial instruments are not held for speculative purposes. They are held to maturity.
The risk exposure from financial instruments arises from interest rate changes, defaults and a lack of liquidity. Management has established an appropriate risk management system to deal with each of these risks.
Given their activities, the operating companies are primarily exposed to financial risks arising from changes in interest rates. These risks are in direct connection with the variable liabilities to banks and/or the factoring programme used, since these loans were granted on a variable basis only plus a margin.
An active accounts receivable management prevents the operating companies from major risks of default of trade receivables. The default risk mainly depends on the government intervention and its impact on the pharmacies earnings. There is no concentration of major default risks.
There is no exposure to currency risks, since the purchases and sales of goods by the pharmaceutical wholesale companies are almost all transacted in euros. As the purchase prices for prescription-only drugs are regulated by law, there is no commodity risk in its narrow sense. Selling prices are defined by a profit/price margin less discounts granted.
Neither Sanastera nor the operating companies encounter any liquidity risks. They have available an adequate amount of short- and long - term loans.

## Report on post-balance sheet events

There were no significant post-balance sheet events that would have materially affected the financial position, cash flows and profit or loss.

## Report on expected developments

In view of the income earned by the operating companies in the financial year 2010, the Board of Directors also believes that these companies will be able to pay dividends to Sanastera in 2011 as well, in an amount similar to that paid in the previous year.

We thank you for your confidence in us and invite you to approve the Consolidated financial statements as presented.

Bologna, March, 28th 2011

On behalf of the Board of Directors
The Chairman

(Herbert Lang)

On behalf of the Board of Directors
The Vice Chairman

(Yves Jean Pierre Kerouedan)

MAZARS

This is an English translation of the original Italian document

# Auditors' Report on the Consolidated Financial Statements pursuant to Art. 14 of D. Lgs. 39, dated January 27, 2010

To the Supervisory Board of
*Sanastera* S.p.A.

1. We have audited the consolidated financial statements of Sanastera S.p.A. and its subsidiaries (the "Group"), which comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes as of and for the year ended December, 31 2010. These consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to other auditors' report issued on April 6, 2010.

3. In our opinion, the consolidated financial statements of Sanastera S.p.A. as of December 31, 2010 comply with the International Financial Reporting Standards as adopted by the European Union; therefore they are clearly stated and give a true and fair view of the financial position, the results of the operations, the component of the statement of comprehensive income, the changes in equity and the cash flows of Sanastera S.p.A. for the year then ended.

4. The Directors of Sanastera S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the consolidated financial statements, as required by law. For this purpose, we performed the procedures shown in the audit standard n.001 issued by "*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*" and recommended by CONSOB. In our opinion, the Report on Operations is consistent with the consolidated financial statements of the Group as of December 31, 2010.

Bologna, May 2, 2011

Mazars S.p.A.

Alessandro Gallo

The report has been translated into english language solely for the convenience of International readers

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SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO
SPA - CAPITALE SOCIALE DELIBERATO € 3.000.000,00 - SOTTOSCRITTO E VERSATO € 2.803.000,00

REA N. 1059307 – REG. IMP. MILANO E COD. FISC. N. 01507630489 - P. IVA 05902570158 - AUTORIZZATA AI SENSI DI L. 1966/39 - REGISTRO DEI REVISORI CONTABILI GU 60/1997
ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N° 17.141 DEL 26/01/2010
UFFICI IN ITALIA: BOLOGNA – BRESCIA - FIRENZE - GENOVA - MILANO - NAPOLI - PADOVA - PALERMO - ROMA – TORINO

Praxity