



## Interim Financial Report 31 March 2008

prepared in accordance with International  
Financial Reporting Standards (IFRS)

**SANO**CHEMIA  
Pharmazeutika AG

The Specialty Pharma Company

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- **Letter to shareholders**

### **Dear Shareholder**

During the financial year to date we have faced the difficult task of rectifying a number of less than optimal decisions made in the past by the former managers responsible for investments and development projects, and that of dealing with the consequences of these decisions. The recent months have been extremely eventful. They were months in which we made considerable progress in terms of marketing our products and in which we also had to tackle a number of obstacles such as the strategic re-alignment of our R&D activities.

### **Q2 - higher sales revenues and positive EBIT in Production**

Despite the major difficulties which we were faced, we were nonetheless successful in Q2 in achieving a moderate increase in sales revenues and positive EBIT in the Production Division. The top revenue generating products of the past such as galantamine and torsemide are no longer SANOCHEMIA's growth engines. Their importance will decline in the coming years through a combination of expiring or already expired patent protection, on the one hand, and, on the other, the weak dollar that is leading to a foreign exchange-related decline in revenues even for products with rising sales volumes. The option of increasing our prices in the USA and other export countries in order to compensate for the weak dollar is only viable in the mid term. We have countered this trend by launching new products based on our own development work. These include Viveo<sup>®</sup>, Scanlux<sup>®</sup> and MR-Lux<sup>®</sup>, our new growth engines, which we are convinced, will penetrate their respective markets rapidly.

The Human Pharmaceuticals Division is becoming increasingly profitable due to the rising volume of production of in-house developments and is already playing a major role in overall Group results. New national registrations and the opening up of new markets for our *key products* are our foremost goals in the immediate future.

### **Progress in the US market with tolperisone**

One of SANOCHEMIA's most important areas of activity is and remains the development of its own project pipeline. The further development of tolperisone (AV650) for the US market is a top priority for our local partner, Avigen. According to Avigen, considerable progress has already been made in recruiting patients with MS-related spasticity for the Phase II clinical trial currently ongoing in Europe. We now expect to receive the first preliminary results from this trial by the end of the year. These data will enable an EOP2 meeting to be held with the FDA at which to coordinate the schedule for further necessary clinical trials (Phase III) in the USA for the period up to the sought-after marketing authorisation. A new and

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comprehensive patent strategy to consolidate our exclusivity associated with the active pharmaceutical ingredient is yet another key aspect of the development plan for the US. A substance patent application has been filed for a highly pure form of AV650 which could extend the exclusivity of AV650 in the USA until 2027. If successful, this would add considerably to the intrinsic value of this development product in both Europe and the US, and constitute a major competitive advantage vis-à-vis other products on the market.

For more details about our products and projects, please refer to the Factbook 2008 which is available on our website. We are convinced that our business model and the associated distribution of risk are the keys to the Group's sustainable development and truly warrant shareholders' faith in SANOCHEMIA today and in the future - something for which we would like to express our sincerest thanks.

The Board of Management

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▪ **The most important events in H1 (1.10.2007 – 31.3.2008)**

*October 2007*

**Tolperisone/Viveo® launched**

SANOCHEMIA's marketing partner, Orion Pharma GmbH, reports the successful launch of Viveo® – an effective, non-sedating, anti-spasticity treatment – in Germany

*November 2007*

**Consolidation of AlcaSynn investment in 2006/2007 financial year**

A one-off impairment charge of €5.5m impacts on the bottom line of the 2006/2007 financial year

*February 2008*

**Withdrawal from planned Countervail investment**

USD 560,000 scheduled for the investment are returned  
SANOCHEMIA remains the supplier of the API for the antidote

*March 2008*

**MRT imaging agent launched**

SANOCHEMIA's subsidiary in Germany reports the launch of MR-Lux®  
MR-Lux® rounds off the radiological portfolio and increases competitiveness  
SANOCHEMIA forecasts a 10% share of the German market

*March 2008*

**Excellent feedback from the ECR radiological congress in Vienna**

A positive response from the market highlights the interest generated by the product range  
This MRT imaging agent makes SANOCHEMIA Diagnostics the only full-product-range supplier in the German radiological and urological markets

*March 2008*

**SANOCHEMIA Annual Shareholders' Meeting 2008**

This event took place on 27 March 2008 and included:

- A review of a turbulent financial year
- The focussing of R&D on key projects
- A new strategy and optimistic outlook for the 2007/2008 period: new products expected to improve development of earnings position

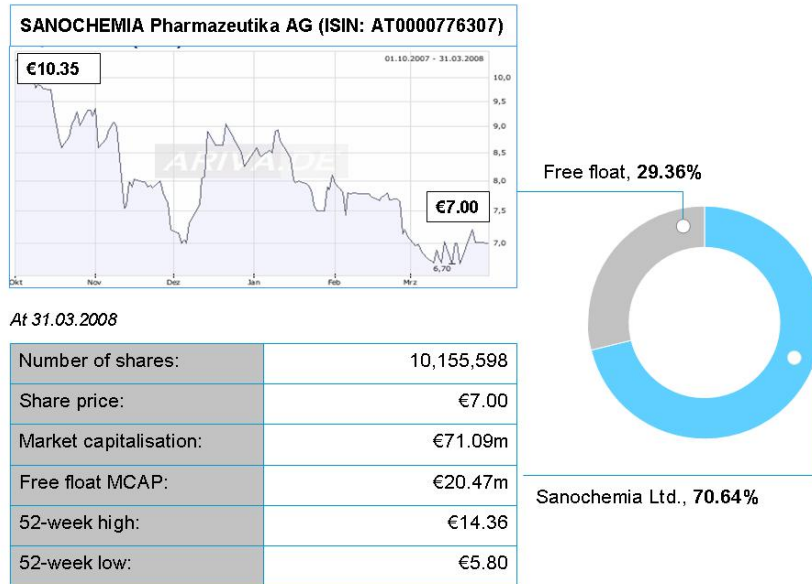
For more information, please go to [www.sanochemia.at/en/investors/](http://www.sanochemia.at/en/investors/)

