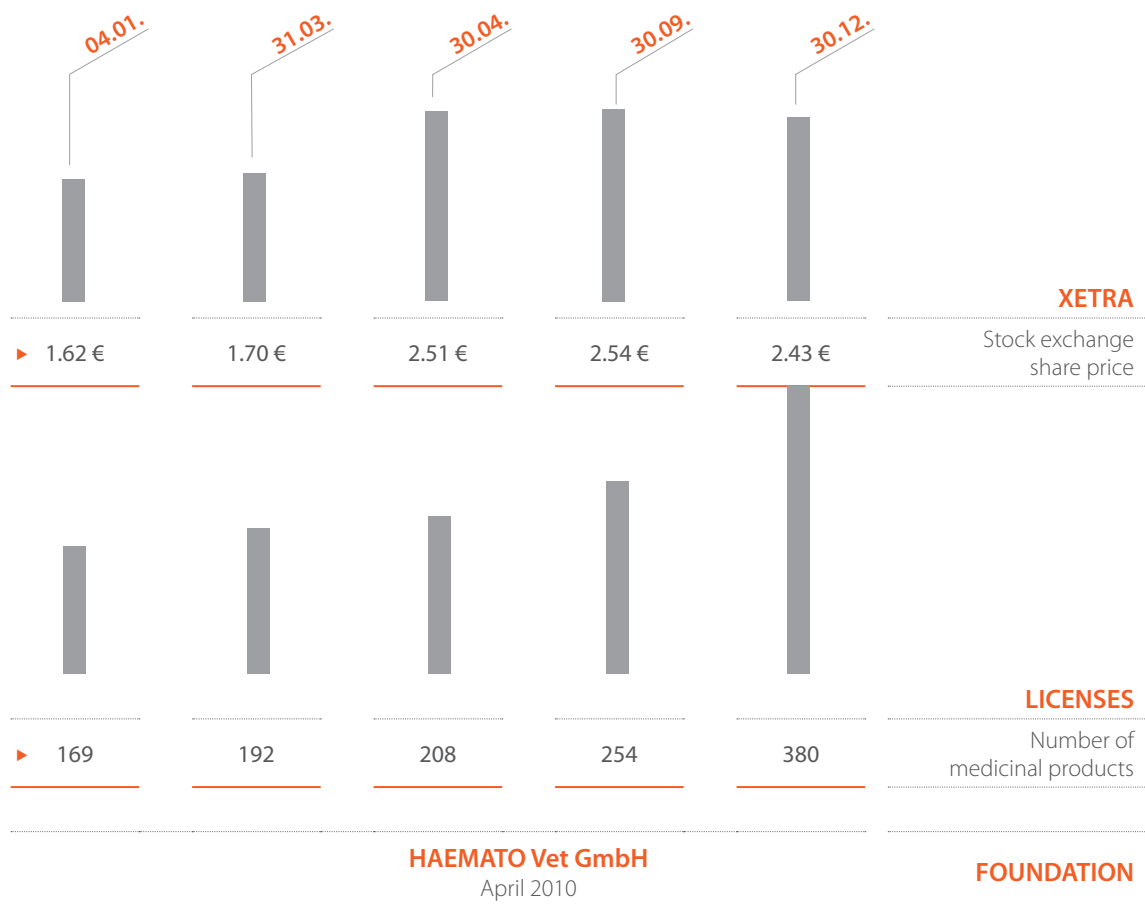


# MPH Group Data Overview

Key Data	Fiscal Year 2010 in Mil. EUR	Fiscal Year 2009 in Mil. EUR
Balance Sheet Total	64.51	52.47
Equity	47.68	43.12
Sales	112.41	62.22
EBIT	10.39	6.15
Net Income	9.12	5.08
Profit available for distribution	9.39	5.07

## Important Events 2010



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## MISSION STATEMENT

**MPH Mittelständische Pharma Holding AG has concentrated strategically on growth segments in the human and veterinary sectors of the pharmaceutical market. The group competences are in the licensing, procurement and processing of pharmaceutical products.**

The **healthcare sector** supplies the public across a broad range with patient-oriented, high quality pharmaceuticals. However, medical care is increasingly subject to economic pressures. At many healthcare centres savings have to be made. With our business model we are making a contribution to keeping German healthcare affordable.

Both with **generic medications** as well as with EU import pharmaceuticals, we have been able to obtain numerous new approvals in recent years for therapeutically important fields of therapy. In the oncology sector we have achieved a good competitive position.

In the **EU import pharmaceutical** sector we are expected to have been amongst the top 10 of German parallel import companies for the year 2010. Also our other key areas (indications-oriented) such as HIV, neurology, cardiovascular diseases and rheumatism are disease types that require protracted and cost-intensive treatment. We will continue to expand our product portfolio in these areas.

Also in order to further meet the expectations and challenges we face, when manufacturing our medications we work in accordance with rigorously tested, legislative guidelines. It is of importance to us that our customers receive direct and personal care.

Our sales department is accordingly aware of the needs and market demand for our products. Supply to our customers is directly organised by well-known logistics partners - even in the „cold chain“ supply from producer to consumer is fast and reliable.

**Our customers** – doctors, pharmacies and patients alike - can therefore rest assured that they will receive innovative and affordable medications.

**We will use all our know-how and strengths to ensure that service remains top-notch in the future.**









Dr. Christian Pahl  
Board Member



Patrick Brenske  
Board Member

## Dear shareholders, Ladies and Gentlemen,

The entire year 2010 was very satisfactory.

The **turnover** of 54.86 Million Euros in the first half of 2010 was already reported. In the second half of 2010 a turnover of 57.55 Million Euros was achieved. This was attained in spite of big challenges in the form of new regulatory amendments in the German healthcare sector. With the total turnover of 112.41 Million Euros in the year 2010 this represented an effective growth of 66.67% compared to the previous year (previous year: 12 months pro forma: 67.45 Million Euros; short fiscal year 2009: 62.22 Million Euros in the period of 06.03.-31.12.2009).

The **annual profit** of 9.12 Million Euros exceeded the previous year's profit of 5.08 Million Euros by 79.53%. In the year 2010 we were able to develop the MPH Group's market position. Our strategic position within the healthcare market - with our double competence in the generic medicament and European import pharmaceutical sectors - allowed us to realize the expected opportunities for development in the year 2010. We have laid the foundations for further sustained growth in the year 2011. Generic medications and European import pharmaceuticals in the human sector were again the real drivers of turnover and profits in the financial year 2010.

In the **generic medications segment** at the end of 2010 we had 8 licensed substances at our disposal (compared with 5 at the end of 2009).

The **approvals** in the European import pharmaceuticals sector increased to 380 (compared with 169 at the end of 2009). In 2010 we booked our first sales outside of Germany. The results are very promising. For the financial year 2011 we expect growth with strong yields in the foreign EU markets.

HAEMATO Vet GmbH, operating in the **veterinary sector**, achieved no turnover yet in the financial year 2010. For the year 2011 we expect a positive contribution to the results from the veterinary sector.

For the **financial year 2011** we are counting on further growth in turnover and profits. The Management Board, business managers and all employees have undertaken to achieve this target.

The **Management Board** would hereby like to thank the employees for their high level of commitment, which has made the achievement of good results possible. We thank the members of the supervisory board for their good and trustworthy collaboration.

# Supervisory Board's Report

## 1. Monitoring of the business management team and cooperation with the Management Board

In the **financial year 2010** the MPH Mittelständische Pharma Holding AG Supervisory Board handled the legal and statutory matters confronting them with great care. The business management team was monitored by the Supervisory Board.

The **Management Board** was supported in their activities with advice from the Supervisory Board. For all decisions of fundamental importance to the company, the Management Board called directly and in good time upon the support of the Supervisory Board. The Management Board gave the Supervisory Board regular, timely and comprehensive verbal, telephone and written briefings concerning the conduct of business, the commercial situation of the company and of the group, significant business occurrences, business planning including questions of business politics and risk management, cost and yield developments, liquidity and investment activities.

The **Supervisory Board** was suitably convinced of the propriety of the business management. No subject-related committees were formed within the Supervisory Board.

## 2. Meetings, consultancy and decision

In the financial year 2010 the Supervisory Board convened five general meetings, three in the first half year and two in the second half year. All meetings were concluded with decisions resolved.

**The following were the main subjects discussed at the meetings:**

- Management Board's business - in particular the appointment of a Management Board position for finances
- the situation of the company
- strategic development and its operational implementation
- the current situation regarding competition, organisation and personnel
- short and long-term investment planning
- the financial report and the group's interim report before their publication

Further informal meetings and telephone conferences took place between the Supervisory Board and the Management Board in order to discuss new, significant developments in the related business politics.

## 3. Annual statement of accounts

The Supervisory Board was suitably convinced of the propriety of the business management. The MPH Mittelständische Pharma Holding AG annual statement of accounts, the group accounts and the group management report prepared by the Management Board for the financial year to 31.12.2010 were audited and provided with an unreserved auditor's certification by the accountant Harry Haseloff of Berlin, appointed at the annual general meeting as auditor of the annual accounts, with the collaboration of the bookkeeping department.

The **annual statement** of accounts, the group accounts, the proposal for utilisation of the net profit and the auditor's report were duly sent to each member of the Supervisory Board before 10.05.2011.

In the **accounts review** meeting held on 10.05.2011 the auditor reported concerning the essential results of his audit and was available to respond to the questions posed by the members of the Supervisory Board. We have also audited the annual statement of accounts and the group accounts prepared by the Management Board.

We took note of and approved the result of the auditor's audit and, after performing our own audit, we raise no objections to the annual statement of accounts, the group accounts and the proposal for utilisation of the net profit. We endorse the annual statement of accounts and the group accounts prepared by the Management Board, which are hereby confirmed.

## 4. Dependency report

The MPH Mittelständische Pharma Holding AG prepared a dependency report for fiscal year 2010 in accordance with § 312 AktG (German Shareholder's Law). The dependency report for fiscal year 2010 was presented to the members of the Supervisory Board for examination in accordance with § 314 AktG. In the accounts review meeting held on 10.05.2011 the members of the Supervisory Board examined the dependency report for fiscal year 2010 comprehensively regarding completeness and accuracy.

