

Management Report 2009 of Andrae-Noris Zahn AG (1 September 2008 to 31 August 2009)

A. Business and framework conditions

Business model. Andrae-Noris Zahn AG (ANZAG) is with around 3,000 employees and sales revenues of around EUR 3.6 billion one of the leading German pharmaceutical wholesalers. The core business of ANZAG is comprised of pharmaceutical wholesale trade, the pharmacy co-operation *vivesco*, logistics services as well as foreign investments.

As a hub in pharmaceutical distribution the company supplies more than 8,000 pharmacies in Germany several times a day with products from around 2,200 suppliers. With 24 branch establishments¹ (including 23 entered in the commercial registers) ANZAG has the densest delivery network of all pharmaceutical wholesalers in Germany. In this way the company secures a rapid, comprehensive and favourably priced supply of the population with all necessary medicines and health products.

The focus of ANZAG's business model is on support for the independent pharmacy: in the fields of goods logistics, management, marketing and organisation. For pharmacies which intend to take up the challenges of the pharmacy market in a strong community ANZAG founded already back in 2003 the pharmacy co-operation, *vivesco*. With around 1,100 partners *vivesco* is today one of the leading pharmacy co-operations in Germany.

For pharmaceutical manufacturers and their product ranges ANZAG builds up so-called "distribution bridges" to the pharmacy. The relief pro-

vided by ANZAG allows the manufacturers to concentrate themselves on their core competencies, i.e. the development and production of medicinal products.

Furthermore, ANZAG is expanding in promising growth markets outside Germany. During the past years the company acquired shareholdings in three pharmaceutical wholesalers in East and Southeast Europe and hence secured access to the promising pharmaceutical markets of those regions for itself: since 2005 ANZAG has had a 49 % shareholding in Oktal Pharma d.o.o., Croatia's third largest pharmaceutical wholesaler. In 2006 ANZAG acquired 60 % of the shares in Farmexpert DCI S.A., Bucharest. With the acquisition of the majority of shares of 92 % in the Lithuanian pharmaceutical wholesaler Armila UAB ANZAG continued its strategy of international expansion in September 2008.

Given the concentration on trade, research and development are only of subordinate significance for ANZAG.

Company controlling system. The corporate management of ANZAG is geared to long-term added value. As in previous years, the focus of the further development of the Group is on an earnings-oriented strategy. A precondition to internal and external growth is that the financial stability and solidity of the financial statements are maintained. The controlling system implemented to that end allows a targeted control and management of the company based on uniformly defined ratios.

¹ Allgäu, Bayreuth, Berlin, Bremen, Dresden, Frankfurt, Freiburg, Hagen, Harsum, Itzehoe, Kassel, Köln, Leipzig, Ludwigshafen, Meerane, München, Nürnberg, Osnabrück, Regensburg, Rostock, Saarbrücken, Singen, Stuttgart, Würzburg

The control variables for the business processes are driven by the interests and claims of the investors. Control is based on the long-term expectations in terms of return on invested capital. Consequently, controlling is consistently driven by earnings and an ongoing optimisation more particularly of the cost structures of the company in addition to the efficiency of personnel deployment. In this connection ANZAG attaches special importance to a competitive cost position. Against the backdrop of the current financial and economic crisis liquidity management has once more been intensified. As a pharmaceutical wholesaler ANZAG concentrates itself, more particularly, on working capital management. This includes strict accounts payable and accounts receivable management as well as a sustainable optimisation of the added value structure.

Overview of the business development

General economic development

Germany. After the massive collapse in 2008 the German economy has been growing for the first time in five quarters by +0.4 % in the second quarters 2009. This change in trend was probably primarily due – in addition to the governmental business development programmes – to the decrease in major uncertainty which had spread after the collapse of the investment bank Lehman Brothers. During the third quarter there have been increasing signals suggesting that the German economy has left its trough behind it. Experts expect that the economic forces will significantly increase towards the end of the year. Despite the uptrend the German gross domestic product (GDP) will probably drop, according to estimates by economic institutes and banks, on an annual level by around 5 % under the prior year level and hence record the by far strongest dip in post-war history. Private consumption, by contrast, is likely to increase by +0.5 % on an an-

nual average – supported more particularly by car purchases within the scope of the state scrapping premium for old cars. Against the backdrop of the dramatic decline in the general economic development this would, however, already be seen as success. For 2010 a rather moderate economic recovery can be forecast from the current point of view, because the consequences of the crisis of the financial system will probably continue to burden the German economy still for some time.

The major economic downtrend also influences the development on the pharmaceutical market: the decrease in available income will primarily have an impact on the self-medication market. However, ANZAG realises more than 80 % of its sales revenues with prescription medicines which are reimbursed by the sickness funds. These medicines are hardly affected by the negative general economic development. For that reason, the sales market of ANZAG is, compared to other industries, comparatively resistant to economic developments.

Abroad. The foreign markets Romania, Croatia and Lithuania, in which ANZAG operates, were fully hit by the severe international financial crisis from September 2008 against the backdrop of the strong economic growth of the past years. The Romanian economy still recorded a real growth rate of the gross domestic product of +7.1 % during the full year 2008 but the decline in economic output in 2009 will be all the stronger with around –7 % according to experts. Furthermore, there is a significant devaluation of the national currency, Leu, so that according to market observers the inflation rate is likely to increase to around 5.5 % on the annual average in 2009. The spending of private households was almost 14 % below prior year during the first half year 2009. Next year a slow improvement is expected concerning economic growth and the inflation rate.

Croatia suffers under the financial crisis, too. The country is experiencing one of the toughest economic crises since its independency in 1991. The gross domestic product (GDP) will shrink according to economists this year probably by around – 6 % and private consumption is likely to fall by – 7 %. Last year there had still been a GDP growth of +2.4 %. A clear recovery is forecast for 2011. The negotiations about joining the European Union and the necessary reforms of the economy, legal system and institutions constitute, however, a sound basis for the further positive economic development.