## ■ Key facts and figures

Key Sanochemia Group Data							
in T€							
Performance data	Q1	Q2	Q1-Q2	Q1-Q2	Change as %	2006/07	2005/06
	2007/08	2007/08	2007/08	2006/07		2006/07	2005/06
	Oct.07-Dec.07	Jan.08-Mar.08	Oct.07-Mar.08	Oct.06-Mar.07		Oct.06-Sep.07	Oct.05-Sep.06
Sales revenues	6,287	6,153	12,440	17,492	-29%	29,634	30,295
Sales&Marketing (Human Pharmaceuticals)	3,842	3,106	6,948	6,415	9%	12,731	12,254
Production	2,427	3,029	5,456	10,076	-46%	16,849	15,589
R&D	18	18	36	1,000	-96%	53	2,452
Reconciliation	0	0	0	1	0%	1	0
EBITDA	-418	-237	-655	2,984	-	-1,808	5,981
Depreciation / amortisation	-1,174	-1,190	-2,364	-1,779	-33%	-3,693	-3,775
EBIT	-1,592	-1,427	-3,019	1,205	-	-5,501	2,206
Sales&Marketing (Human Pharmaceuticals)	550	281	831	517	61%	1,713	1,099
Production	-992	157	-835	2,337	-	2,212	3,283
R&D	-592	-440	-1,032	86	-	-5,056	1,023
Reconciliation	-558	-1,425	1,983	-1,735	-14%	-4,370	-3,199
Financial result	-858	-557	-1,415	795	-	497	1,516
Pre-tax profit / loss	-2,450	-1,984	-4,434	2,000	-	-5,004	3,722
Net profit / loss	-2,373	-2,161	-4,534	1,697	-	-5,006	2,957
Earnings / losses per share	-0.22	-0.21	-0.43	0.17	-	-0.44	0.29
<b>Structural data</b>			2007/08	2006/07	Change as %	2006/07	2005/06
			31.03.2008	31.03.2007		30.09.2007	30.09.2006
Balance sheet total			101,785	101,496	0%	97,846	104,583
Tangible assets			17,783	16,261	9%	17,634	16,277
Intangible assets			22,190	22,694	-2%	23,218	21,650
Shareholders' equity			53,536	63,974	-16%	57,919	62,519
Equity ratio			52.6%	63.0%	-17%	59.2%	59.8%
<b>IFRS Cash flow</b>			Q1-Q2 2007/08	Q1-Q2 2006/07	Change as %	2006/07	2005/06
			Oct.07-Mar.08	Oct.06-Mar.07		Oct.06-Sep.07	Oct.05-Sep.06
Cash flow from operating activities			-9,942	6,226	-	8,384	3,770
Cash flow from investment activity			-1,556	-3,805	59%	-7,684	-1,819
Cash flow from financing activity			697	760	-8%	2,143	2,340

Some minor changes may be due to rounding cumulative figures.

- Share price developments



### New indices

In addition to new index groupings, Deutsche Börse has also decided to rename its industry-specific segments. In future, the industry-specific segments will be known as 'sectors' and the sub-segments as 'subsectors': The 18 industry-specific indices form the DAXsector, while the 63 industry-specific subsectors form the DAXsubsector.

The aim is to increase both the profile of the companies listed and to promote greater transparency and comparability with international standards.

SANOCHEMIA (ISIN DE0009660324, WKN 966032) is listed in the DAXsector Pharma & Healthcare, which includes a total of 43 pharmaceutical companies.

### Factbook 2008

Through the publication of its Factbook 2008, SANOCHEMIA aims to make a meaningful contribution to increasing transparency while also providing existing and potential investors with a comprehensive and yet understandable overview of its strategy, products and the advancement of its various projects. The Factbook 2008 can be downloaded from:

[www.sanochemia.at/en/investors/reports-downloads/presentations/](http://www.sanochemia.at/en/investors/reports-downloads/presentations/)

- **Economic environment**

### **The global pharmaceutical industry**

Intensifying competition, major losses due to expiring patents and tighter restrictions imposed by regulatory authorities when approving new drugs are all having an impact on sales revenue forecasts within the pharmaceutical industry.

The market research institute IMS Health forecasts that revenues in the industry will increase by between five and seven percent this year, following six to seven percent in 2007. A rise of only four percent is expected in the US, the lowest rate of growth in several decades. Drugs with annual sales of \$17bn have lost patent protection in the US in the past year; losses that research has not been able to compensate for through the launch of new products. (Source: Handelsblatt).

However, the pharmaceutical industry is expected to enter a new period of growth. In the period to 2020, the global market is forecast to grow to twice its current size of \$1.3 trillion, according to a study conducted by PricewaterhouseCoopers. This growth will be fuelled by rising demand for drugs and prophylaxes in the years ahead. Population growth, rising life expectancy and new levels of prosperity in emerging nations are generating additional potential for the industry.

### **Innovations fuel growth**

The study also revealed that scientific/technical research and development is becoming the decisive competitive factor within the pharmaceutical industry. Drugs companies will have to constantly develop new products, improve production processes and adopt novel approaches in the areas of organisation, marketing and logistics in order to remain competitive. Most importantly, regulatory authorities need to create conditions which promote innovation rather than act as a brake on it. (Source: PwC).