The Supervisory Board concluded to raise no objection against the declaration of the Management Board at the end of the dependency report regarding the dependency of group companies and approved the dependency report.

## 5. Members of the Supervisory Board

In the period from 01.01.2010 to 28.02.2010 the Supervisory Board comprised the board members Dr. Stefan Becker (chairman), Elke Gunkel and Prof. Dr. Dr. Sabine Meck. The board member Dr. Stefan Becker resigned his appointment with effect from 28.02.2010.

As resolved by the Charlottenburg district court on 09.03.2010. Mrs. Andrea Grosse of Gruenwald was appointed as member of the company's Supervisory Board in accordance with § 104 paragraph 1 AktG (German Shareholder's Law) in place of the departed board member Dr. Stefan Becker. Mrs. Andrea Grosse accepted the appointment.

After judicial appointment of Mrs. Andrea Grosse as member of the Supervisory Board she was elected as chairman of the board with Mrs. Prof. Dr. Dr. Sabine Meck as her deputy. The board member Elke Gunkel resigned her appointment as member of the Supervisory Board with effect from the conclusion of the annual general meeting held on 29.06.2010. In order to ensure a uniform term for the appointment of all three board members, the board members Andrea Grosse and Prof. Dr. Dr. Sabine Meck also resigned their appointments with effect from the conclusion of the annual general meeting held on 29.06.2010.

The company's **annual general meeting** held on 29.06.2010 elected Andrea Grosse, Prof. Dr. Dr. Sabine Meck and Dr. Marion Braun up to the conclusion of the annual general meeting which will decide on formal approval of the members of the Supervisory Board for the financial year 2014. Mrs. Andrea Grosse was elected as chairman with Mrs. Prof. Dr. Dr. Sabine Meck as her deputy.

## 6. Other business

The Supervisory Board thanks the Management Board and all employees of the MPH Group for their excellent work once again. In spite of a continuing difficult regulatory environment, good results were achieved. The Supervisory Board looks forward to the continued pleasant, constructive and successful collaboration.

Berlin, 10th May 2011



**Andrea Grosse**  
(Chairman of the Board of Directors)

## Company Profile

**The MPH Group contributes to keeping healthcare affordable. In Germany and other western industrial nations there is a growing need for low cost medications which are supplied in the highest quality and which meet the demand for reliable and comprehensive medical care at all times.**

The increasing life expectancy is an aspect of this growing need. The inexorable rise in medical progress leads to new, innovative medications becoming available for the market, which are marketed at high prices as a result of patent protection laws.

By importing these innovative, patent-protected medications we are making an economical contribution to the market in the form of lower costs.

With **our range** of generic products we supply medications at favourable prices in the field of substances for which the patent protection is discontinued. Both of these activities contribute to keeping healthcare affordable.

**We are continuously expanding our product range.**

In the generic medications segment as of the end of 2010 we had 8 licensed substances at our disposal (compared with 5 at the end of 2009). The approvals in the area of European import pharmaceuticals have increased to 380 (compared with 169 at the end of 2009). Due to new products the volume of trade in Germany will continue to increase.

We purchase from suppliers in EU member states. In the sales department - after successful expansion of the business in Germany - we now trade in other EU states too.

**We expect considerable potential for growth in the coming years.**

In the veterinary market there are also opportunities promising every chance of success. In the build-up phase during 2010 no turnover was achieved yet in the veterinary sector. We do expect a positive contribution to our results from the veterinary sector in the financial year 2011.



# Group Management Report

## A. Commercial report

### I. Economic environment

#### Overall global economy

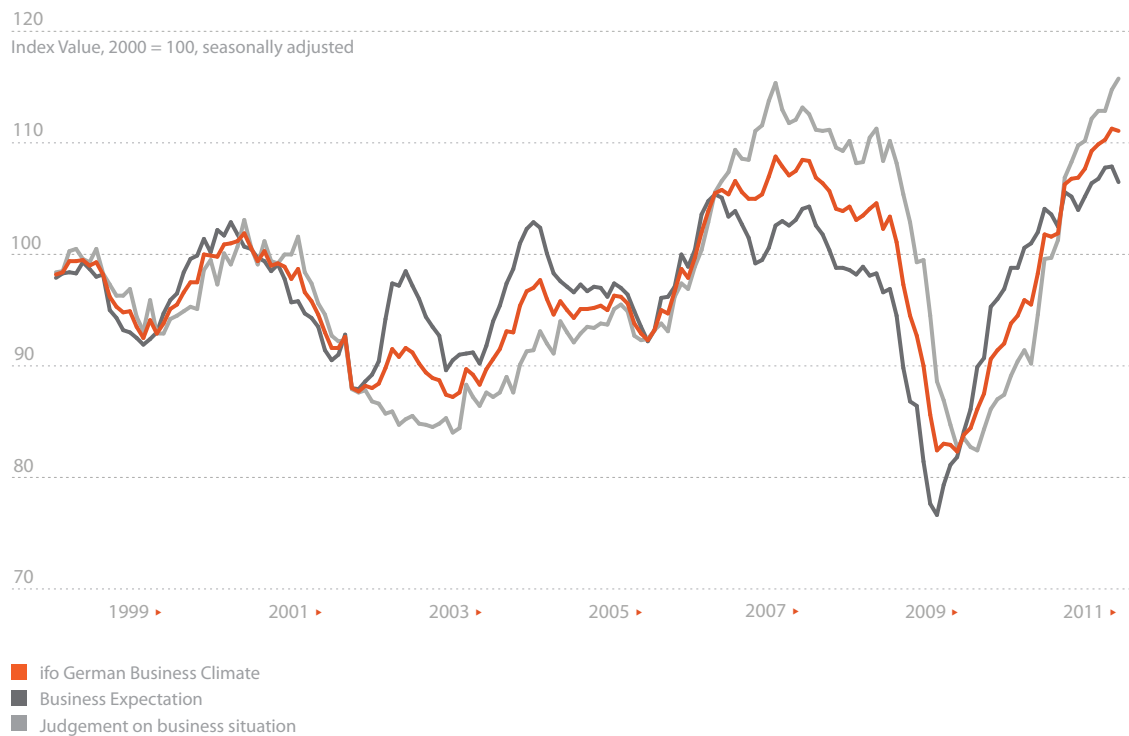
Since the global financial crisis recovery has been extremely varied - the emerging markets demonstrate a very high dynamic whilst in many industrialised nations the expansion is very slow by comparison.

This is because of the difference in the form of the recession. In the countries where the recession was accompanied by a severe crisis in the financial and property sectors the upturn is proceeding slowly. Where these symptoms of the crisis are lacking this is referred to as a „normal“ recession. Business activity is recovering more quickly.

With that as a **background**, the varying developments in business activity in the global economy can be clarified (ifW - Institute for World Economy). It appears that in the Asian emerging markets - including China - the estimated growth trend will be reached again by the end of 2010. In contrast, in the USA and also in Great Britain, Spain and Ireland a comparatively slow recovery is observed. In the medium term a lower level of income will have to be expected there.

#### ifo German Business Climate

 [www.cesifo-group.de](http://www.cesifo-group.de)



The ifo index does influence the stock market; which is proven by the positive Dax reaction on news from the ifo institute and a positive upswing in Q1 2011.

## Overall German economy

**With a growth of 3.6% in the year 2010 compared with 2009, the German economy achieved its strongest growth since reunification.**

In **international terms** this was a very positive result (DIW - German Institute for Economic Research). In particular the upturn in exports continued up to the end of 2010, however it did weaken somewhat in contrast to the worldwide growth which was undergoing normalisation. Due to this good export performance - coupled with the re-strengthened domestic demand after many years - further growth is forecasted for Germany again in 2011.

The **ifW** (Institute for World Economy) expects a real growth of 2.6%. The sustained increase in private consumer spending is viewed as another driver of the economy. The German Institute for Economic Research, in their early year analysis, therefore expects continued strong growth in the gross domestic product. The medium-term prospects are viewed as good.

Also the development of the ifo (Economic Research Institute) business climate indices indicated an upturn in business activity to March 2011. After the ifo business climate indices reached their low point in 2009, they increased again continuously in 2010 and so confirmed the expectations of many economics experts.

## DAX Performance Index

 [www.deutsche-boerse.com](http://www.deutsche-boerse.com)



The stock exchange development was overall solid in year 2010, after a set-back in January.

## Global healthcare and pharmaceutical market

According to information from the pharmaceutical market research organisation IMS Health, worldwide pharmaceutical turnover in 2010 was approx. 840 Billion US dollars, which represents a growth of 4.5%. Of this, 310 Billion US dollars turnover was achieved in the USA, the world's largest market.

Up to the year 2013 the institute expects further annual growth of between 4% and 7%, whereby a somewhat lower growth rate is forecasted for the industrialised nations. In contrast, the upcoming countries of Brazil, Russia, China, India, Turkey and Indonesia accounted for 42% of the worldwide growth in the pharmaceutical market in 2010.

These new potentials for the pharmaceutical sector are caused by the increasing wealth of the emergent, developing nations, amongst other factors. The demand for medical care is also an indicator for this, as well as the increase in life expectancy and global population.

The worldwide healthcare market tends to be one of the largest growth markets. This is explained by the growth in health-consciousness in the western industrialised nations and the increase in lifestyle diseases and chronic diseases.

As a part of the healthcare market the pharmaceutical market profits from this development of the continuous growth in demand for medications.

The pharmaceutical sector has also proved to be stable in times such as the economic crisis. It is not subject to the fluctuations in business activities. The pharmaceutical industry stands out as a stable anchor amongst other volatile markets.

Pharmaceutical share prices on the stock exchange reflect this trend. The MSCI World Pharma Index, since a low point in May 2010, demonstrated a significant increase up to the year's end, continuing into Q1 of 2011.

### MSCI World Pharma Index

 [www.bloomberg.com](http://www.bloomberg.com)



## German healthcare and pharmaceutical market

**The subject of health is of higher importance in Germany than ever before. For virtually all in Germany, health is regarded as an important commodity.**

The **combined spending** in the German healthcare sector amounted to 264.1 Billion Euros in 2009 (Federal Statistical Office 2010). This represents 10.56% of the gross domestic product.