Lithuania – the largest Baltic State – recorded growth rates of around 8 % per year before the financial crisis. By comparison, a growth rate of +3.1 % in 2008 represented a significant downturn. This year a strong decline in economic output is likely. During the first quarter the gross domestic product (GDP) dropped by – 11.6 % versus prior year, during the second quarter it fell by – 22.6 %. The Baltic state had to accept the worst economic dip amongst all EU Member States. For the coming years only a slow economic recovery is anticipated.

Despite the partly strong decline in economic output and the expenses of private households in the Eastern European markets of ANZAG, the demand for health products and services continues to be unbroken, apart from some exceptions. With growing income health is gaining a constantly higher status in the life of consumers. Increasing prosperity leads to a growing significance of the health market in these countries.

Demographic development. In Germany, the health sector is today, measured in terms of added value and employment, one of the largest economic sectors – even before industrial sectors such as mechanical engineering or the chemical

industry. Experts assume that the dynamics of the health market will continue to outperform the general economic growth in future, too. The development will be marked decisively by three factors, the demographic change, the medical technical progress and finally the growing health awareness amongst the population.

The group of people aged 65 plus is constantly growing in Germany. Whereas it currently counts 15.8 million people, its number will increase by 2030 to 21.8 million, a growth of +38 %. This leads to a higher occurrence of diseases typical for older age. The demand for health services and medicinal products in the field of cardiovascular diseases, metabolic disorders and rheumatism has continuously increased. At the same time the consumption of medicines of those aged 60 plus rises as a result of their higher demands on life quality. Old-age pensioners spend up to five times more money on health than employed people. And medical-technical progress also means that an increasing number of diseases becomes treatable. Innovations not only improve the quality of services in health care but also entail higher costs.

Moreover, the so-called civilisation diseases resulting from unhealthy lifestyles are increasing in industrial nations such as Germany. Stress factors favour the development of mental diseases. Even younger people are affected more often; the need for treatments will increase as a result of the massive rise in allergic diseases.

Given the afore-mentioned factors the demand for medicinal products has continuously grown over the last years. In order to get the increasing pharmaceutical expenses of the statutory health insurance under control, the pharmaceutical market is governed by intense regulations imposed by the legislator.

In Eastern Europe similar developments in respect of the age structure of the population will be observed with a certain delay and will lead to an increase in spending on care and health. However, these countries have a high growth potential which will over-compensate the cost effects of the demographic change during the coming years.

Regulatory environment. The German pharmaceutical market was more particularly subject to numerous governmental interventions over the last years. In this connection the legislator increased its catalogue of measures constantly, without withdrawing older instruments, so that the complexity of regulation intensified.

Governmental measures such as reference prices and exemptions from co-payments as well as new forms of competition, such as rebate negotiations with sickness funds, have altogether supported the dispensing of favourably priced products.

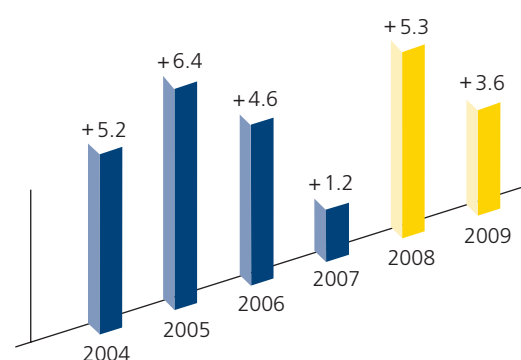
Shifts in the price and range structure have a direct impact on the earnings situation in the pharmaceutical wholesale trade, because the wholesale mark-up is governed by the selling price of the pharmaceutical company. If the manufacturer or governmental bodies lower the medicinal prices, this influences directly the earnings of the pharmaceutical wholesale trade.

Pharmaceutical market. Germany is the world's third largest pharmaceutical market. Despite numerous interventions of the governmental health policy it offers stable growth perspectives for the future. In fiscal 2009 the German pharmaceutical market grew again stronger than the overall economy. By contrast with the trend of the overall economy, sales revenues at pharmaceutical manufacturer selling prices rose by

+3.6 %. The sales revenue dynamics were driven more particularly by increases in the field of vaccines as well as medicinal groups with particularly expensive therapies, such as products for the immune system and finished medicinal products to treat cancer diseases.

Growth of the German pharmaceutical market (overall market)

Figures based on pharmaceutical manufacturer selling prices



Source: IMS Health, converted to the ANZAG fiscal year

The number of packs sold continued to stabilise. After a 2.8 % volume growth was recorded for the first time again in fiscal 2008, the number of packs dispensed increased by +1.7 % in fiscal 2009. This was, however, significantly below the increase in sales revenues. Consequently, this suggests higher expenditure of the wholesale trade with lower margins.

The pharmaceutical markets in Croatia and Romania continue to record a positive development: in Romania the market grew during the first six months 2009, after currency adjustment, by +18.0 %. In Croatia market growth amounted to +2.5 % during the same period. In Lithuania, the third foreign market of ANZAG, the market decreased by around –5 % between January and July 2009.

The erosion of pharmaceutical prices was stopped during ANZAG's fiscal 2009. Two opposing trends can be observed in Germany: price competition and lower costs for patent-free medicinal products and at the same time dynamic revenue development for expensive, innovative special therapies.

According to the Scientific Institute of the Statutory Health Insurance (WIdO), prices increased slightly for prescription medicines during the reporting period – between September 2008 and August 2009 – by 0.6 %. On the reference price market – i.e. medicines of certain active ingredient groups for which a uniform reimbursement amount is defined by the statutory health insurance – the price level continued to be declining with – 1.4 %.

Market of the pharmaceutical wholesale trade. The sales revenues of the pharmaceutical wholesale trade in Germany increased during fiscal 2009 by +2.8 %. Consequently, the wholesale market continued to grow more slowly than the general pharmaceutical market. The underlying reason is an increase in direct supplies by industry which has been observed for several years now. Germany is heading a development which can be observed all over Europe. During the past six years the share of direct deliveries to German pharmacies by the pharmaceutical industry almost doubled. In fiscal 2009 this share rose from 16.8 % to 17.5 %.