### **SANOCHEMIA as a successful niche player**

With its specialty pharmaceuticals strategy, SANOCHEMIA regards itself as a niche player in the global market. The Company's therapeutic segments, such as central nervous system disorders, specialty drugs and oncology, are among the fastest growing in the industry. Another business unit, Diagnostics, is already playing a key role in terms of sales revenues.

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- **Earnings, financial and assets position**

**Business development report**

The following report and figures can only be meaningfully interpreted in conjunction with the consolidated annual report and the accompanying notes. As in previous periods, the annual report was prepared in accordance with IFRS in order to permit meaningful comparisons to be made with the preceding period.

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

**Profit and Loss Account**

SANOCHEMIA Pharmazeutika AG generated **sales revenues** in the first six months of its 2007/2008 financial year in an amount of €12.4m, compared to €17.5m a year earlier. As expected, the main sources of revenues were radiological products and, for the first time, pharmaceutical products such as tolperisone (Viveo®). Revenues reported by the Production Division were considerably lower than in the previous year due to the cyclic nature of synthesis orders combined with the expiration of patents during the current year and the associated pressure on prices and demand.

Due to the launch of Viveo® (tolperisone) following the successful completion of development work, the level of own work capitalised during the period under review was considerably lower (€0.4m) than previously (PY: €1.6m). The Group's **operating performance** fell from €21.0m to €14.3m.

These results are first and foremost a reflection of changes affecting the Production Division. Due to patent expirations and a high degree of dependence on two major customers, combined with the weak dollar, this division was unable to achieve the levels of sales revenues seen in earlier periods. Increases in the production of tolperisone (Viveo®) and the broad range of x-ray contrast media were not sufficient to fully compensate for these losses, but are expected to improve the situation in the midterm and stabilise results.

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Combined depreciation and amortisation costs also rose to take account of intangible assets associated with products now on the market. The position 'Other expenses' fell by €0.9m in response to the rescheduling of the costs of clinical trials over longer time periods or their postponement to later quarters.

Similarly, the planned receipts from R&D activities which were expected in addition to previously agreed royalty payments have not yet materialised. On the other hand, the Company continues to have to meet scheduled costs from the R&D programme of AlcaSynn

The abovementioned factors during the period under review led to a negative **operating result** of €-3.0m (PY: €1.2m). It is worth noting, however, that EBIT actually improved in Q2 despite lower sales revenues

The **financial result** of €-1.4m (PY: €0.8m) is accounted for by the position 'Other financial income / expenses'. As a result of the current volatility in financial markets, it has not been possible to withdraw from the previous currency hedging and investment strategy as rapidly as was originally planned. The first step has involved assigning a proportion of the outstanding options to a financial services provider, a move which led to a drop in financial assets and an increase in receivables.

The factors outlined above culminated in a **pre-tax result** of €-4.4m (PY: €2.0m) and a **net loss for the period** of €-4.5m, equivalent to €-0.43 per share.

#### **Balance Sheet:**

While the position 'Other financial receivables' rose to €17.7m (PY: €1.1m), the value of cash and short-term deposits declined to €13.5m (PY: €24.3m) due to the successive closing out of currency hedging and investment positions which, given the current level of volatility on the financial markets, is taking longer than was originally foreseen. This has included the assignment of a proportion of the remaining options and the associated collateral to a financial services provider.

The position 'Other intangible assets' declined in value from €4.4m to €3.5m in response to scheduled amortisation of patents, licenses and software.

In line with the negative development of results, the position 'Total equity' declined in value to €53.5m (PY: €64.0m) as indeed did the equity ratio, dropping to 52.5% from 63%.

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### Cash Flow Statement

As highlighted in the details to the Consolidated Balance Sheet above, the negative net cash flow from current operating activities is largely attributable to the position 'Other financial receivables'. The unfavourable development of the US dollar since the end of 2007 led to a decision on the part of the Management to convert current forms of financing based on the dollar exchange rate to financial instruments quoted in other currencies.

These receivables are expected to have a positive impact on cash flows in the coming quarters.

### ▪ Segment reporting

The **Human Pharmaceuticals Division** increased sales revenues by 8% to €7.0m (PY: 6.4m). The top-selling products were x-ray imaging agents such as Scanlux<sup>®</sup>, Gastrolux<sup>®</sup> and, most recently, MR-Lux<sup>®</sup>, which are marketed and sold by our SANOCHEMIA Diagnostics subsidiaries.

At the national level and in line with expectations, the German subsidiary fared well, while the export business saw a decline due to the weak dollar and, in part, a lack of tender-based business during the second quarter. The launch of the MRT imaging agent MR-LUX<sup>®</sup> in Germany at the beginning of March represents an interesting addition to the product range and has already been generating satisfactory revenue contributions in its first weeks on the market. MR-LUX<sup>®</sup> is scheduled to be launched in Switzerland within a year followed by preparations for a rapid international roll out.

Viveo<sup>®</sup> (tolperisone), marketed and sold by Orion Pharma GmbH, has been available on the German market since October 2007 and has been selling well since. This in-house development of SANOCHEMIA's will make a significant contribution to Group results in its first year on the market. Based on the forecasts of Orion Pharma, SANOCHEMIA's Human Pharmaceuticals Division can expect to see revenues from this product of between €1.2m and €1.5m.

The latest increase in EBIT of 61% reported by this division compared to the comparable period of the previous financial year is indicative of the extent to which human pharmaceutical sales are developing strongly in response to the marketing of in-house developments and growing interest from the market in the product range.

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## **Production**

The Production Division was successful in increasing sales revenues and improving results compared to those of the first quarter. This is not, however, reflected in a comparison of half-year results.