In other **OECD nations** healthcare spending grew in the last ten years much faster in comparison to the gross domestic product. Experts forecast a clear potential for growth of the German healthcare market against this background. A significant driver in this respect is the increasing health-consciousness of the German people and the increasing challenges for the medical care sector. It is to be expected that the turnover and yield will continue to grow in the healthcare sector.

A further aspect is the **innovation expected** in the medical-technical sector. According to the inter-trade organisation Spectaris the German medical-technical sector was comparatively less affected last year by the worldwide financial and economic crisis. After slight reductions in turnover during 2009 the inter-trade organisation expects a growth of ten percent in year 2010. Also for the year 2011 the organisation expects continued growth in the market.

After mostly **clear growth** during the last five years the overall turnover in the German medicinal sector reduced slightly in 2009. At 18.3 Billion Euros it was around 4.3 percent down on the year 2008.

The **reduction** was overwhelmingly due to a reduction of nine percent in the export business, to an amount of 11.4 Billion Euros. In contrast, the domestic turnover of approx. 1,150 German manufacturers in fact increased and, at nearly 6.9 Billion Euros was 4.5 percent up on the previous year.

The **third factor** causing the growth in the healthcare sector is due to the demographic changes. Not least due to the increasing life expectancy, the health-consciousness of Germans has changed a great deal.

There is an **active demand** for services which will permit lives to be as healthy as possible, even in old age. The latest studies indicate that the proportion of youth amongst the German population is steadily decreasing. Where the average age in 1975 was 35, it has increased in the meantime to over 41 and according to forecasts it will rise to 50 by the year 2035 (LEXAS).

As reported by the **Federal Statistical Office** (DESTA-TIS), life expectancy has further increased in Germany. According to the mortality table of 2007/2009 for newborn boys it is 77 years and 4 months and for newborn girls 82 years and 6 months.

This is the **highest figure** since calculation of the first mortality table in 1871/1881. In comparison to the previous mortality table of 2006/2008 life expectancy increased for newborn boys by two months and for newborn girls by one month.

For the **German pharmaceuticals** market IMS Health's latest forecast is for an average annual growth in the pharmaceutical market of 3.2% through 2013.

## EU import pharmaceuticals

**The MPH Group's business model is based on two segments in the German pharmaceuticals market that are becoming ever more important. One of these is the import of European branded pharmaceuticals.**

Parallel and re-importation represents competition for the manufacturers' principal pharmaceuticals. They create price competition in the otherwise strictly regulated pharmaceuticals market - and to the advantage of the healthcare system.

The **parallel trade** in pharmaceuticals is - compared with other product groups - subject to the fundamental EU legal principles.

Since 2004 there has existed a law in Germany for the modernisation of the statutory health insurance (GMG). According to this law the chemists are obliged to dispense a low cost import if such is at least 15 Euro or 15% cheaper than the original preparation. Chemists must ensure that 5% of their sales are EU pharmaceuticals and consequently achieve 10% savings.

The parallel trade in pharmaceuticals has been making an ever greater contribution to cost savings in a range of EU member states for the past 30 years. For patent-protected pharmaceuticals this is one of the most effective forms of competition in the market economy.



## Generic medications market

**In addition to EU pharmaceuticals, generic medications are a second significant component in low cost medical therapy, without compromising on quality.**

Two thirds of all chronic diseases can today be successfully treated using generic medications. In particular for the treatment of cancerous diseases are generic medications gaining importance globally.

The healthcare and pharmaceuticals markets **worldwide** have seen further growth. The turnover of the global pharmaceuticals market increased by approx. 4.5% in 2010. The market share of generic medications in the international pharmaceuticals market amounted to 13.8% in 2010. The increase in the worldwide generic medications turnover amounted to approx. 11.5% and reached an amount of approx. 91.4 Billion Euros.

According to recent information, German statutory health insurance saved about 7.9 Billion Euros in 2009 because of generic medications.

In the overall statutory health insurance market the ratio for generic medications climbed from 61% to a new high of 62% or 422 million packages.

In **comparison** with that the statutory health insurances saved 4.3 Billion Euros in the first half of 2010 – the ratio of generic medications rose to a new record level in the statutory health insurances' overall market of 63%.

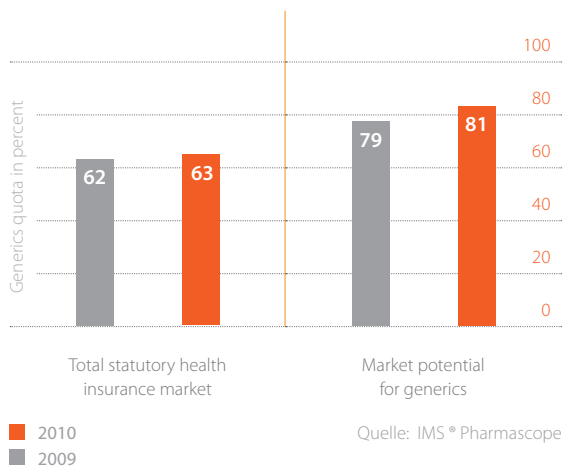
In the view of **MPH AG's Management Board**, against this background a significant growth potential can be expected in the generic medications markets. The continuous discontinuation of patents and other commercial property rights ensures an automatic expansion of the market potential.

One of the leading international market research institutes, IMS Health, forecasts for the global generic medications market an annual growth rate of 8.4% up to the year 2015. Significant increases in volume are to be expected due to pricing pressures.

The **MPH Group's position** in the business segments of generic medications and EU branded pharmaceuticals represents a clear competitive advantage. On the basis of the expansion during the past years both fields of business have grown further.

### Generics proportion in German statutory health insurance market

Comparison period 2009/2010 (January - December)



## II. Presentation and analysis of business development and business result 2010

In the financial year 2010 MPH Mittelständische Pharma Holding AG owned two subsidiary companies 100%. One operating for several years in the human medicine branch is HAEMATO PHARM AG and the other, which has existed since April 2010 is HAEMATO Vet GmbH, operating in the veterinary sector.

In the human medicine sector the company concentrates on the segments of European import pharmaceuticals (low cost parallel and re-imports for modern and innovative patent-protected original medications) as well as low cost generic medications for established preparations and treatment plans.

The **product range** comprises the oncology sector as well as the therapy branches of HIV, neurology, rheumatism and cardio-vascular diseases.

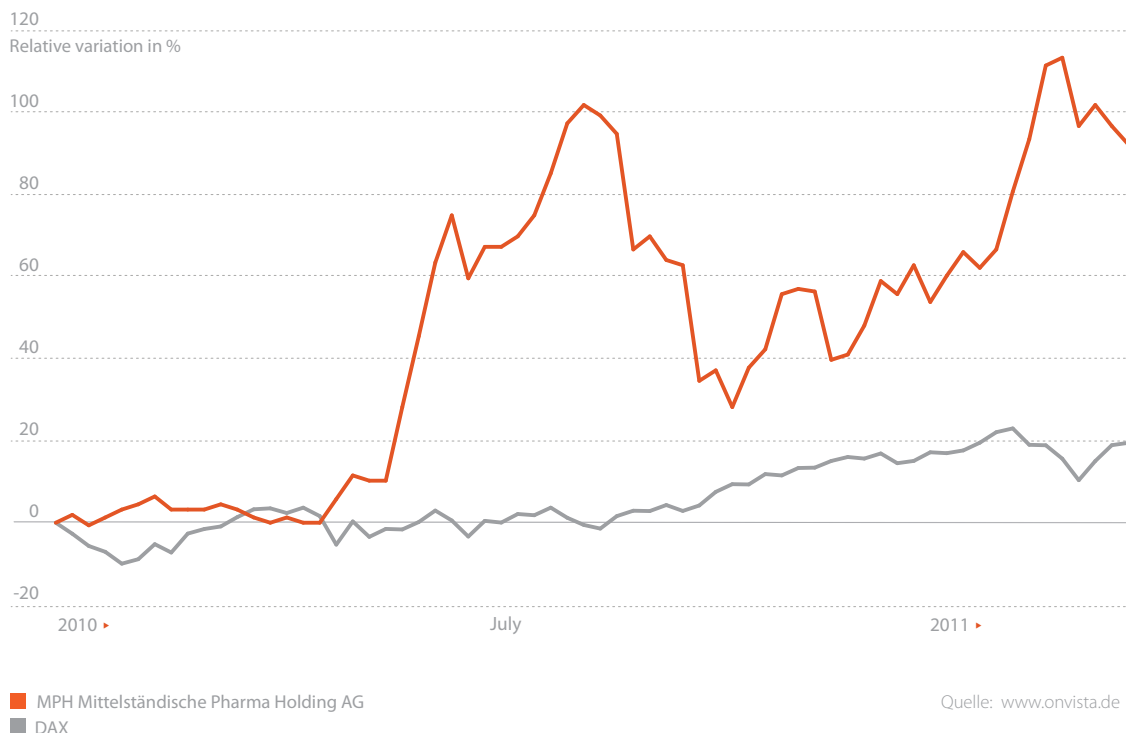
MPH currently (April 2011) has 10 approvals at their disposal for in-house generic agents, as well as more than 450 approvals for import medications. All therapy branches will continue to expand in the future.

The **target** for HAEMATO Vet GmbH is to serve the important veterinary market segment with high quality, low cost preparations. The company trades in veterinary-pharmaceutical and veterinary-medicinal products as well as supplementary feeds for the large and small animal markets.

The **competence** in these various sectors allows the MPH Group to gain a position in a highly competitive pharmaceutical environment and to strategically exploit the existing room for growth.

The assets, financial and yield situations developed pleasingly in the financial year 2010.

### XETRA Performance



The MPH Group's **turnover** rose to 112.41 Million Euros. With a profit before interest and taxes (EBIT) of 10.39 Million Euros and a profit before interest, taxes and write offs (EBITDA) of 10.64 Million Euros expectations were certainly fulfilled. The annual net profit amounted to 9.12 Million Euros.

Net **assets** rose to 47.68 Million Euros with an equity ratio of 73.92%. Accrued liabilities amounted to 16.82 Million Euros in 2010, representing 26.07% of the total assets.