The reason for this development is above all the German Act to improve efficiency in health care supplies (AVWG) of 2006 in which rebates in kind are banned and cash rebates are limited to the amount of the wholesale trade margin. This means that competition amongst wholesalers, of the manufacturers as well as the directly supplying manufacturers with the wholesale trade only take place within the framework of the wholesale trade margin. Since the wholesale trade must use

its margin to cover costs and to generate a business result, whereas the manufacturers can dispose of the entire wholesale trade margin, this regulation is a clear disadvantage for wholesalers versus direct distribution.

At the same time the expenditure has continuously increased for the pharmaceutical wholesale trade during the past years. An increasing number of thermolabile products and narcotics are distributed by the wholesale trade. Their high distribution expenditure is, however, not covered by the margins.

Furthermore, rebate contracts involve additional expenditure for the pharmaceutical wholesale trade – in terms of orders, warehousing and picking systems.

The share of the pharmaceutical wholesale trade in the total expenditure of the statutory health insurance amounted only to 0.66 % in 2008. Since 2000 the share of the wholesale trade in statutory health insurance expenditure has been reduced by 50 % and is today the smallest expense item. If one uses the statutory health insurance expenses for medicinal products of EUR 26.8 billion as a basis, the share of the wholesale trade in it has dropped to 4.0 %. 15.5 % are accounted for by pharmacies; the share of the pharmaceutical industry amounted to 64.5 %. The difference to 100 % is accounted for by the value-added tax share.

The pharmaceutical wholesale markets in Romania, Croatia and Lithuania continued to grow dynamically in 2008: in Romania the market grew by +6.6 %. In Croatia the market went up by +8.0 % during the same period. For 2009 the experts expect moderate growth in these two countries. Whereas the Lithuanian wholesale market grew by +8.0 % in 2008, a – 6.0 % decrease is forecast for 2009.

B. Earnings, financial and asset position

Fiscal 2009 – higher sales revenues, earnings above plan. Both the discontinuation of special effects with an impact on results of the previous year and the earnings-oriented strategy have resulted in ANZAG recording better earnings during the past fiscal year than during the previous year. This was possible due to a slight rise in sales revenues, but above all a significantly improved gross income margin. Overall, it must however be stated that the earnings continue to be significantly under the level of 2002 and the targeted earnings level has not yet been reached again.

In an intense competition environment ANZAG succeeded during the past fiscal year in consolidating its market position in Germany. The main success drivers were, more particularly, its unequivocal positioning as a partner of independent pharmacies, the high quality customer base and the pharmacy co-operation model *vivesco* in Germany.

Earnings position

Sales revenues. With sales revenues of EUR 3.633 billion ANZAG achieved a +1.4 % rise in sales revenues in the German wholesale business. For the benefit of its earnings-oriented strategy ANZAG accepted that its growth remained below the market development of the pharmaceutical wholesale trade in Germany.

Investments. The domestic and foreign subsidiaries in which ANZAG has a shareholding, developed as follows:

- *vivesco* Apotheken-Partner GmbH is a wholly owned subsidiary of ANZAG. This pharmacy co-operation set up by ANZAG in 2003 offers pharmacists the possibility to meet the challenges of the pharmacy market in a strong

community. With around 1,100 partners *vivesco* is today one of the leading pharmacy co-operation systems in Germany. The members of *vivesco* communicate under the umbrella of one joint brand – without having to give up their individuality and entrepreneurial independence. The co-operation offers pharmacy partners support in all areas which are relevant for their long-term success: at the national positioning as well as in local competition, at the gaining of new and the tying of existing customers, at the increase in sales, at the development of additional revenue sources and the design of the pharmacy in way that supports sales. During the past year the company was able to increase its total proceeds – sales revenues plus other operating income. The net income for the year under the German Commercial Code was slightly positive like last year.

- OMNIA Gesellschaft für Verwaltung und Beteiligungen mbH actively holds shareholdings in different domestic and foreign subsidiaries of ANZAG. The management of OMNIA advises the affiliated companies on all issues around the shareholdings and co-operates partly in their management and supervisory bodies. Consequently, it is an important instrument to further develop the division of labour within the Group structure. OMNIA supports the operating companies and drives their integration into the Group structures. Furthermore, it develops and controls acquisition and research projects on behalf of the affiliated companies. Essential subsidiaries were transferred during the fiscal year from ANZAG to OMNIA and in this connection measures to strengthen the equity capital were carried out for two companies.