During the period under review (1.10.2007 to 31.3.2008), sales revenues fell to €5.5.m (PY: €10.1m), while EBIT was negative at €-0.8m (€2.3m). The growth engines of previous years, such as galantamine and torsemide, are now declining in importance in revenue terms. Synthetic galantamine, manufactured exclusively for J&J/Janssen for the duration of the synthesis patent (2014), will in future no longer account for the high revenues seen in the past due to the expiration of patent protection in its main market, the USA, at the end of 2008. Patent protection remains in Europe until 2012. The situation with torsemide is similar: due to the lack of patent protection for the so-called Form 2 of this substance produced by SANOCHEMIA, this API will in future not achieve the sales volumes seen in earlier periods.

The new growth engines, such as the manufacture of the API tolperisone (Viveo<sup>®</sup>) and the broad range of x-ray imaging agents, were not able to fully make up for the lower sales revenues from older products, in part due to the fact that these new finished products are supplied to Human Pharmaceuticals and are recognised in the results of this division. As a result, growth in the coming periods will be slow when compared with the Human Pharmaceuticals Division where the revenues generated through the sale of diagnostics and therapeutics are expected to lead to dynamic growth.

## **Research and Development**

The Research and Development Division generated no revenues from milestone payments in the current period and consequently reported negative EBIT of €-1.0m (PY: €0.08).

Following a re-evaluation of R&D projects, spendings and costs incurred by this division fell markedly. As a result, key projects such as the further development of tolperisone and PVP hypericin will be advanced more rapidly.

Tolperisone (AV650) has now been accorded top priority status by our US partner Avigen. A major element of the US development strategy is focused on patent protection in order to improve the exclusivity associated with this API. A substance patent application has been filed for a highly pure form of AV650 which it is hoped will extend the market exclusivity of this API in the USA until 2027. Furthermore, discussions and negotiations are ongoing with regard to the marketing authorisation strategy for tolperisone in the remainder of Europe.

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The screening procedure for the substances in the molecular library of AlcaSynn has almost been completed and has revealed that major investigations are necessary in order to establish the potential of these substances in various indications including the addition of inflammatory gastro-intestinal disorders to indications in the area of pain management. In turn, this could greatly add to the interest to potential development or marketing partners if the results of these further studies are encouraging.

The clinical Phase II trial of PVP hypericin has experienced some delays. The recruitment of patients is now almost complete, the necessary samples of the investigational product are in production and the schedule for the clinical trial at the various study centres has been established.

A robust development pipeline always has been and will remain one of the most important factors behind increasing enterprise value, and it is here that the future of SANOCHEMIA lies. Our commitment to pursuing a strategy as a specialty pharmaceuticals company which can produce what it develops is what keeps us focussed primarily on the areas of development and production, the most lucrative sections of the value-added chain.

#### ▪ **Investment activities**

There were no investments in tangible assets or technical equipment worthy of note during the reporting period since the recent major projects, such as the construction of the new logistics centre / warehouse, were all undertaken and reported in the 2006/2007 financial year. In order to meet all applicable FDA requirements, investments in an amount of up to €2.0m will be required this year and in the following period.

#### ▪ **Personnel**

The average headcount during the period under review was 176, slightly below that of the comparable period of the previous year (180).

#### ▪ **Directors' dealings**

Reference is made here to the consolidated interim financial statements and the accompanying notes.

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## ▪ Opportunities and risk report

There have been no significant changes relating to the risks outlined in the Annual Report to 30 September 2007. Please refer to the Annual Report 2006/2007 for details.

SANOCHEMIA remains exposed to price changes involving raw materials and intermediates in addition to the marked increases in energy prices. These additional costs, in a range of three to five percent, have an impact on the product manufacturing activities of both segments. SANOCHEMIA counters these risks through a combination of efficient procurement and the tapping of synergy potentials without raising the headcount. In part, SANOCHEMIA is able to pass on increases in production costs to customers by raising product prices in as far as the competitive situation in the market makes this possible.

The dependence of the API production operations on two large customers has in the past often led to fluctuations in terms of quarterly results due to rescheduling and cancelled orders. This situation will gradually change as production of tolperisone and other products, currently at the planning stage, successively come on line.

SANOCHEMIA will also further improve its risk profile by focussing its R&D effort on a narrower pipeline with fewer development projects all of which are close to market maturity.

Due to the successful positioning of products already on the market, such as Viveo<sup>®</sup> (tolperisone), Scanlux<sup>®</sup> and MR-Lux<sup>®</sup>, SANOCHEMIA sees clear opportunities for business to develop favourably. Additional growth is expected to come through the steps being taken to rapidly market its products in Europe.

The increase in the manufacture of radiological products at the Neufeld facility will also lead to a clearer competitive advantage.

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- **Outlook**

The business environment in which we operate has become harsher; yet, the health sector remains a growth market. We have assessed the current development of our operations in the light of the circumstances we face and have taken steps to improve efficiency in R&D as well as also re-evaluating the orders on our books such that we are in a position to forecast an improvement in all segments and a return to profitability in the 2007/2008 financial year. These forecasts were validated by the overall improvement in business in April, a month in which our diagnostics subsidiary in Germany reported its best ever monthly result.

We firmly believe in the sustainability of our speciality pharmaceuticals strategy and in the distribution of risk between our various projects. The interest in the products we currently market and the plan to rapidly market these throughout the EU will begin to be reflected in results in the coming financial year. Our targets for 2008/2009 are again double-digit growth and healthy profitability.

The rapid further development of our innovative R&D portfolio remains a key objective of SANOCHEMIA and this will be a decisive factor in achieving significant and lasting increases in enterprise value.