The increase in compulsory discounts and the introduction of the price moratorium are a burden to the results of pharmaceutical manufacturers.

We are fighting these developments by expanding our product portfolio, by strengthening the higher-margin generic medications sector and by capturing new market areas.

In common with a differentiation in service, quality and dependability in the competitive environment and a no-compromise customer orientation, we expect further growth in sales volumes in 2011, in contrast to the general stagnation in sales volumes in the overall pharmaceuticals market.

### III. Company Position

The company's **situation** remains one of growth in our operational business. The financial situation of our company has shown minor growth of the fixed assets and a strong rise in the working capital. The rise in short-term assets of 11.59 Million Euros is financed by an increase in short-term obligations of 3.54 Million Euros, long-term obligations of 3.92 Million Euros and equity. The 73.92% equity ratio leaves room for further growth.

Our **financial status** can be described as stable. Our financial management aims always to settle obligations within the payment terms and to collect accounts receivable within the due date for payment.

The **obligations to credit institutes** amount to 5.43 Million Euros. For financing of our marketing operations we use credit facilities granted by our bankers. We have credit facilities at our disposal in excess of those that we generally use.

**Trade payables** and **related accounts** amount to 5.92 Million Euros. All debts are always settled within the payment terms. Our investment activities are minor.

In the future no significant **investment** is planned. The emphasis in terms of investment will continue to be in respect of obtaining licenses.

Any **long-term investments** are covered by equity. Short-term receivables, stocks and banking books are in excess of short-term obligations. The liquidity situation has improved in the last financial year. Our financial situation can generally be described as good.

### IV. Events after the reporting period

There were no incidents of particular importance after the end of the financial year.

## B. Report of the company's future development, opportunities and risks

### I. Anticipated company development

With our twin skills in generic medications and European import pharmaceuticals we are operating in markets with long-term growth potential. Our activities in these markets are linked to the opportunities and risks associated with the intensive competition and with statutory regulations. We expect attractive opportunities for growth in the veterinary sector.

MPH's **response** to these circumstances is based on a flexible and slimmed down company structure. Rapid adjustment to changing circumstances, as well as sensitive quality and cost consciousness, will be the deciding factors, and part of our everyday business activities.

We work under strict guidelines and regulations in the manufacturing of pharmaceuticals and active substances and we ensure optimum quality and safety of our pharmaceutical products.

With the application of competence, service readiness and the personal advancement of all employees, all concerned stand for the company and its values.

We view it as a continuing corporate responsibility to sponsor education of young people.

On the whole we expect for the current financial year 2011, and also in 2012, a positive growth in turnover and profits. We also expect a positive contribution from the veterinary business.

**For the financial years 2011 and 2012 the Management Board's overall assessment is of a growth in turnover and EBIT of more than ten percent.**

### II. Risk disclosure statement

#### 1. General risk disclosure statement

The business decisions taken in connection with the MPH's business operations are carefully considered in respect of opportunities and risks. Business opportunities can be followed up if there is a readiness to take on the risks involved.

Our attention is focussed on keeping the accepted risks in a reasonable relation to the expected usefulness for the MPH Group.

We regard the efficient and effective management of opportunities and risks as a factor for success that can guarantee the company's values on a sustainable basis.

The **MPH Group** operates in the pharmaceutical sector which is a very dynamic and complex industry with the threat of numerous risks, but also offering opportunities that have to be identified, assessed, controlled and managed or exploited - and this is an important aspect of our company management strategy.

Corporate management in the MPH Group applies opportunity and risk management as an integral part of the supervision.

#### Environmental and Industry Profile, Opportunities and Risks

The MPH Group is active in the pharmaceutical market, which will continue to be an important growth market. This results in numerous opportunities for the MPH Group against a backdrop of double competences in two growth areas: generics and imported drugs. The MPH Group operates here by strategically positioning itself in specific treatment areas, through flat hierarchies and fast communications processes.

We identify market opportunities through discussions with customers and communication with scientists, politicians and other leaders in the pharmaceutical markets. We face the challenge of exploiting these market opportunities with flexibility and efficiency.

The **risks** in the pharmaceutical market are characterised by general regulation, increasing competition and strong margin pressure.

The modification or repeal of existing regulations or the adoption of new regulations can have significant economic impact on the entrepreneurial success of the MPH Group. Existing or new competitors may influence the MPH Group negatively due to their financial and organisational resources and market conditions.

### Risk Management System

The MPH Group uses the mechanisms of a risk management system which first identifies significant and threatening risks in a systematic way, assesses their effects and develops appropriate measures to deal with them.

On the other hand, the mechanisms of the risk management system influence corporate decision-taking regarding individual risk/reward ratios.

The goal is to take only **reasonable risks** that have a high probability of increasing the value of the company. It is important to us that the risks, even upon close examination, are manageable and controllable.

The **essential elements** of the risk management system are risk control and the management information system. Risk control includes procedures, financial reporting, IT security infrastructure design and compliance with data protection regulations.

Information is developed on future developments through regular meetings, reports and logs within the MPH Group, which are exchanged across all levels and assessed where appropriate.

**Internal** and **external information** coming through these mechanisms are promptly examined for relevance and risk, and considered across the firm's transactions. In all corporate areas, strategic, operating and functional controls are carried out. The creation of business plans and growth concepts serves to capture short- and long-term business goals.

## 2. Special Risk Report

The **liquidity position** is satisfactory; no bottlenecks are expected.

**Liquidity** is primarily determined by claims, liabilities and bank balances.

The **Group's companies** each have a financially-sound customer base. Bad debts are a rare exception. In addition, there is also credit insurance for potential bad debts. Payables are paid within agreed payment terms. In the short-term area, the Group is largely financed by suppliers' credits and lines of credit from different banks. The aim of financial and risk management for the company is to secure the success of our company against financial risks of all kinds.

If **default and credit risks** are identified, appropriate adjustments are made. In order to minimise credit risk, Group companies have sufficient credit management. There is also credit insurance for potential bad debts. In addition, we investigate the creditworthiness of new customers before entering into a relationship.

### III. Forecasting report

We are positive about the likely growth of the company. The pharmaceutical industry offers significant growth potential in generics, European import medicines and veterinary medicines if service, price and quality are geared strictly to customer requirements. We meet the risks of supply shortages by establishing multiple suppliers for most products.

We expect in fiscal 2011 to have an increase in turnover. We again expect a satisfactory income due to our low overheads. We will continue to be able to meet our payment obligations on time.

### C. Report on Research and Development

We still carry out no research and development.

### D. Report on Branches

The company maintains no branches.

Berlin, 3rd May 2011

MPH Mittelständische Pharma Holding AG



Patrick Brenske  
(Board Member)



Dr. Christian Pahl  
(Board Member)



## GROUP BALANCE SHEET - Assets

As of 31 December 2010 \*

		◀ 2010	◀ 2009
	Notes	EUR	EUR
Cash	5.1	756,621.62	519,362.82
Trade receivables	5.2	10,973,113.74	7,060,052.53
Inventory	5.3		
› Finished goods and goods in process		13,423,613.24	6,305,377.97
› Prepayment		547,281.63	210,421.06
		13,970,894.87	6,515,799.03
Other short-term assets	5.4	151,640.88	166,553.80
<b>Short-term assets</b>		<b>25,852,271.11</b>	<b>14,261,768.18</b>
› Intangible assets	5.5	982,966.00	703,391.00
› Company value	5.5	37,321,621.72	37,321,621.72
› Tangible assets	5.5	261,903.00	117,143.00
› Prepayment on intangible and tangible assets	5.6	1.00	66,201.77
› Other long-term assets	5.7	87,574.68	1,691.38
› Deferred tax liabilities	5.8	279.12	1,906.31
<b>Long-term assets</b>		<b>38,654,345.52</b>	<b>38,211,955.15</b>
<b>▶ TOTAL Assets</b>		<b>64,506,616.63</b>	<b>52,473,723.36</b>

\* Reporting according to IFRS

## GROUP BALANCE SHEET - Liabilities and Equity

As of 31 December 2010 \*

		◀ 2010	◀ 2009
	Notes	EUR	EUR
Accruals	5.9	2,923,557.73	1,441,303.60
Bank loan	5.10	1,521,265.58	252,703.00
Trade payables	5.10	5,925,155.98	2,196,679.45
Other short-term payables	5.10	2,528,555.36	5,460,622.96
<b>Short-term liabilities</b>		<b>12,898,534.65</b>	<b>9,351,309.01</b>
Bank loan	5.10	3,918,982.55	0
Deferred tax	5.11	4,287.32	0
<b>Long-term liabilities</b>		<b>3,923,269.87</b>	<b>0</b>
Share capital	5.12	38,050,000.00	38,050,000.00
Legal reserve	5.12	240,657.53	0
Profit available for distribution	5.12	9,394,154.58	5,072,414.35
<b>Equity</b>		<b>47,684,812.11</b>	<b>43,122,414.35</b>
<b>▶ TOTAL Liabilities and Equity</b>		<b>64,506,616.63</b>	<b>52,473,723.36</b>

\* Reporting according to IFRS

## GROUP PROFIT AND LOSS SUMMARY ACCOUNT

For the period 1 January – 31 December 2010 \*

	Notes	◀ 2010		◀ 2009 **	
		EUR	%	EUR	%
<b>Sales</b>	8.1	112,413,309.14	100	62,219,159.33	100
Other operational income	8.2	165,816.61		14,154.77	
<b>Cost of materials</b>					
› Cost of purchased goods	8.3	-94,473,315.24		-51,886,908.65	
› Cost of purchased services	8.3	-1,222,452.99		-532,188.17	
		<u>-95,695,768.23</u>	85.05	<u>-52,419,096.82</u>	84.25
<b>Labour costs</b>					
› Salaries		-1,442,010.83		-806,336.68	
› Social insurance contributions		-282,126.60		-136,650.79	
		<u>-1,724,137.43</u>	1.53	<u>-942,987.47</u>	1.52
Depreciation/Amortisation	8.4	-246,801.99		-236,117.52	
Other operational expenses	8.5	-4,517,408.16		-2,488,621.87	
<b>EBIT (earnings before interest and tax)</b>		<u>10,395,009.94</u>	9.17	<u>6,146,490.42</u>	9.88
Interest income	8.6	3,013.14		663.80	
Interest expense	8.7	-288,531.68		-299,519.26	
<b>Financial result</b>		-285,518.54		-298,855.46	
<b>EBT (earnings before tax)</b>		<u>10,109,491.40</u>	9.00	<u>5,847,634.96</u>	9.40
Income tax	8.8	-980,394.80		-767,572.91	
Other tax		-698.84		-1,025.00	
<b>Net Income</b>		<u>9,128,397.76</u>	8.12	<u>5,079,037.05</u>	8.16
▶ Non-diluted earnings per share	9	0.24		0.13	
▶ Diluted earnings per share	9	0.24		0.13	