- CPL Pharma Lager und Vertrieb GmbH offers tailor-made logistics concepts and services for the health care and pharmaceutical industry from one single source. Apart from order taking, warehousing and distribution, the company also provides supplementary services such as collection, dunning, return handling and hotline service. For ANZAG and other pharmaceutical wholesalers the company operates as a central warehouse company. For pharmaceutical manufacturers it provides logistics services.
- AS Logistik GmbH controls all transport services of the Group and also supplies pharmacies all over Germany for other pharmaceutical wholesalers. The service provided by AS Logistik consists in a comprehensive need-oriented fine distribution of medicinal products and other time critical goods. AS Logistik is the backbone of the micrologistics system of ANZAG: beyond the supply of ANZAG, it is also responsible for the exchange of goods in the integrated supply network of ANZAG as well as the delivery of ordered goods to customers from other sectors. Through customer-oriented and cost-optimised tour planning AS Logistik supplies pharmacies all over Germany.
- APL Logistik und Bauplanung GmbH, which acts in the fields of planning and project management services, specialises in cross-sectoral tasks; it pools competencies from the fields of architecture, logistics, materials flow and operational organisation. The range of services includes the control and management of complex planning tasks for in-house logistics and commercial real estate. Within the framework of these contracts APL acts, depending on requirements, as specialist or general planner. At the request of the customer APL also acts as a general contractor or is able after the completion of the building measures to take over operational management. APL has been operating individual logistic centres of ANZAG for many years. In fiscal 2009 the company generated a satisfactory result.
- GESDAT Gesellschaft für Informationsmanagement mbH is a service provider in the field of quantitative market research. It prepares market analyses with representative regional sales and revenue information. The group of customers includes pharmaceutical manufacturers, the pharmaceutical wholesale trade, information service providers from the pharmaceutical industry as well as pharmacies and providers of sales force solutions. During the past year the company recorded sales revenues on the level of prior year.
- Since 2005 the Croatian pharmaceutical wholesaler Oktal Pharma d.o.o. has been part of the ANZAG Group with a shareholding of 49 %. With a market share of 17 % the company is the country's third largest pharmaceutical wholesaler. The Croatian pharmaceutical market is considered to be one of the most important future-proof markets in the region with double-digit growth rates and a sales revenue potential of almost EUR 800 million. With own subsidiaries in Bosnia-Herzegovina, Serbia and Slovenia the company is also represented in its neighbouring countries. Oktal Pharma achieved a good result against the backdrop of a rigid consolidation policy of the government.
- In Romania, the ANZAG Group has had a shareholding of 60 % in Farmexpert DCI S.A. since 2006. With a market share of around 10 % Farmexpert is the third largest pharmaceutical wholesaler of the country. The company supplies pharmacies and hospitals in Romania through a total of six branch establishments and a consignment warehouse. The Romanian pharmaceutical market has a considerable growth potential with its 22 million inhabitants: the per capita spending on medicinal products is still significantly lower than the EU average. The wholesale market proved to be extremely robust despite the recession.

- Since 2008 the ANZAG Group has had a 92 % shareholding in the Lithuanian Armila UAB. With a market share of 14 % the company is one of the most important pharmaceutical wholesalers in Lithuania. It currently supplies 1,500 customers in the Baltic States, in particular pharmacies and hospitals. The results of the strong economic dip during the financial crisis and the restructuring efforts of the public budgets influenced the economic framework conditions.

Gross profit. As a result of the consistent focusing on an earnings-securing corporate policy, the gross profit (sales proceeds minus cost of sales) increased to EUR 202.0 million (prior year: EUR 190,2 million). The arithmetic gross profit margin consequently increased by +0.25 percentage points to 5,56 %.

The other operating income increased by EUR 1.7 million to EUR 25.7 million. The other operating expenses including depreciations and amortisations decreased slightly by – 0.3 % to EUR 98.8 million. Personnel expenses were EUR 4.1 million higher than last year; they amount to EUR 102.2 million, essentially due higher commission and severance payments than during the previous year.

The EBIT, defined as profit/loss on ordinary activities without interest income and income from investments minus other taxes, amounts to EUR 26.2 million (prior year: EUR 16.5 million).

Income from investments fell by EUR 6.0 million versus prior year. The change is primarily due to lower profit distributions of subsidiaries. As a result of the lower availment of third-party funds, interest expenses declined versus prior year from EUR 13.4 million to EUR 10.0 million. The financial result – i.e. the sum of the interest and invest-

ment income – hence amounts to EUR – 4,4 million versus EUR – 2.4 million last year.

Result. Both the discontinuation of special effects with an impact on results of the previous year and the clear focussing on an earnings-oriented strategy have resulted in ANZAG increasing the profit on ordinary activities from EUR 14.6 million to EUR 22.3 million.

During the reporting period income tax expenses amounted to EUR 6.6 million after EUR 2.0 million during the previous year. The change is essentially attributable to low taxed investment income during the previous year. The net income for the year increased by 25.6 % to EUR 15.2 million.

Profit appropriation proposal. The income statement of ANZAG under the German Commercial Code results in a net income for the year of EUR 15.2 million. EUR 3.5 million were transferred in advance to other retained earnings.

The Executive Board and the Supervisory Board propose to the Ordinary General Meeting on 23 February 2010 to use an amount of EUR 11.7 million (prior year: EUR 11.7 million) from the balance sheet profit of EUR 12.1 million for the payment of a dividend of EUR 1.10 per non par value share. EUR 0.4 million (prior year: EUR 0.4 million) are to be carried forward.

Financial position

Financial management. The financial management of ANZAG includes, in addition to cash and liquidity management, also the management of interest and currency risks, Group financing as well as communication with lenders and investors. The main principles are: risk control and central steering of processes.

The priority goal of ANZAG's financial management is to minimise capital costs and financial risks and ensure at the same time the financial stability and flexibility of the Group. This has been the basis for a successful response to the impact of the current financial and economic crisis.

As a pharmaceutical wholesaler ANZAG places special emphasis on working capital management. In order to improve the liquidity supply and to strengthen its self-financing power ANZAG issued a corresponding working programme during the past fiscal year. This also includes strict customer risk management. By systematically monitoring the receivables portfolio ANZAG has so far succeeded in largely avoiding defaults.

Financing. The financing of ANZAG is based on the principle of covering the financial requirements through a balanced ratio of equity to borrowed capital. The most important financing source to repay financial debt, for investments and for the financing of the business activities is the inflow of funds from operating activities. ANZAG covers the requirements for borrowed funds through fixed credit lines and medium-term promissory note loans. The goal is the optimisation of the result and balance sheet structure through the extension of financing at matching maturities and the long-term securing of the financing structure. The banking transactions of the company are based on a broad distribution of the volume and long-term business relationships with banks.

During the past fiscal year ANZAG succeeded, moreover, in implementing a factoring programme. Traditionally the pharmaceutical wholesale trade is financed on a short-term basis. With the sale of accounts receivable ANZAG has secured medium-term liquidity and placed its financing structure on a broader basis. In this way

ANZAG is more independent from the future development on the capital markets for its financing.