# KONZERNZWISCHENABSCHLUSS

## Consolidated profit and loss account

IFRS, 01/2008 - 03/2008 and 01/2007 - 03/2007, 10/2007 - 03/2008 and 10/2006 - 03/2007

in T€	Notes	01/08-03/08	01/07-03/07	10/07 - 03/08	10/06 - 03/07
Sales revenues	(1)	6,153	8,972	12,440	17,492
Other income	(2)	929	724	1,605	1,496
Reversal of investment grants		34	38	72	76
Change in inventory		-53	265	-234	262
Own work capitalised		158	883	420	1,635
<b>Operating performance</b>		<b>7,221</b>	<b>10,882</b>	<b>14,013</b>	<b>20,961</b>
Cost of goods and services		-2,323	-3,724	-5,197	-7,048
Personnel expenses		-2,229	-2,333	-4,417	-4,581
Depreciation on tangible assets and amortisation of intangible assets		-1,190	-894	-2,364	-1,779
Other expenses		-2,906	-3,495	-5,344	-6,348
<b>Operating result</b>		<b>-1,427</b>	<b>436</b>	<b>-3,019</b>	<b>1,205</b>
Interest payments		-277	-188	-571	-374
Interest receipts		382	264	777	596
Other financial income / expenses		-662	537	-1,621	573
<b>Financial result</b>		<b>-557</b>	<b>613</b>	<b>-1,415</b>	<b>795</b>
<b>Pre-tax result</b>		<b>-1,984</b>	<b>1,049</b>	<b>-4,434</b>	<b>2,000</b>
Taxes on income		-177	-405	-100	-303
<b>Net profit for the year</b>		<b>-2,161</b>	<b>644</b>	<b>-4,534</b>	<b>1,697</b>
of which:					
Shareholders of the parent company		-2,071	644	-4,356	1,697
Minority interests		-90	0	-178	0
		<b>-2,161</b>	<b>644</b>	<b>-4,534</b>	<b>1,697</b>
Undiluted earnings per share in €	(3)	-0.21	0.06	-0.43	0.17
Diluted earnings per share in €		-0.21	0.06	-0.43	0.17
Weighted average number of shares		10,155,598	10,155,598	10,155,598	10,155,598

## ■ Consolidated balance sheet

IFRS, 31 March and 30 September 2007

in T€	Notes	31. 03. 08	30. 09. 07
<b>Assets</b>			
Buildings on non-owned land		7,203	7,422
Property, plant and equipment		6,742	6,166
Other equipment, furniture and fixtures		884	874
Property, plant and equipment under construction		2,954	3,172
<b>Tangible assets</b>		<b>17,783</b>	<b>17,634</b>
Goodwill		3,391	3,391
Capitalised development costs		15,292	15,347
Other intangible assets		3,507	4,480
<b>Intangible assets</b>		<b>22,190</b>	<b>23,218</b>
<b>Non-current assets</b>		<b>39,973</b>	<b>40,852</b>
Inventory	(4)	10,007	9,753
Accounts receivable - trade		3,015	3,890
Accounts receivable - affiliated companies	(5)	4,843	3,007
Other financial receivables	(6)	16,989	1,118
Other receivables and assets	(7)	1,274	2,278
Income tax receivable		285	285
Receivables from research grants	(8)	334	542
Available-for-sale securities	(9)	11,538	11,793
Cash and short-term deposits		13,527	24,328
<b>Current assets</b>		<b>61,812</b>	<b>56,994</b>
<b>Total assets</b>		<b>101,785</b>	<b>97,846</b>

## ■ Consolidated balance sheet

IFRS, 31 March 2008 and 30 September 2007

in T€	Notes	31. 03. 08	30. 09. 07
<b>Equity and liabilities</b>			
<b>Equity held by the parent company</b>			
Issued capital		10,156	10,156
Share premium		48,761	48,761
Net gain/loss on available-for-sale securities		-153	118
Currency translation differences		427	6
Profit and loss account		-6,036	-1,681
		<b>53,155</b>	<b>57,360</b>
Minority interests		381	559
<b>Total equity</b>	(10)	<b>53,536</b>	<b>57,919</b>
Financial liabilities	(11)	14,547	13,524
Employee benefit provisions		1,241	1,167
Deferred income	(12)	2,477	3,626
Investment grants		1,300	1,450
<b>Non-current liabilities</b>		<b>19,565</b>	<b>19,767</b>
Financial liabilities	(13)	7,918	8,245
Accounts payable - trade		4,008	3,615
Accounts payable - affiliated companies	(14)	0	45
Other financial liabilities	(15)	13,545	5,284
Other liabilities and accruals	(16)	1,340	1,102
Deferred income	(17)	1,602	1,310
Investment grants		144	152
Income tax payable		127	407
<b>Current liabilities</b>		<b>28,684</b>	<b>20,160</b>
<b>Total equity and liabilities</b>		<b>101,785</b>	<b>97,846</b>