\* Reporting according to IFRS  
\*\* 06.03.2009 - 31.12.2009

# GROUP CASH FLOW STATEMENT

For the period 1 January – 31 December 2010 \*

	EUR
<b>Operating activities</b>	
1. EBT (earnings before tax)	10,109,491.40
2. Depreciation/Amortisation	246,801.99
3. Profit from asset disposal	-5,823.52
4. Interest income	-3,013.14
5. Interest expense	288,531.68
6. Company result before working capital changes	10,635,988.41
7. Change in trade receivables and other assets	-3,984,031.59
8. Change in inventory	-7,455,095.54
9. Change in trade payables, other liabilities and accruals	3,432,894.05
10. Cash Flow from company activities	2,629,755.03
11. Interest income received	3,013.14
12. Interest expense paid	-277,169.70
13. Income tax and other tax paid	-869.59
	-275,026.15
<b>14. Cash Flow from operating activities</b>	<b>2,354,728.88</b>
<b>Investment activities</b>	
1. Cash received from fixed asset disposal	6,302.52
2. Cash paid for fixed assets	-605,415.22
<b>3. Cash Flow from investment activities</b>	<b>-599,112.70</b>
<b>Financing activities</b>	
1. Change of bank loans	5,187,545.13
2. Debt repayment	-2,139,902.51
3. Dividend paid	-4,566,000.00
<b>4. Cash Flow from financing activities</b>	<b>-1,518,357.38</b>
<b>Cash Flow</b>	<b>237,258.80</b>
<b>Liquid Funds</b>	
1. As of 31 December 2010	756,621.62
2. As of 31 December 2009	519,362.82
	<b>237,258.80</b>

\* Reporting according to IFRS

## GROUP EQUITY CHANGE ACCOUNT

As of 31 December 2010 \*

	Share Capital EUR	Legal Reserve EUR	Profit available for distribution EUR	Total Equity EUR
1. As of 6 March 2009	38,050,000.00	0.00	-6,622.70	38,043,377.30
2. Period income (06.03.-31.12.2009)	0.00	0.00	5,079,037.05	5,079,037.05
3. As of 31 December 2009	38,050,000.00	0.00	5,072,414.35	43,122,414.35
4. Dividends	0.00	0.00	-4,566,000.00	-4,566,000.00
5. Period income (01.01.-31.12.2010)	0.00	0.00	9,128,397.76	9,128,397.76
6. Reclassifications	0.00	240,657.53	-240,657.53	0.00
7. As of 31 December 2010	38,050,000.00	240,657.53	9,394,154.58	47,684,812.11

\* Reporting according to IFRS

## DEVELOPMENT OF THE GROUP ASSETS

As of 31 December 2010 \*

	As of 31 Dec 2009		Addition / Recd.		Disposal / Recd.		As of 31 Dec 2010		As of 31 Dec 2009		As of 31 Dec 2010		As of 31 Dec 2009	
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>I. Intangible assets</b>														
1. Intangible assets	874,487.86	481,186.26	0.00	0.00	1,355,674.12	171,096.86	201,611.26	372,708.12	982,966.00	703,391.00				
2. Company value	37,321,621.72	0.00	0.00	0.00	37,321,621.72	0.00	0.00	0.00	37,321,621.72	37,321,621.72				
	38,196,109.58	481,186.26	0.00	0.00	38,677,295.84	171,096.86	201,611.26	372,708.12	38,304,587.72	38,025,012.72				
<b>II. Fixed Assets</b>														
1. Lessee installed equipment	8,000.00	0.00	0.00	0.00	8,000.00	667.00	800.00	1,467.00	6,533.00	7,333.00				
2. Other fixed assets	217,936.19	190,429.73	33,103.45	33,103.45	375,262.47	108,126.19	44,390.73	119,892.47	255,370.00	109,810.00				
	225,936.19	190,429.73	33,103.45	33,103.45	383,262.47	108,793.19	45,190.73	121,359.47	261,903.00	117,143.00				
<b>III. Prepayments on intangible and tangible assets</b>														
	166,200.77	0.00	66,200.77	66,200.77	100,000.00	99,999.00	0.00	99,999.00	1.00	66,201.77				
<b>TOTAL</b>	<b>38,588,246.54</b>	<b>671,615.99</b>	<b>99,304.22</b>	<b>99,304.22</b>	<b>39,160,558.31</b>	<b>379,889.05</b>	<b>246,801.99</b>	<b>594,066.59</b>	<b>38,566,491.72</b>	<b>38,208,357.49</b>				

\* Reporting according to IFRS





## Notes

For the period January 1 to 31 December, 2010 (IFRS Accounting)

### 1. General Information

The MPH Mittelständische Pharma Holding AG was founded on 11 November 2008. For fiscal 2009, there was a short fiscal year from 6 March to 31 December 2009. The company is registered in the Berlin-Charlottenburg Commercial Register under HRB 116425, and is headquartered at the Hubertusallee 73, 14193 Berlin.

The consolidated financial statements for the period of 1 January to 31 December 2010, for the MPH Mittelständische Pharma Holding AG were established in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) in Euros.

The new standards adopted by IASB have been followed from their date of entry into force. The following standards and interpretations and amendments to existing standards are applied for the first time in 2010; there were no significant effects on the MPH Mittelständische Pharma Holding AG:

- ▶ **IFRS 1** First-time adoption of International Financial Reporting Standards (as the group is not a first-time user, the amendments to IFRS 1 have no effect on the consolidated financial statements).
- ▶ **IFRS 2** Share-based payments (accounting for share-based payments in the Group which are settled in cash).
- ▶ **IFRS 3** Business combinations (this standard was revised in 2008 and is effective for fiscal 2010, as for accounting for the acquisition of HAEMATO Vet GmbH).
- ▶ **IFRS 5** Non-current assets held for sale and discontinued operations (IFRS 5 in the revision of the annual improvements in 2008 and 2009).
- ▶ **IAS 1** Presentation of financial statements (revised IAS 1 in the annual improvements in 2009).
- ▶ **IAS 7** Statements of cash flows (revision of IAS 7 in the annual improvements in 2009).

The amendments provide for, inter alia, that in the presentation of cash flows, only such disbursements for investment activity can be attributed, which do result to the recognition of an asset.

▶ **IAS 27** Consolidated and separate financial statements (this standard was revised in 2008, triggering changes in accounting policies for the Group in terms of shareholdings in subsidiaries).

▶ **IAS 39** Financial instruments: Approach and assessment: exposures qualifying for hedge accounting (changes lead to clarification of two aspects of hedge accounting).

▶ **IFRIC 17** Non-cash distributions to owners.

▶ **IFRIC 18** Transfers of assets from customers.

The voluntary adoption of standards and interpretations, which were already published on the financial statement date, but not yet effective, was passed:

▶ Changes to **IFRS 1** Limited exception for comparative figures for first-time users of IFRS 7 (effective for annual periods beginning on or after 1 July 2010).

▶ Changes to **IFRS 7** information – transfer of financial assets (applicable for financial years beginning on or after 1 July 2011).

▶ **IFRS 9 (2010)** Financial instruments (effective for annual periods beginning on or after 1 January 2013).

▶ **IAS 24 (2009)** Information on related-party disclosures (effective for fiscal periods beginning on or after 1 January 2011).

▶ Changes to **IAS 32** Accounting for stock options (applicable for fiscal periods beginning on or after 1 February 2010).

▶ Changes to **IFRIC 14** Pre-paid premiums for minimum funding requirements (effective for fiscal periods beginning on or after 1 January 2011).

▶ **IFRIC 19** Repayment of financial liabilities with equity instruments (applicable for fiscal periods beginning on or after 1 July 2010).

▶ **Annual improvements 2010** (effective for fiscal periods beginning on or after 1 July 2010 and 1 January 2011, as specified).

Possible effects which are likely to result in the consolidated financial statements in the initial application cannot be currently estimated in a reliable fashion.

The accounting and valuation was made under the assumption of a going concern. The consolidated financial statements were prepared in accordance with IAS 27.26 on the date of the parent's financial statements, which is also the closing date for all consolidated subsidiaries.

The balance sheet of the MPH Group has been prepared in accordance with IAS 1.51, according to maturity points of view, with expected assets and liabilities which are expected or settled within twelve months after the balance sheet date, being classified as current assets and liabilities under IAS 1.

Deferred tax assets are fully disclosed in accordance with IAS 1.70, under long-term assets.

The gains and losses on the profit and loss statement are set using the total cost accounting method. Gains and losses have not been accounted directly in equity positions.

## 2. Basis of consolidation

The consolidated financial statements as of 31 December 2010, of the MPH Mittelständische Pharma Holding AG, Berlin, included in addition to MPH Mittelständische Pharma Holding AG the following 100%-owned subsidiaries:

- ▶ die **HAEMATO PHARM AG**, Schönefeld (from 6 March 2009, date of initial consolidation).
- ▶ die **HAEMATO Vet GmbH**, Schönefeld (from 8 April 2010, date of initial consolidation).

HAEMATO Vet GmbH was founded in Schönefeld on 8 April 2010, in the context of first consolidation, there was no debit difference. The company trades in veterinary drugs and other veterinary products and in pharmaceutical products. The share capital amounts to EUR 25,000.00.

The following companies are exclusively capital corporations, which need not be shown individually due to consolidation in financial statements. The disclosure of the following companies is only shown in the financial statements under IFRS for the MPH Mittelständische Pharma Holding AG:

Name and location of the company	Share ownership (%)
▶ HAEMATO PHARM AG Schönefeld	100.00
▶ HAEMATO Vet GmbH Schönefeld	100.00

## 3. Principles of consolidation

The financial statements of all subsidiaries are based on uniform accounting and valuation methods at the date set up for MPH Mittelständische Pharma Holding AG (parent company).