The equity ratio within ANZAG continues to be high with 44.2 %; it has slightly increased versus prior year by +2.9 percentage points. The equity is hence much higher than the liabilities to banks. An essential financing component is represented by trade payables which amounted to EUR 106.2 million and were EUR 7.5 million lower than last year. It is part of the business policy of ANZAG to secure the gross profit margin through the best terms of payment with suppliers and service providers. The reporting of this balance sheet item is, therefore, volatile because it follows individual payment agreements during the period. Furthermore, pension accruals constitute an essential factor on the liabilities side of the balance sheet. The accruals and liabilities are based on transactions which are almost exclusively settled on a Euro basis.

Cash flow statement. Within the framework of a factoring agreement, accounts receivable in an amount of EUR 88.9 million were sold as at the balance sheet date. After deduction of a retention referred to the legal validity of the receivables sold this resulted in an inflow in the amount of EUR 80.0 million.

The cash flow from operating activities amounts to EUR 54.0 million after EUR 22.9 million during the previous year. The significant inflow of funds results – despite an increase in inventories – from the higher net income for the year and the accounts receivable reduced by EUR 87.9 million essentially due to the factoring programme.

ANZAG invested a total of EUR 7.2 million versus EUR 14.7 million last year in intangible and tangible assets. The largest items were investments for the modernisation of the Bremen branch establishment.

The cash flow from financing activities in the amount of EUR – 46.7 million (prior year: EUR – 14.9 million) was negative. It includes the outflow of the dividend payment for fiscal 2008 in the amount of EUR 11.7 million. Furthermore, mainly due to the inflow of funds from the factoring financing, bank liabilities were reduced on balance by EUR 35.0 million.

Assets position

Balance sheet structure. The balance sheet total of ANZAG decreased by EUR 40.6 million (– 5.5 %) to EUR 695.7 million. This is mainly due to the reduced capital tying in receivables following the factoring agreement entered into.

Fixed assets increased by EUR 26.9 million to a total of EUR 151.8 million. The rise was essentially due to the capital increases of the ANZAG subsidiaries OMNIA and CPL.

Most assets of ANZAG are of a short-term nature and result from the usual cycles of the pharmaceutical wholesale trade. Inventories and receivables reflect the stock and valuation situation on the balance sheet date.

The current assets dropped by EUR 67.4 million to EUR 542.6 million. The change is primarily due to a decline in accounts receivable by EUR 87.9 million to EUR 264.3 million, following the above-mentioned sale of customer receivables (factoring). Moreover, receivables from affiliated companies dropped by EUR 14.9 million to EUR 9.9 million. By contrast, inventories increased by EUR

21.4 million to EUR 221.1 million and other assets by EUR 14.0 million to EUR 47.4 million.

Equity increased from EUR 304.0 million to EUR 307.4 million. The equity fully covers the fixed assets and moreover 28.7 % of the current assets.

The provisions – including pension accruals – increased slightly by EUR 2.4 million to EUR 81.2 million. Interest-bearing liabilities dropped by EUR 35.0 million to EUR 186.9 million. Accounts payable were EUR 7.5 million lower on the balance sheet date versus the balance sheet date 31 August 2008. They are of a short-term nature and reflect the terms of payment granted to ANZAG.

After setting off the provisions and liabilities against the current assets, the asset surplus amounts to EUR 154.4 million.

Summary statement on the earnings, financial and asset position

In an ongoing intensive competition environment ANZAG succeeded in maintaining its market position during the past fiscal year. The earnings development is positive versus prior year. The clear objective of the senior management is to continue to stabilise the earnings situation.

ANZAG is in a good starting position: with its clear positioning as a partner of independent pharmacies it stands for continuity and reliability for its customers. The financing structure of the company is now placed on a broader basis and has rendered ANZAG more independent from the future development on the capital markets. The ongoing sound balance sheet represents, moreover, a reliable basis for the future business development.

C. Employees

Personnel

On the balance sheet date ANZAG employed 1,965 employees (converted to full-time equivalents), after 1,994 in prior year. The number of apprentices remained almost constant with 120 versus 123 last year.

The compensation for most employees is based on the collective bargaining agreement scheme. Bonuses in excess of that scheme can represent an additional compensation component; they promote the motivation and sense of responsibility of the employees. In the segment outside the collective bargaining agreement performance-based components are indispensable elements of these salaries.

Given the higher retirement age and the foreseeable reduction of the pension level, old-age provision becomes increasingly important. With voluntary allowances for old-age provision ANZAG supports its employees in building up their supplementary provision and hence increases its attractiveness as an employer.

D. Supplementary report

Supplement on fiscal 2009. There have not been any material events after the balance sheet date.

E. Opportunities and risk report

1. Opportunities of the business model

In a difficult market environment ANZAG continues to focus on a partnership with the independent pharmacy. The pharmacy as an institution continues to enjoy a high confidence amongst the population – according to surveys 97 % of the Germans prefer the pharmacy as the place to buy their medicinal products. The practice fee introduced in 2004 has reinforced the trend that

many people no longer go to see a doctor for minor health trouble but go directly to the pharmacy. This constitutes a major opportunity for the pharmacy to profile itself even more as a contact point in health matters.

In order to support the independent pharmacy in an optimum manner in achieving its pharmaceutical and entrepreneurial goals, ANZAG focuses on the largest possible proximity to its customers: with 24 branch establishments it has the densest delivery network of all pharmaceutical wholesalers in Germany. The supplies by ANZAG guarantee rapid and easy availability of goods for the pharmacy and hence ensure a perceivable relief in the processes of goods logistics – ordering, goods receipt and management of returns.

Moreover, the services are tailored to the specific needs of different types of pharmacies – for instance the pharmaceutically oriented countryside pharmacy or the marketing oriented high frequency pharmacy and the individual needs of the different pharmacies. ANZAG supports the pharmacies with marketing concepts to target end consumers. The goals include an increase in frequency and customer loyalty. Furthermore the company offers training and sales training for the pharmacy staff in product areas requiring intense advice and makes available magazines and other information media for consumers.