## ■ Consolidated cash flow statement

IFRS, for the period from 10/07 to 03/08 and 10/06 to 03/07

in T€	10/07 - 03/08	10/06 - 03/07
Net income before taxes	-4,434	2,000
Depreciation, amortisation and write downs of tangible and intangible assets	2,364	1,779
Write down of securities	0	70
Write down of assets held for sale (IFRS 5)	0	429
Proceeds from the disposal of tangible and intangible assets	-2	-7
Income from the disposal of securities	-105	0
Interest payments	571	374
Interest receipts	-777	-596
Purchase of securities	-39	-118
Net gain / loss through foreign currency translation	491	-17
Reversal of investment grants	-158	-47
Change in inventories	-254	166
Change in receivables and other assets	-15,917	6,997
Change in receivables from research grants	208	-70
Change in accounts payable including those due to affiliated companies	644	-886
Change in other liabilities and accruals	7,320	-4
Change in other provisions	0	-70
Change in provisions for employee benefits	74	48
<b>Net cash flow from current operating activities</b>	<b>-10,014</b>	<b>5,819</b>
Interest payments	-545	-359
Interest receipts	768	582
Receipts from the sale of securities	139	191
Income tax paid	-290	-7
<b>Net cash flow from operating activities</b>	<b>-9,942</b>	<b>6,226</b>
Purchase of intangible assets	-340	-1,872
Purchase of tangible assets	-1,244	-936
Purchase of securities	-4,150	-1,004
Receipts from the disposal of tangible assets	30	7
Receipts from the disposal of available-for-sale securities	4,148	0
<b>Net cash flow from investment activities</b>	<b>-1,556</b>	<b>-3,805</b>
Raising of current borrowings	2,922	1,410
Repayment of current borrowings	-2,225	-650
<b>Net cash flow from financing activities</b>	<b>697</b>	<b>760</b>
<b>Net change in cash and cash equivalents</b>	<b>-10,801</b>	<b>3,181</b>
<b>Net cash and cash equivalents</b>		
Balance at beginning of the period	24,328	21,432
Change in cash and cash equivalents	-10,801	3,181
Influence of foreign exchange differences on cash and cash equivalents	0	-1
Balance at end of period as per Balance Sheet <sup>1)</sup>	13,527	24,612

<sup>1)</sup> The available funds include cash on hand and on deposit

## ▪ Statement of changes in shareholders' equity

for the period from 01 October 2006 to 31 March 2008 (IFRS)

in T€	Relating to the equity owned by shareholders of the parent company						Minority interests	Total equity (10)
	Issued Capital	Share premium	Net gain/loss on available-for-sale financial assets	Foreign currency translation	Accumulated result	Profit/loss for the year		
<b>Balance at 01.10.2006</b>	<b>10,156</b>	<b>48,761</b>	<b>64</b>	<b>-48</b>	<b>2,831</b>	<b>61,764</b>	<b>755</b>	<b>62,519</b>
Valuation of available-for-sale financial assets	0	0	54	0	0	54	0	54
Foreign currency translation	0	0	0	54	0	54	0	54
Total income/expenses for the year recognised directly in equity	0	0	54	54	0	108	0	108
Net result for the period	0	0	0	0	-4,512	-4,512	-494	-5,006
Consolidated result for the period	0	0	54	54	-4,512	-4,404	-494	-4,898
Minority interest of assets classified as held for sale	0	0	0	0	0	0	298	298
<b>Balance at 30.09.2007</b>	<b>10,156</b>	<b>48,761</b>	<b>118</b>	<b>6</b>	<b>-1,681</b>	<b>57,360</b>	<b>559</b>	<b>57,919</b>
Valuation of available-for-sale financial assets	0	0	-271	0	0	-271	0	-271
Foreign currency translation	0	0	0	421	0	421	0	421
Total income/expenses for the year recognised directly in equity	0	0	-271	421	0	150	0	150
Net result for the period	0	0	0	0	-4,355	-4,355	-178	-4,533
Consolidated result for the period	0	0	-271	421	-4,355	-4,205	-178	-4,383
<b>Balance at 31.03.2008</b>	<b>10,156</b>	<b>48,761</b>	<b>-153</b>	<b>427</b>	<b>-6,036</b>	<b>53,155</b>	<b>381</b>	<b>53,536</b>

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- **Notes to the consolidated financial statements**

**Notes to the Interim Financial Statements  
at 31 March 2008  
Prepared in accordance with  
International Financial Reporting Standards (IFRS)**

**GENERAL INFORMATION**

**Information on the Company**

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

The consolidated financial statements of SANOCHEMIA Pharmazeutika AG at 31 March 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable for the 2007/2008 financial year and as intended for use within the EU. The rules of International Accounting Standards (IAS) 34 – Interim Financial Statements – have been applied.

The company's balance sheet date is 30 September.

The consolidated interim financial statements have been prepared consolidating the same subsidiaries as in the previous financial period

The interim financial statements have been prepared in thousand euro (T€), figures indicated in the notes are expressed in thousand euro (T€), unless otherwise stated.

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## Shares held by Executive Officers

The following shares and authorised options are held by the company's executive officers at 31 March 2008:

	Share holding	Option
Anton Dallos	25,340	15,000
Herbert Frantsits	25,170	15,000
Maximilian Hudl	11,350	0
Dr. Werner Frantsits	2,100	0
Eveline Frantsits	1,350	0
Dr. Johannes Respondek	2,000	0
Dr. Heinrich Unger-Krayer	500	0
Günter Kahler	615	0

The exercising of the options by the members of the Board of Management at the issue price (€21.50) is subject to the option plan, and therefore only possible if the average share price in the month prior to the Annual Shareholders' Meeting in March rises by at least 15% p.a. (additive) above the issue price. Up to a quarter of each option can be exercised in the month after the Annual Shareholders' Meeting of each financial year until 2007/2008. Since this increase in the share price was not reached in February 2008, these options cannot be exercised in 2008.

The share options will be included in the accounts for the first time when the conditions for the exercising of the options are determined to have been met. No inclusion of the share options in the financial statements shall precede this. At 31 March 2008, no inclusion of the share options in the financial statements was required.

## Accounting and valuation principles

The interim financial statements have generally been prepared according to the same accounting and valuation principles as applied in the last annual consolidated financial statements.

Fluctuations in the regularity of receipts and expenses with concomitant impact on quarterly results are confined to the area of synthesis production.

## II. NOTES TO THE PROFIT AND LOSS ACCOUNT

### OPERATING RESULT

#### (1) SALES REVENUES

For more detailed information on sales revenues refer to **SEGMENT REPORTING** under **IV. Other information**.