With acquisitions or business start-ups, capital is consolidated using the revaluation method on the acquisition date. With capital consolidation, the cost of equity investments are offset by the equity ratio attributed to them at the time of purchase.

Claims and liabilities between the consolidated companies as well as intra-group sales revenue, other intra-group revenues and corresponding expenses are consolidated. Intermediate results are eliminated.

#### 4. Estimates and assumptions

The **preparation** of financial statements requires estimates and assumptions which could affect the amounts of assets, liabilities and financial obligations at the balance sheet date and revenues and expenses during the reporting year. Actual results could differ from these estimates.

The **fair values** of assets and liabilities are based upon management assumptions. The basis used by management includes assessment of the adequacy of bad debt, with the maturity structure of debt balances, the creditworthiness of customers and changes in payment terms. A deteriorating financial condition of customers could be higher than the actual write-offs expected.

For each **taxable group company**, an expected actual income tax is calculated, and the temporary differences arising from the different treatment of certain items for IFRS consolidated financial statements and tax reporting are assessed. Any temporary differences will generally result in the recognition of deferred taxes in the consolidated financial statements.

**Management** is required to make a calculation of actual and deferred taxes. Deferred tax assets are recognized to the extent that it is likely that they can be used. The use of deferred tax assets depends upon the ability to generate sufficient taxable income in the respective income class.

To **assess** the probability of future use of deferred tax assets, different factors are used, such as results from the past, operations planning and tax planning strategies; actual results may differ from those estimates, or if these estimates are adjusted in future periods, they could adversely affect the assets, liabilities, financial positions and performance. If there is a change in the value assessment for deferred taxes, the recognized deferred income taxes could be reduced in value. In addition, the identification of a number of provisions is subject to significant estimates.

These estimates may change due to new information. When seeking new information, the MPH Group primarily uses the support of internal specialists, the services of outside consultants, such as legal or tax advisors.

#### 5. Details of the consolidated balance sheet, including the accounting methods

In preparing **affiliates financial statements**, the transactions denominated in currencies other than the functional currency (Euro) of the consolidated company are calculated with exchange rates valid on the date of transaction.

At the **balance sheet date**, all monetary items denominated in foreign currency are converted at the current closing rate. Non-monetary items in foreign currency are measured at fair value and converted at the rates at the date of valuation. Exchange rate differences are recognized in income.

► **5.1 Cash and cash equivalents** are recorded at the nominal values.

► **5.2 Receivables for goods and services**, which amounted to a total of 10,973.10 K EUR (previous year: 7,060.1 K EUR), are carried at amortized cost using the effective interest method.

► **5.3 Finished goods** report inventories which were valued at acquisition or production costs. Under IAS 2, all costs were included which were incurred in connection with the acquisition of the respective inventories. Borrowing costs for capitalization are not incurred. The application of IAS 11 is not relevant.

Among the **prepayments** made for inventories are payments for orders totalling 547.3K EUR (previous year 210.4K EUR).

► **5.4 Other current assets.**

At the reporting date, designated assets are essentially prepaid tax, which is deductible in the following year, as well as debit balances.

► **5.5 The tangible and intangible assets** are booked in accordance with IAS 16 and IAS 38 at acquisition cost, for temporary-use scheduled depreciation is applicable. Depreciation does reduce acquisition costs of assets, if necessary. A revaluation of fixed assets as per IAS 16 was not chosen (it is elective).

**Depreciation** was linear. The depreciation mirrored the pattern of consumption to future economic benefits. The useful lives of software are three years, in consid-

ration of acquired licenses and similar rights, between one and 15 years, and for other assets, between one and 10 years.

In the event that the **carrying value** exceeds the estimated recoverable amount, in accordance with IAS 36, an impairment charge was assessed to this. The recoverable amount is the net sales proceeds, or, if higher, the present value of estimated future cash flows from the use of the asset. In fiscal 2010 as in the year before, there were no impairment charges.

In the **initial consolidation** on 6 March 2009, goodwill was established for HAEMATO PHARM AG amounting to EUR 37,321,621.72. A goodwill which was acquired in a business combination may not be written off.

Instead, the buyer must examine it in accordance with IAS 36 for impairment once-annually or more frequently if events or changes in circumstances indicate that impairment may have occurred. To date, there was no need for action in this regard.

#### ► 5.6 Prepayments

Prepayments for tangible and intangible assets, whose acquisition had not yet taken place, were made last year in the amount of 66.2K EUR. In fiscal 2010, these payments led to purchases.

#### ► 5.7 Other long-term asset

Deposited securities are in long-term assets.

#### ► 5.8 Deferred taxes

Taxes are recognized for temporary difference between the value approach of the tax base and the IFRS accounting methods. The limits are established for the expected tax burden for future financial years. The total amount of temporary differences amounted to 1.2K EUR. Using the effective tax rate of 22.825%, resulting deferred tax assets of 0.3K EUR were assessed.

**Deferred tax assets** may be activated to take advantage of unused tax losses carried forward, provided that future taxable income can be expected with reasonable probability.

Due to the **forecast** of earnings, deferred taxes did not need to be activated for HAEMATO Vet GmbH due to existing tax-loss carryforwards.

► **5.9 Provisions** are made in accordance with IAS 37 when it is probable that a liability exists and a reliable estimate of the amount is possible.

The current provisions relate mainly to tax provisions pursuant to HAEMATO PHARM AG.

The provisions are as follows:

	01.01.2010	Used	Released	Added	31.12.2010
	K EUR	K EUR	K EUR	K EUR	K EUR
Income Taxes	905.9	32.2	0.0	1,006.4	1,880.1
Auditing and Annual Report Costs	55.0	54.4	0.6	67.0	67.0
Staff Costs	102.0	102.0	0.0	32.5	32.5
Supervisory Board Compensation	22.5	12.5	0.0	0.0	10.0
Other	355.9	242.9	2.9	823.9	934.0
	<u>1,441.3</u>	<u>444.0</u>	<u>3.5</u>	<u>1,929.8</u>	<u>2,923.6</u>

► **5.10 Current liabilities to banks and accounts payable and other current liabilities** are shown at amortized cost using the effective interest method. Other liabilities amounted to 2,528.6K EUR (previous year: 5,460.6K EUR), of which 1,631.5K EUR (previous year: 2,330.8K EUR) are accounted for deducted payroll tax and turnover tax.

**HAEMATO PHARM AG** obtained loan funds from Magnum AG. This current loan account was charged with an interest rate usual in the market. At 31 December 2010, this resulted in a liability, including interest, of 895.3K EUR (previous year: 3,044.8K EUR). With consideration of IAS 24, it should be noted that Magnum AG is a related party. The remaining liabilities relate to other items.

For **long-term debt to banks**, a loan was used for the refinancing of existing inventories. The loan is carried at amortized cost using the effective interest method. All liabilities to banks are secured by receivables and collaterals.

► **5.11 Deferred tax liabilities**

Tax deferrals are recognized for temporary difference between the value approach of the tax base and the IFRS accounting methods. The limits are established for the expected tax burden for future financial years.

The total amount of temporary differences amounted to 18.8K EUR. Using the effective tax rate of 22.825%, the deferred taxes amounted to 4.3K EUR.

► **5.12 Equity**

The **MPH Mittelständische Pharma Holding AG** was founded at the end of 2008 as a shelf company. The company concluded a post-formation acquisition and transfer contract with Magnum AG on 9 February 2009, which was approved by the Annual General Meeting on 6 March 2009.

The object of the contract was the introduction of 500,000 bearer shares of HAEMATO PHARM AG with a nominal value of EUR 1.00 each to a value of EUR 38,000,000.00 in the company through the issuance of new shares to the aggregate principal amount of EUR 38,000,000.00 at an issue price of EUR 38,000,000.00. The company's share capital was thus increased by EUR 38,000,000.00 to EUR 38,050,000.00. It is divided into 19.025 million remaining ordinary bearer shares and 19,025,000 preferred shares without voting rights.

The Annual General Meeting of 11 June 2009, authorized the Board to increase share capital with approval of the Supervisory Board up to 10 June 2014 on one or more occasions by issuing new, no-par value ordinary bearer shares and/or non-voting preferred shares for cash and/or contributions for a total of EUR 19,025,000.00 (authorized capital as of 1/2009).

Furthermore, at the 11 June 2009 Annual Meeting, the share capital was increased to EUR 19,025,000.00 by issuing up to a total of 19.025 million new par value bearer ordinary shares and/or preference bearer shares with no voting rights; the previously-issued preferred

stock was to be issued in the distribution of earnings and/or assets (contingent capital 2009/1). The growth and summary is shown in the share capital.

## 6. Assets analysis

The composition and development of fixed assets is contained in the table entitled "Consolidated Statement of Fixed Assets on 31 December 2010", see Appendix 5.

## 7. Contingent liabilities and commitments

Contingent liabilities are not applicable. The other commitments have been undertaken in the ordinary course of business.

## 8. Comments on profit and loss summary account

Expenses and income for the fiscal year - regardless of the payment date - are considered if realized. Proceeds from the sale of goods are recognized when significant risks and rewards have been transferred and the amount of expected contribution can be reliably estimated.

### Segment Reporting under IFRS 8

IFRS 8 requires companies to report financial and descriptive information about reportable segments. Reportable segments are operating segments which meet certain criteria. Business segments are components of an entity for which separate financial information is available.

Segment information must therefore be based on the internal reporting of the company (management approach). The internal management of the company is the basis for segment reporting.

To date, only the HAEMATO PHARM AG is operationally active. HAEMATO PHARM AG is active in only one business segment (selling drugs) and essentially operating in one regional segment (Germany) so that there is de facto an exemption from segment reporting applicable.

According to IFRS 8.31, however, one-segment companies must provide certain financially disaggregated

data. This has to do with the following disclosure requirements which correspond to the following criteria:

**a) Products and services** (IFRS 8.32): all products (misc. drugs) are consolidated in a group of comparable products. The presentation of product-related revenues is not reasonable due to the multitude of pharmaceutical products, and also not possible given the lack of information. All of the total sales income shown relates primarily to the aforementioned product group.