New offerings by ANZAG, increasingly in a service area, are to further push the sales business in pharmacies. The objective is to offer the independent pharmacy a viable and future-proof service package and hence to consolidate the market position of ANZAG in the long-term.

Furthermore, the manufacturers of innovative medicines place high demands on distribution. ANZAG meets these demands through new offerings for industry and the continuing extension of its logistics services, more particularly through the activities of its subsidiary, CPL Pharma Lager und Vertrieb GmbH.

In addition, good development opportunities are seen in the field of internationalisation on a European level. During the past years ANZAG made successful acquisitions to tap dynamically growing markets in order to set off the fluctuations in earnings in Germany. Mainly Eastern Europe with its less competition intensive pharmaceutical wholesale markets is in the focus of the Group. After the most recent investments in Croatia, Romania and Lithuania, ANZAG wishes to further push the tapping of attractive growth markets in Europe in the long term.

2. Risk management

As a matter of principle, entrepreneurial activities are always marked by opportunities and risks. The objective of risk management is to identify potential risks at an early stage and to actively seize opportunities. Andreae-Noris Zahn AG includes opportunities and risks in its planning and decision processes. The controlled dealing with risks secures the asset, financial and earnings position of the company.

The goal of ANZAG's risk management is to detect critical developments in due time, assess their impact on the company and initiate appropriate measures for risk control. During the fiscal year the process was methodologically upgraded with external support and anchored sustainably into the organisation; the ongoing process for permanent monitoring of risks was further strengthened. Risk management at ANZAG is based on a supraordinate system in which the areas controlling, internal audit and compliance are explicitly included. Controlling as one of the core building blocks of risk management, informs the Executive Board and all relevant decision-makers on a monthly basis about the current business development as well as material deviations from planning. If necessary, it initiates counter measures. In this way the senior management of ANZAG can detect unfavourable developments at an early stage and assess them. Any necessary corrections can be made as soon as possible. Risks with a

strategic character are the subject matter of planning by the Executive Board.

In fiscal 2009 the risk management system of ANZAG did not identify any risks jeopardising the continued existence of the company. Within the framework of the company-wide risk analysis the following risks were, however, identified as material for ANZAG.

3. Material individual risks

General economic risks. ANZAG specialises in the rapid, comprehensive and favourably priced supply of the population with all necessary medicinal products and health products. As a matter of principle, the demand for services and products also depends on the general economic development. The current strong economic downturn influences the development of the pharmaceutical market: the drop in available income hits in particular the self-medication market. ANZAG generates, however, more than 80 % of its sales revenues with prescription medicines which are reimbursed by the sickness funds. These medicines are hardly affected by the negative economic development. For that reason the sales market of ANZAG is comparatively resistant to general economic trends compared to other industries. An ongoing recession in conjunction with governmental budget curtailments in the health sector could nonetheless impact the business development and earnings position of ANZAG.

Environment and industry risks. The loss of high margin portfolio components through direct supplies, lower remunerations for the remaining range and at the same time rising requirements in respect of services to be provided have resulted in the mixed calculation of high priced and low priced medicinal products in the pharmaceutical wholesale trade as provided for in the Medicines Price Ordinance (AMPreisV) has no longer been working out for years.

Within the framework of the 15th Amendment to the German Medicines Act (AMG) the pharmaceutical wholesale trade received a public supply mandate including a claim to delivery. In accordance with § 52b para 2 AMG pharmaceutical companies “must” ensure within the framework of their responsibility deliveries in accordance with needs and on an ongoing basis for pharmaceutical wholesalers acting as full-line suppliers. In future pharmacists will decide how they are to be supplied – either through the wholesale trade or directly by the manufacturer. This renders the further development of the intensely debated exclusive distribution models of the pharmaceutical industry, the so-called Direct-to-Pharmacy Distribution (DTP) considerably more difficult.

The risks resulting from this trend for business developments are anticipated by ANZAG through new offerings for industry and the extension of its logistics services, more particularly through activities of CPL Pharma Lager und Vertrieb GmbH. At the same time the development of new offerings and services for pharmacies can be envisaged.

Basically, ANZAG closely monitors the political discussions in the health sector and develops appropriate strategies in order to alleviate the impact of political decisions as far as possible – for instance through the permanent improvement of service quality with a simultaneous optimisation of cost structures.

Investment risks. In the run-up to investment decisions potential opportunities and risks are analysed in detail. The decision processes are precisely defined and include all relevant disciplines. Comprehensive project controlling contributes to successful project steering and minimises possible risks.

Acquisitions involve special risks. Decisions about acquisitions are taken following a comprehensive assessment of opportunities and risks and follow defined processes. In order to reduce possible legal and economic risks which may be involved in

transactions, the results of a comprehensive due diligence are taken into account in detail in the decision-making process. All major acquisition projects can only be implemented after the approval of the different bodies of the company.

Receivables risks. ANZAG monitors through continuous controlling of accounts receivable and effective receivables management its stock of receivables. Nonetheless individual defaults cannot be avoided; this risk is taken into account by ANZAG with sufficient valuation allowances. The high number of individual items avoids that individual defaults jeopardise the continued existence of the company.

As a result of the very close interlocking and intense co-operation of pharmacies and the wholesale trade, a deterioration of the economic situation of the pharmacies can also have an impact on the wholesale trade. Possible drivers of this development are price adjustments for prescription medicines or other changes in respect of the remuneration structure for pharmacies, increasing unpaid expenditure, for instance through rebate contracts or also growing competition on the pharmacy market and hence lower prices for OTC products.

Personnel risks. The employees of ANZAG are the cornerstone for the future development of the company. In order to be able to meet the need for highly qualified experts in an increasingly tight competition environment, ANZAG pushes the initial and continuing training of its staff. Junior managers are selectively promoted through dedicated development programmes to prepare them for their future jobs.

Financial risks. In order to keep liquidity, currency and interest risks involved in the pre-financing of goods deliveries as low as possible, the financial flows are actively steered through central treasury managements. The steering system encompasses all companies of a country and takes country-specific features into due account.