#### (2) OTHER OPERATING INCOME

in T€	<u>10/2007-03/2008</u>	<u>10/2006-03/2007</u>
Income from the disposal and write-up of tangible and intangible assets	3	7
Reversal of deferred income	822	856
<i>Forschungsförderungsfond der gewerblichen Wirtschaft</i>	134	41
Personnel costs passed on to third parties	145	128
Income through currency differences	116	92
Other income	385	372
Total	<u>1,605</u>	<u>1,496</u>

#### (3) RESULT PER SHARE

Since the option rights were not exercisable, the diluted result per share are equal to the earnings per share. The number of shares issued remained unchanged.

The result per share (rounded to two decimal places) for the quarters 10/2007 – 03/2008 amount to € -0.43 (10/2006 – 03/2007: € 0.17 per share) arising out of losses in the amount of T€ -4,534 (10/2006 – 03/2007: EPS of T€ 1,697).

### III. NOTES TO THE BALANCE SHEET

Significant balance sheet items are discussed below.

#### ASSETS

##### (4) INVENTORY

in T€	31.03.2008	30.09.2007
Merchandise	4,643	3,775
Raw materials, excipients & supplies	1,291	1,365
Unfinished goods	1,918	2,087
Finished goods	1,188	1,501
Miscellaneous	967	1,025
<b>Total</b>	<b>10,007</b>	<b>9,753</b>

##### (5) RECEIVABLES DUE FROM AFFILIATED COMPANIES

in T€	31.03.2008	30.09.2007
Alvetra und Werfft AG	1,472	392
J.Medinger & Söhne	1,625	1,411
Anton von Waldheim	1,743	1,201
Comtel Air Luftverkehr GmbH	3	3
<b>Total</b>	<b>4,843</b>	<b>3,007</b>

##### (6) OTHER FINANCIAL RECEIVABLES

in T€	31.03.2008	30.09.2007
Forex options / forward exchange contracts	16,894	948
Forward contracts	25	15
Interest receivable on securities	70	155
<b>Total</b>	<b>16,989</b>	<b>1,118</b>

**(7) OTHER RECEIVABLES AND ASSETS**

in T€	31.03.2008	30.09.2007
Receivables due from the financial authorities	599	1,435
Deferred expenses	408	197
Other	267	646
Total	<u>1,274</u>	<u>2,278</u>

**(8) RECEIVABLES FROM RESEARCH PROMOTION PROGRAMMES**

In T€	31.03.2008	30.09.2007
<i>Forschungsförderungsfonds für die gewerbliche Wirtschaft, Vienna</i>	334	362
<i>Wirtschaftsservice Burgenland AG</i>	0	180
Total	<u>334</u>	<u>542</u>

These receivables relate to research grants which have been awarded and for which a high degree of certainty exists that the preconditions for non-repayment can be met.

**(9) MARKETABLE SECURITIES**

The securities are made up predominantly of investments in fixed interest rate bonds and investment funds. Securities with a carrying value of T€ 5,880 (previous year T€ 6,832) were pledged to cover certain financial liabilities.

The change in the marketable value of the securities held has been fully reflected in the shareholders' equity.

## SHAREHOLDERS' EQUITY AND LIABILITIES

### (10) SHAREHOLDERS' EQUITY

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

As in the previous financial year, on the balance sheet date the share capital consisted of 10,155,598 nonpar shares equivalent to an amount of € 1.00 per share.

At the close of this reporting period (31 March 2008), the Company has approved capital in the amount of €5,077,799.00 (previous year: T€5,078).

The capital reserves include the premium from the issue of shares. There has been no change in this reserve since the previous period. In accordance with Austrian regulatory requirements, this reserve can only be used to cover eventual losses.

### NON-CURRENT LIABILITIES

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

### (11) LIABILITIES DUE TO BANKS (NON-CURRENT)

The following analysis sets forth non-current bank loans according to currency and interest rates outstanding at 31 March 2008 and 30 September 2007 respectively:

in T€	31.03.2008	30.09.2007	Interest rate	Maturity
Loans linked to research promotion	183	367	3.63% - 5.5%	2009
Loans linked to ERP funds	5,650	6,300	1% - 1.25%	2009 - 2012
Equity financing	5,390	5,390	2.4%	31.05.2010
Other bank loans	3,324	1,467	6.75% - 8.5%	2009 - 2013
Total	<u>14,547</u>	<u>13,524</u>		

The financial liabilities at 31 March 2008 set out above are secured as follows:

in T€	book value 31.03.2008	book value 30.09.2007
A guarantee in favour of Austria Wirtschaftsservice GmbH	2,500	2.500
A guarantee in favour of Österreichische Forschungsförderungsgesellschaft mbH	183	367
A liability due to the Republic of Austria	5,390	5,390
A guarantee and payment obligation of Sanochemia Ltd., Malta	1,300	1,300

## (12) DEFERRED INCOME

An amount of T€ 2,447 (previous year: T€ 3,626) is carried as deferred income which relates to the non-current amount of a prepayment for galantamine deliveries for the period up to 30.09.2010 and a fixed payment due upon the signing of the licensing agreement with Orion Corporation. Licensing income has been deferred on a pro rata basis over the period up to 31.12.2020.