**b) Geographical areas** (IFRS 8.33): As described above, HAEMATO PHARM AG operates essentially only in one regional segment (Germany). To a lesser extent, activities outside the country were carried out, but due to their small numbers, these can be ignored. Because the preparation of information across geographic reasons would be associated with increased costs, this has been waived.

**c) Significant customers** (IFRS 8.34): Is not applicable because the revenue is distributed across a variety of customers. IFRS 8.34 would apply if the amount of revenues from transactions with a single external customer amounted to 10% of the company's total turnover.

► **8.1** The **revenue** achieved is mainly the result from the sale of drugs.

► **8.2** The other **operating income** amounted to 165.8K EUR (previous year: 14.2K EUR).

► **8.3** The **material expense** amounted to a total of 95,695.8K EUR (previous year: 52,419.0K EUR), and contains all expenses which are in connection with the purchase of medicines. In comparison to the previous year, the inventory changes were charged directly to the cost of materials, an adjustment was therefore realised to the previous year presentation.

► **8.4 Depreciation** of tangible and intangible assets of 246.8K EUR, (previous year: 236.1K EUR). The tangible and intangible assets are depreciated over different useful lives (three to 15 years).

► **8.5 Other operating expenses** to a total of 4,517.4K EUR (previous year: 2,488.6K EUR), split among a variety of categories, such as rent, advertising and travel costs, packaging material, freight costs, insurance premiums, external work, legal and consulting fees and annual financial statement costs and audit costs.

For commercial services already provided, which relate to fiscal 2010, Magnum AG received a compensation from HAEMATO PHARM AG of 115.0 K EUR. The settlement of services, which are included in other operating expenses, does apply in 2011. In consideration of IAS 24, it should be noted that Magnum AG is a related party.

► **8.6 Other interest and similar income**

The interest income amounts to 3.0K EUR (previous year: 0.7K EUR). The interests result, inter alia, from the investment of cash in German banks. Furthermore, HAEMATO PHARM AG granted a short-term loan in 2010 of 350.0K EUR to Magnum AG.

The funds were handed out in loans at 9.0% per annum interest rate and were already paid back in 2010. With consideration of IAS 24, it should be noted that Magnum AG is a related party.

### ► 8.7 Interest and similar expenses

The interest expense, amounting to a total of 288.5K EUR, has to do mainly with interest paid to German banks for short-term loans.

	Interest income	Interest expense	Impact assessment			Net result
			Fair Value	Currency calculation	Value correction	
	K EUR	K EUR	K EUR	K EUR	K EUR	K EUR
<b>01.01. - 31.12.2010</b>						
Cash	1	0	0	0	0	1
Loans and Receivables	2	0	0	0	-2	0
Continuing Financial liabilities at cost	0	-287	0	0	0	-287
► Total net income	3	-287	0	0	-2	-286
thereof booked:						
► profit and loss statement	3	-287	0	0	-2	-286
► directly into equity	0	0	0	0	0	0
<b>06.03. - 31.12.2009</b>						
Cash	1	0	0	0	0	1
Continuing Financial liabilities at cost	0	-300	0	0	0	-300
► Total net income	1	-300	0	0	0	-299
thereof booked:						
► profit and loss statement	1	-300	0	0	0	-299
► directly into equity	0	0	0	0	0	0

### ► 8.8 Taxes on income

The position mainly includes current tax expenses in fiscal 2010 which were determined on the basis of the current tax law:

	2010 EUR	06.03.2009 - 31.12.2009 EUR
Taxes from the current period	-974,480.30	-766,617.21
Deferred tax expense from recalculation of differences/release of deferred tax assets	-5,914.50	-2,862.01
Deferred tax credit on exchange differences	0.00	1,906.31
	<u>-980,394.80</u>	<u>-767,572.91</u>

### 9. Earnings per share

Earnings per share are calculated by dividing net income by the number of shares outstanding. According to IAS 33.19, the determination of basic earnings per share involves the number of ordinary shares using the weighted average number during the period for outstanding ordinary shares. Dilution effects are not taken into account.

The result is as follows:

	2010 EUR	06.03.2009 - 31.12.2009 EUR
Yearly net income	9,128,397.76	5,079,037.05
	2010 Stk.	06.03.2009 - 31.12.2009 Stk.
Number of shares (weighted Average)	38,050,000	38,050,000
	2010 EUR	06.03.2009 - 31.12.2009 EUR
Earnings per share	0.24	0.13

## Other Information

### 10. Information about members of the corporate bodies

#### Board of Directors

Name	Function / authority to act	Profession
Patrick Brenske (from 23.01.2009)	Board of Directors Authorized to act solely	Master of Banking & Finance
Dr. Christian Pahl (from 17.05.2010)	Board of Directors Together with another Board member	Business Graduate

The total remuneration of the Executive Board amounted to 199.3K EUR in 2010 (previous year: 110K EUR). Claims against members of the Board do not exist; liabilities as of 31 December 2010, amount to 0.1K EUR (previous year: EUR 0.0).

#### Supervisory Board

Name	Function / authority to act	Profession
Andrea Grosse <sup>1)</sup>	Chairman	Lawyer
Prof. Dr. Dr. Sabine Meck	Vice Chairman	University Professor and Scientific Journalist
Dr. Marion Braun <sup>2)</sup>	Member	Physician
Dr. Stefan Becker <sup>3)</sup>	Chairman	Lawyer
Elke Gunkel <sup>4)</sup>	Vice Chairman	Business Graduate

<sup>1)</sup> from 4 March 2010 <sup>2)</sup> from 29 June 2010 <sup>3)</sup> to 28 February 2010 <sup>4)</sup> to 29 June 2010

The total remuneration for the Supervisory Board in fiscal 2010 was 46.2K EUR (previous year: 22.5K EUR). Claims against members of the Board do not exist; liabilities as of 31 December 2010, amount to 36.1K EUR (previous year: EUR 0.0).

### 11. Number of Employees

During the reporting period, MPH Mittelständische Pharma Holding AG and HAEMATO Vet GmbH employed no employees. In regards to HAEMATO PHARM AG, the following is in place:

	Average number of employees
HAEMATO PHARM AG	51 (prev. year: 30)

## 12. Details of financial instruments under IFRS 7

### ► Risk Management Policies

The **risk management system** at MPH Mittelständische Pharma Holding AG has the goal of early detection of all major risks and their causes, capturing them in order to avoid financial losses, failures or malfunctions.

This approach ensures that appropriate measures can be taken to avoid risks. Essentially, it is an early detection system which is used to monitor liquidity and earnings.

The **risk management policy** is essentially covered by the Board of MPH Mittelständische Pharma Holding AG. The Controlling Department at HAEMATO PHARM AG, thereby participates in the monitoring of operating success and can detect deviations over time.

The respective managers of the departments decide, if necessary, together with the Board, on the appropriate strategy for managing risks.

The MPH Mittelständische Pharma Holding AG is generally subject to risks which may result from changes in circumstances, by legislation or other regulations. Should such changes happen, they occur in less than sudden and surprising fashion, so that there is time to respond to the changes.

### ► Capital Risk Management, Debt and Interest-Rate Risk

The Group manages its capital with the aim of maximizing the company's income by optimizing the ratio of capital to debt. It is ensured that all Group companies can operate on a going-concern basis.

The Group has taken short- and long-term debt in the operational implementation of its business model.

During the reporting period, bank debt has increased from 252.7K EUR to a total of 5,440.3K EUR. We currently see only limited interest rate risk.

In short-term bank borrowings, we have taken a short-term loan from a German bank. This loan is at 9.0% per annum interest and can always be repaid. As of financial statement date, this results in a liability of 521.3K EUR.

For **short-term refinancing of the inventory**, a loan of 1,000.0K EUR was taken (interest rate: 3-month EURIBOR plus 1.5% p.a.), which was paid back in 2011.

For **long-term debt to banks**, a further loan (interest rate: 3-month Euribor plus 2.25% p.a.) was used for long-term refinancing of existing inventory. At the closing date, there was a liability of 3,919.0K EUR. The loan is due on April 30 2012, and is limited at 5,000.0K EUR. The aforementioned loan was, however, prematurely paid in 2011.

Furthermore, a loan was made available by Magnum AG, which is shown in paragraph 5.10. At the closing date, this resulted in a liability, including interest, of 895.3K EUR (previous year: 3,044.8K EUR). The loan from Magnum AG was charged market-level interest rates.

The remaining financial liabilities reported on the balance sheet are not subject to interest rate risk because no interest is paid. These are short-term liabilities.

### ► Exchange Rate Risk

Exchange rate risk arises on financial instruments denominated in foreign currencies, i.e. on currencies other than the functional currency (Euro). Certain transactions (goods purchases) in the group are denominated in foreign currencies, which can lead to risks arising from exchange rate fluctuations. The book value of foreign currency-denominated monetary assets and liabilities for the Group at the closing date are:

Country Currencies	Asset Value 31.12.2010 K EUR	Asset Value 31.12.2009 K EUR	Liabilities 31.12.2010 K EUR	Liabilities 31.12.2009 K EUR
Norway (NOK)	0.5	0.2	146.0	115.0
Great Britain (GBP)	15.5	212.7	521.2	295.7
Czech Republic (CZK)	0.0	4.2	0.0	0.0
Poland (PLN)	71.08	0.8	15.1	0.0
Rumania (RON)	0.2	112.5	0.0	0.0

Forward foreign exchange contracts, which could serve to hedge exchange risk, are not employed.

### ► Other Price Risks

Other price risks in financial instruments may result from rising purchase prices. Long-term supply contracts and similar measures which could limit these risks are, at present, not in place. The conclusion of such contracts would affect management's flexibility in the compilation of actual medical sales items, which are ordered in function of the customer demand.

### ► Risk of defaults on receivables

The credit risk on receivables from the sale of drugs is assessed by appropriate specific and general provisions. In addition, trade credit risk insurance has been contracted, which serves as a protection against bad debts.

### ► Liquidity Risk

The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles accordingly for financial assets and liabilities.