ANZAG has short-term peak liquidity requirements around the middle of a month due to the typical terms of payment for the sector. Since these will basically tend to continue to increase due to the planned growth in sales revenues, more emphasis must be placed on the securing of liquid assets, also because of the currently changing framework conditions on the financial markets. Furthermore, a rolling forecast of short-term liquidity requirements was established together with measures to optimise current assets as well as payment transactions. In order to be prepared for imponderabilities, for instance following non-compliance with financing commitments, alternative financing instruments are reviewed on an ongoing basis.

Legal risks. ANZAG operates primarily in Germany but also in selected European countries. Within the framework of the ordinary course of business risks may arise from time to time in respect of legal disputes. At present the company is not exposed to any risks in connection with legal proceedings, which could have a major impact on the financial position. Insurable risks are covered by standard insurance policies insofar as this makes sense. Provisions are made for litigation which cannot be covered or only partly covered by insurance policies.

F. Forecast report

The health sector will continue to be one of the areas of our economy with the highest growth rates. Growth will be driven, more particularly, by the demographic development as well as the particularly high innovation dynamics in the pharmaceutical industry and medical engineering. According to experts there will also be a higher health awareness in large parts of the population – in conjunction with the increasing readiness to spend more on health services, if necessary also at the expense of other consumption purposes.

As a hub for the distribution of medicinal products the pharmaceutical wholesale trade operates on this growth market. Despite the current financial and economic crisis the earnings of the wholesale trade were able to stabilise during the reporting period, albeit on a continuing low level.

As a result of the change on the health market the efficiency pressure will, however, continue to grow on the pharmaceutical wholesale trade: because the rapid technological progress and the increasing need for health services will lead to increasing costs in the health sector. The legislator tries to counter this development by savings measures. This means that the sickness funds have less and less money available to remunerate the service providers in the health sector in accordance with the latter's higher expenditure.

The strong economic pressure on the pharmaceutical wholesale trade will likewise continue: the interventions by the legislator have resulted during the past years in prices falling for material portfolio areas which are at the expense of the statutory health insurance. Moreover, the share of direct deliveries has constantly been rising during the past years – mainly high priced products with attractive margins are delivered frequently directly by the manufacturer. In the current remuneration model of the wholesale trade, which is purely based on percentage, the lower price level for many medicines has, moreover, a direct impact on earnings.

The 15th Amendment to the German Medicines Act (AMG) which became effective on 1 August 2009, promises a slight improvement of the position of the pharmaceutical wholesale trade in the distribution system for medicines: the wholesale trade has been given a public supply mandate; it now has a claim to delivery by industry. In accordance with § 52b para 2 AMG pharmaceutical companies must ensure within the framework of

their responsibility supplies in line with requirements and on an ongoing basis for full-line pharmaceutical wholesalers. Whereas in the past manufacturers were able to decide whether and which products they deliver directly, the pharmacists now decide about the distribution channel through which they want to source the medicines. Surveys amongst pharmacies as well as a scientific study by the Institute for Trade Research have shown that direct deliveries are inefficient and involve significant additional burdens for pharmacies. Those interviewed believe that this has also an impact on the supply of patients. In how far the claim to delivery of the wholesale trade will drive the business in the field of patented medicines, remains however to be seen, because it is subject to far-reaching restrictions: medicinal products which cannot be delivered through the wholesale trade on legal or factual grounds are exempted.

The new regulation of the remuneration structure demanded by the Confederation of the Pharmaceutical Wholesale Trade (PHAGRO) has not been included in the new statutory provisions. The originally planned transformation of the wholesale margin into a combination of percentage mark-up and a fixed logistics mark-up were to ensure that favourably priced medicines, too, would make an appropriate contribution to distribution costs. In order to allow the wholesale trade to fulfil its delivery mandate together with the independent pharmacy and the pharmaceutical industry, its earnings must be further stabilised. ANZAG will continue to advocate that the pharmaceutical wholesale trade receives a corresponding margin for its comprehensive services.

Against the backdrop of this market situation the company continues to fully focus on a partnership with independent pharmacies. Their independent role and autonomy was confirmed by a judgement of the European Court of Justice (ECJ) on 19 May 2009. Following the decision that the

ban on third party possession is legitimate in Germany, only pharmacists may continue to possess and run pharmacies. Investors from outside the sector, such as stock corporations, will not be entitled to operate pharmacy chains in Germany in future either. ANZAG believes that the ECJ judgement has confirmed its business model which is consistently geared to supporting the independent pharmacy. Through a system of interlocked services ANZAG contributes towards the pharmacy being able to position itself optimally on its local market. It supports pharmacies with marketing concepts to target end consumers with the objective of increasing frequencies and customer loyalty. Furthermore, ANZAG offers training and sales training for pharmacy staff in product areas requiring intensive advice and makes available magazines and other information media for the consumers. ANZAG will continue to invest in innovative marketing concepts, in order to actively support its customers.

For pharmacists who want to respond to the challenges and opportunities of the pharmacy market in a strong community, ANZAG set up the pharmacy co-operation *vivesco* already back in 2003. The members of *vivesco* communicate under the umbrella of one joint brand – without them having to give up their individuality and entrepreneurial independence. *vivesco* currently concentrates on the development of a strong brand, in order to distinguish itself from competition through a market appearance attracting attention, in order to address final consumers in a more targeted manner.

The most important pillar of the company will continue to be the pharmaceutical wholesale trade, more particularly in Germany. ANZAG focuses on technical innovations in order to further optimise processes in pharmaceutical distribution. ANZAG has, for instance, been the first pharmaceutical wholesaler in Germany to develop a holistic validated logistics solution for

thermolabile medicinal products: special thermo transport containers ensure that temperature-sensitive products reach the pharmacy without damage even under extreme outside temperatures.

Furthermore, the logistics services of CPL Pharma Lager und Vertrieb GmbH were extended; ANZAG positions itself in this field as an innovative provider on the market.