In the following tables are the expected cash flows for financial assets and liabilities (undiscounted principal and interest payments) on 31 December 2010 and 2009:

	Book Values	Cash flow up to 1 year	Cash flow > 1 year to 5 years	Cash flow > 5 years
	K EUR	K EUR	K EUR	K EUR
Status: 31 December 2010				
► <b>Cash</b>	757	0.0	0.0	0.0
<b>► Loans and Receivables</b>				
Trade receivables	10,973	10,973	0.0	0.0
Other financial assets	132	132	0.0	0.0
<b>► Financial liabilities which are assessed at continuous purchasing prices</b>				
Interest-bearing financial liabilities	6,336	2,579	3,947	0.0
Non-interest-bearing financial liabilities	6,822	6,822	0.0	0.0
	Book Values	Cash flow up to 1 year	Cash flow > 1 year to 5 years	Cash flow > 5 years
	K EUR	K EUR	K EUR	K EUR
Status: 31 December 2009				
► <b>Cash</b>	519	0.0	0.0	0.0
<b>► Loans and Receivables</b>				
Trade receivables	7,060	7,060	0.0	0.0
Other financial assets	131	131	0.0	0.0
<b>► Financial liabilities which are assessed at continuous purchasing prices</b>				
Interest-bearing financial liabilities	3,298	3,298	0.0	0.0
Non-interest-bearing financial liabilities	4,612	4,612	0.0	0.0

Reported in the balance sheet for other current and long-term assets is 239K EUR, thereof 132K EUR financial assets and 109K EUR non-financial assets (including prepayments and sales tax refund claims).

The non-interest-bearing financial liabilities are including 5,925K EUR trade payables and another 897K EUR for other current liabilities. Reported in the balance sheet for other current liabilities is 2,529K EUR, thereof 897K EUR are financial liabilities and 1,632K EUR are non-financial liabilities (including sales tax and payroll tax payments).

The fair values of financial instruments of the MPH Group are the book values at closing.

#### ► Consolidated Cash Flow Statement

The cash flow statement shows how the cash resources of the MPH Group have changed over the reference years. In this cash flow statement, see Appendix 3, the cash flows from operations, investing and financing activities are shown. The cash and cash equivalents include short-term cash in the amount of 757K EUR (previous year: 519K EUR).

### 13. Details of relationships to related companies and person

The transactions which were carried out with related companies are referred to in the sections 5.10, 8.5 and 8.6. Other transactions did not exist as of the reporting date.

### 14. Events after the financial statement date

On 3 May 2011, the Annual Meeting of HAEMATO PHARM AG decided to distribute a gross dividend to MPH Mittelständische Pharma Holding AG in the amount of 7,600.00K EUR. Under IAS 18.30c, the aforementioned claim for dividends may be booked only when there is a legal entitlement to receive payment.

By 6 May 2011, no further significant events occurred after the closing date that were significant.

Berlin, 6th May 2011



Patrick Brenske  
(Board Member)



Dr. Christian Pahl  
(Board Member)

## Auditor's Opinion

### To MPH Mittelständische Pharma Holding AG:

"I have examined the consolidated financial statements of MPH Mittelständische Pharma Holding AG, comprised of the consolidated balance sheet, consolidated profit and loss accounts, notes, consolidated cash flow statement, consolidated equity change account and group management report for the fiscal year from 1 January 2010 to 31 December 2010.

The preparation of consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements of Section 315, paragraph 3 in connection with Section 1 of the HGB [German Commercial Code] is the responsibility of the management of the company. My responsibility is to express an opinion on the basis of the examination that I have conducted of the consolidated financial statements.

I have carried out my audit in accordance with Section 317 of the HGB as promulgated by the Institute of Certified Public Accountants (IDW) and generally accepted German auditing standards. These standards require that we plan and perform our analysis for misstatements which materially affect the representation of operations in the consolidated financial statements in accordance with applicable financial reporting frameworks, and in the consolidated financial statements for assets, liabilities, financial position and results, with reasonable assurance. In determining the audit procedures, knowledge of the business and economic and legal environment of the Group and expectations as to possible errors must be present.

During the audit, the effectiveness of the internal control system and the disclosures in the consolidated financial statements, and management reports, are examined primarily on a sampling basis. The audit includes an assessment of the annual financial statements of companies included in the consolidated financial statements, the scope of consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. I believe that my audit provides a reasonable basis for my opinion.

### My audit has no reservations.

In my opinion, based on the findings of the audit, the consolidated financial statements comply with International Financial Reporting Standards (IFRS) as adopted by the EU, and additional requirements of Section 315, paragraph 3 in connection with Section 1 of the HGB's rules, and give a true and fair view of the assets, liabilities, financial position and results of the Group."

The Group management report is consistent with the consolidated financial statements and provides a suitable view of the Group's position and opportunities and risks of future developments.

Berlin, 6th May 2011



Business Graduate Harry Haseloff  
Auditor





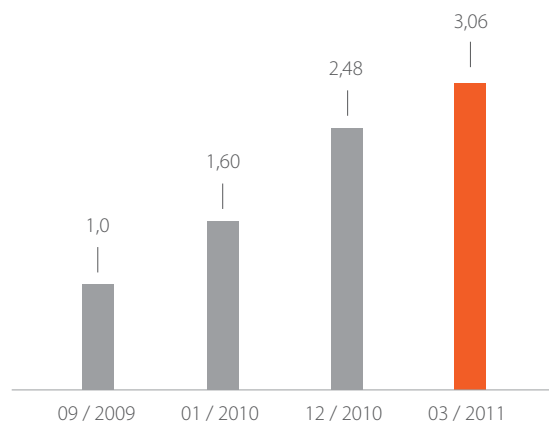
## The company share

<b>Classes of shares</b>	Common and Preferred Shares
<b>Number of Common Shares</b>	19.025.000
<b>Number of Preferred Shares</b>	19.025.000
<b>Quoted Share Class</b>	Preferred Shares
<b>WKN/ISIN</b>	A0NF69/DE000A0NF697
<b>Ticker symbol</b>	93MV
<b>Trading floor</b>	Xetra, Frankfurt
<b>Market Segment</b>	First Quotation Board (Open Market)
<b>Designated Sponsor</b>	Close Brothers Seydler Bank AG
<b>Market Capitalization</b>	Preferred Shares, 58.2 million Euros (as of 31 March 2011)
<b>First Trading Day</b>	01.09.2009
<b>Coverage</b>	Close Brothers Seydler Bank AG

Since early September 2009, the MPH Mittelständische Pharma Holding AG has been traded on the Frankfurt Exchange with preferred shares in the Open Market.

Since first issuance for 1 Euro, it has had a positive price trend. In 2010, the opening took place at EUR 1.60, and moved to EUR 2.48 as of 30 December 2010. On 31 March 2011, the XETRA closing price was EUR 3.06.

The Management Board and Supervisory Board applaud the positive business growth, which is also reflected in the stock's price performance, during the Annual Meeting on 29 June 2011, and propose a dividend of 17 cents per ordinary share and 20 cents per preferred share.



## Our Employees

The MPH Group employs 63 staff as of 31 March 2011. During 2010, the number of employees in the Group increased from 42 to 52.

MPH manages employees within an internal framework with which all employees can make an individual contribution to corporate success.

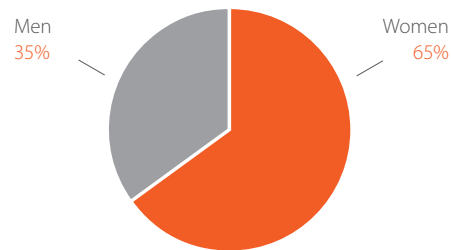
All MPH employees will be promoted according to their individual potential and operating requirements. This is one of the foundations of our personnel policy, and is reflected in a highly motivated, skilled and committed workforce. This results in a strong identification with the company.

The proportion of women in the Group is of particular relevance. The Supervisory Board is composed exclusively of three highly-qualified women. The “high female ratio” at MPH does not stop at the Supervisory Board. For example, 50% of the people in leadership positions at the company are women; the total female workforce share is 65%.

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Workforce 2010

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## Glossary

### Retained earnings

Balance of net income for the fiscal year, profit or loss carried forward and income contribution.

### Cash Flow

An economic measure which says something about the liquidity of a company. Presents the cash flow over a period.

### DAX

The DAX is the most important German stock index. It reflects the development of the 30 largest and most profitable companies in Germany.

### Dividends

Distributed profit of a corporation, with the amount allotted to a single equity share.

### DIW

German Institute for Economic Research

### EBIT

Earnings before interest and taxes: The profit before interest and taxes. Says something about the company's profit over a given period.

### EBITDA

Earnings before interest, taxes, depreciation and amortisation: The profit before interest, taxes, depreciation and amortisation of assets and intangible assets.

### Earnings per share

The earnings per share are calculated by dividing net income by the weighted average number of shares. The calculation is based on IAS 33.

### EU import medicines

Branded drugs, which are imported from other EU member countries (less expensively than available in the home market), based on EU import laws.

### ifW

Institute for World Economics

### Generics

A generic is a medicine whose active ingredient is an identical copy of a brand name drug which is on the market. Generic drugs are therapeutically equivalent to the original drug.

### OECD Countries

The OECD is an international organization with 34 member states which are committed to democracy and a market economy.

### Oncology

The science of cancer.

### Patent

Pursuant to drugs: for a newly-developed active ingredient in a pharmaceutical, intellectual property rights are granted. This gives time-limited market exclusivity for up to 20 years in the EU.

### Authorization

An official authorization which is necessary to sell, release or use an industrially manufactured, ready-to-use drug.

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## **Supervisory Board:**

**Chairman of the Supervisory Board:**  
Andrea Grosse

**Vice Chairman of the Supervisory Board:**  
Prof. Dr. Dr. Sabine Meck

**Member of the Supervisory Board:**  
Dr. Marion Braun

**Board of Directors:**  
Patrick Brenske  
Dr. Christian Pahl

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Printed on Galaxi Ceramic/Sappi with 100% PEFC and FSC certification—for our environment

FSC, Forest Stewardship Council, is an international seal that is recommended by major environmental organizations for the maintenance of ecological balance. It ensures that the paper is not from raw materials in nature, but rather is responsibly and sustainably manufactured.