From the current point of view the Executive Board expects the earnings position to continue to stabilise in Germany and abroad. In the wholesale market, which is relevant for its business success, ANZAG intends to grow accordingly. In this connection the emphasis is mainly on increasing earnings. These goals can be met from the current point of view but are subject to the reservation that the framework conditions of the business environment are not exposed to surprising negative impulsions. Planning for fiscal 2010 is based on market growth of 3 %. This means that sales revenues of EUR 3.8 billion are anticipated. This trend is also expected for the following years. The operational expectations in terms of earnings assume for the next two years a stable development on the same level. An additional burden is anticipated for the interest result because of regroupings in view of the long-term securing of liquidity and the associated higher interest rates.

General statement

After the earnings of the German pharmaceutical wholesale trade were declining during the past five years, they increased during the reporting period for the first time since 2004. In view of the further stabilisation of the earnings position ANZAG develops additional services for pharmacies and pharmaceutical manufacturers which go

beyond mere supplies. For the current fiscal year 2010 the Executive Board anticipates a sustainable stabilisation of the operational earnings position.

Furthermore, ANZAG compensates the risks on the German wholesale market by its engagement in foreign growth markets. The focus is on the core competency of ANZAG: the distribution and marketing of medicinal products.

G. Basics of the compensation system for the Executive Board and Supervisory Board and information in accordance with § 289 para 4 HGB (German Commercial Code)

The compensation system for the members of the Executive Board of Andreae-Noris Zahn AG is characterised by the fact that the overall compensation of the members of the Executive Board includes fixed, performance-independent and variable, performance-dependant components. The variable compensation components are linked to the net income for the year of the company under the German Commercial Code which is adjusted for certain influences and factors. The members of the Executive Board participate in this assessment basis with a percentage defined in advance. This percentage and the amount of the respective fixed salary are defined at the commencement of the contractual period and taking into account the tasks and responsibilities of the different members of the Executive Board. Furthermore, the contracts of the members of the Executive Board now also provide for the possibility to grant a discretionary bonus. This is to provide an opportunity to reward special performance in a fiscal year beyond the variable compensation linked to the result of the company; at the same time the discretionary bonus can serve to duly take into account the peculiarities of the business or economic situation, also in respect of

possible changes to the statutory framework conditions on the pharmaceutical wholesale market. The Personnel Committee of the Supervisory Board decides at its discretion about the payment and amount of this additional compensation element. Furthermore, the members of the Executive Board Dr. Thomas Trümper, Michael Mock and Wolfgang Traut have received direct pension commitments. The amount of the pension commitment is determined by the fixed salary and the period of service and is hence not bound by variable compensation components. The members of the Executive Board have a claim to a company car. The corresponding costs are borne by the company. The annual pension accruals can be taken from the Notes to the financial statements. If the existing employment contracts of the members of the Executive Board are not extended, three members of the Executive Board will be paid a bridging compensation on the basis of the monthly fixed salary for a maximum of two years unless there is an offsetting of other future compensations within the framework of the contractual agreement.

The members of the Supervisory Board receive, apart from a refund of their cash expenses:

- a) A fixed compensation in the amount of EUR 3,068 payable after the end of the fiscal year;
- b) A fixed compensation of EUR 1,500 payable after the end of the fiscal year for the Chairman of a committee and EUR 1,000 for the membership in a committee;
- c) A variable compensation of EUR 511 per 0.5 % dividend which is paid above 4 % of the share capital for the last fiscal year to the shareholders.

The fixed compensation (a) and the variable compensation (c) amount to the double for the Chairman and to the one and a half-fold of the aforementioned amounts for his deputies. Members of the Supervisory Board, who were only members during part of the fiscal year, are paid a proportionate compensation.

Value added tax to be paid on the fixed compensation and the bonus are refunded by the company.

The share capital of Andreae-Noris Zahn AG in the amount of EUR 32,035,290 is divided into 10,678,430 no par value shares with an arithmetic nominal value of EUR 3.00. The shares of the company are bearer shares. Every share grants one vote in the General Meeting. Restrictions concerning the voting rights or the transfer of shares are not known.

Stefano Pessina, KKR Europe II Ltd., KKR 2006 Limited, KKR PEI GP Limited and KKR IFI Limited have a total shareholding of 29.99 % through Ivor Shipley Limited (19.0 %) and UniChem Healthcare (Netherlands) B.V. (10.99 %) and hence have a total of 29.99 % voting shares based on their shares. Sanacorp eG and CERP Rouen S.A. have a shareholding of 24.99 % through Sanacorp Pharmahandel GmbH and the corresponding voting rights from shares. Franz Haniel & Cie. GmbH holds 12.50 % of the shares through Admenta Deutschland Beteiligungs-GmbH and the corresponding voting rights from shares. Phoenix Pharmahandel AG & Co KG holds 12.50 % of the shares through Phoenix International Beteiligungs GmbH and the corresponding voting rights from shares. There are no shares with special rights which would grant controlling powers. Employees who have a shareholding in the capital exercise their control rights directly through their voting rights granted by the shares.

Appointments and dismissals of members of the Executive Board of Andreae-Noris Zahn AG are based on §§ 84, 85 AktG (German Stock Corporation Act) and § 31 Co-determination Act (MitbestG) in conjunction with § 6 of the By-laws. Amendments to the By-laws have to be adopted by the General Meeting with a majority of at least three-quarters of the share capital represented during the adoption of the resolutions. In accordance with § 11 para 9 of the By-laws the Supervisory Board is empowered to adopt amendments to the By-laws which concern only editorial aspects.

There are currently no empowerments for the Executive Board from the General Meeting to issue or buy back shares. Regardless of the foregoing, the provisions of § 71 German Stock Corporation Act (AktG) apply.

There are no important contracts or agreements of ANZAG Aktiengesellschaft, which are subject to the condition of a change in control following a takeover bid. In the same way ANZAG AG has no compensation agreements with the members of the Executive Board or employees in view of a takeover bid.