## CURRENT LIABILITIES

### (13) LOANS DUE TO BANKS AND CREDIT INSTITUTIONS

The following overview shows the non-current liabilities due to banks in terms of currencies and interest rates at 31 March 2008 and 30 September 2007 respectively:

in T€	31.03.2008	30.09. 2007	Zinssatz	Fälligkeit
KKK-Bankverbindlichkeiten	0	6	8 - 10%	nach Aufforderung
KKK-Bankverbindlichkeiten	2.630	3.440	6 - 7%	nach Aufforderung
KKK-Bankverbindlichkeiten	4.132	3.899	3,39 - 5,5%	nach Aufforderung
Kredite betreffend ERP-Förderung	433	0	4%	nach Aufforderung
Kredite betreffend Forschungsförderung	723	900	3,63 - 5,5%	30.09.2008
	<u>7.918</u>	<u>8.245</u>		

Die Sicherstellung der oben angeführten Finanzverbindlichkeiten erfolgt durch:

in T€	Buchwert 31.03.2008	Buchwert 30.09.2007
- eine Garantie der Österreichische Forschungsförderungsgesellschaft	633	900
- eine Bürge- und Zahlerhaftung der Gesellschaft Sanochemia Ltd., Malta	477	477

**(14) LIABILITIES DUE TO AFFILIATED COMPANIES**

in T€	<u>31.03.2008</u>	<u>30.09.2007</u>
Medinger GmbH, Vienna	0	45
Total	<u>0</u>	<u>45</u>

**(15) LIABILITIES DUE TO AFFILIATED COMPANIES**

This position recognises forward exchange contracts concluded by the SANOCHEMIA Group applying a negative fair value. This position is explained in more detail under the point: Derivative financial instruments.

**(16) OTHER LIABILITIES AND ACCRUALS**

in T€	<u>31.03.2008</u>	<u>30.09.2007</u>
Provisions for employee benefits	151	165
Tax liabilities	125	102
Vacation entitlements	449	377
Special payments	353	458
Other liabilities	262	0
Total	<u>1,340</u>	<u>1,102</u>

**(17) DEFERRED INCOME**

An amount of T€1,602 (previous year: T€1,310) has been carried as deferred income. This relates to that proportion of a prepayment for galantamine deliveries applicable to the following financial year and a fixed payment due upon the signing of a licensing agreement with Orion Corporation. The non-current proportion of this amount has been carried as detailed under Point 12 above.

## IV. OTHER INFORMATION

### RESEARCH AND DEVELOPMENT COSTS

in T€	10/2007-03/2008	10/2006-03/2007
Revenues	38	1,000
Changes in inventory	-10	-3
Miscellaneous income	774	603
Own work capitalised	420	1,635
Cost of materials	-354	-73
Personnel expenses	-658	-570
Depreciation of tangible assets and amortisation of intangible assets	-44	-44
Other operating expenses	-1,198	-2,462
Total	<u>-1,032</u>	<u>86</u>

### CASH FLOW STATEMENT

The cash flow statements are prepared in accordance with IAS 7 and show changes in the balance sheet position “cash and cash equivalents” over the course of the quarter.

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## SEGMENT REPORTING

The Company operates in the following business areas:

- **Human Pharmaceuticals**
  - covers all pharmaceutical activities with the main focus being on the area of imaging with contrast agents for x-ray, CT and in-vitro diagnostics. These products are marketed and sold partly through subsidiaries (SANOCHEMIA Diagnostics) and through cooperation agreements with selected marketing partners.
- **Production**
  - encompasses synthesis (synthetic galantamine, contract synthesis, internal requirements) and pharmaceutical production. This also includes research and development expenditure and income relevant to production.
- **Research and Development**
  - concentrates on identifying and advancing substances for the treatment of central nervous system disorders and on the innovative further development of tried-and-tested substances. This segment is largely responsible for the Company's own research and development activities. Only minimal externally-generated revenues have as yet obtained through contract R&D activities.
- **Reconciliation**
  - is a segment created to record all income, expenses, assets and liabilities which cannot be directly allocated to the segments listed above.

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

## DIVISIONAL RESULTS

in T€	Human Pharmaceuticals		Production		R&D		Reconciliation		TOTAL	
	01.10.07- 31.03.08	01.10.06- 31.03.07	01.10.07- 31.03.08	01.10.06- 31.03.07	01.10.07- 31.03.08	01.10.06- 31.03.07	01.10.07- 31.03.08	01.10.06- 31.03.07	01.10.07- 31.03.08	01.10.06- 31.03.07
Sales revenue – ext.	6,948	6,415	5,456	10,076	36	1,000	0	1	12,440	17,492
Sales revenue – int.	125	134	2,568	2,672	2	0	-2,695	-2,806	0	0
<b>Total sales revenue</b>	<b>7,073</b>	<b>6,549</b>	<b>8,024</b>	<b>12,748</b>	<b>38</b>	<b>1,000</b>	<b>-2,695</b>	<b>-2,805</b>	<b>12,440</b>	<b>17,492</b>
<b>Operating performance</b>	<b>7,580</b>	<b>6,938</b>	<b>8,673</b>	<b>13,923</b>	<b>1,222</b>	<b>3,235</b>	<b>-3,172</b>	<b>-3,135</b>	<b>14,303</b>	<b>29,961</b>
<b>Operating result</b>	<b>831</b>	<b>517</b>	<b>-835</b>	<b>2,337</b>	<b>-1,032</b>	<b>86</b>	<b>-1,983</b>	<b>-1,735</b>	<b>-3,019</b>	<b>1,205</b>
<b>Investment</b>	<b>-205</b>	<b>73</b>	<b>1,059</b>	<b>805</b>	<b>503</b>	<b>1,687</b>	<b>227</b>	<b>243</b>	<b>1,584</b>	<b>2,808</b>
<b>Depreciation &amp; amortisation</b>	<b>867</b>	<b>380</b>	<b>1,263</b>	<b>1,180</b>	<b>44</b>	<b>44</b>	<b>190</b>	<b>175</b>	<b>2,364</b>	<b>1,779</b>
<b>Segment assets</b>	<b>12,268</b>	<b>14,294</b>	<b>29,222</b>	<b>26,976</b>	<b>18,272</b>	<b>19,600</b>	<b>42,023</b>	<b>40,626</b>	<b>101,785</b>	<b>101,496</b>
<b>Segment liabilities</b>	<b>4,084</b>	<b>904</b>	<b>5,540</b>	<b>5,859</b>	<b>3,039</b>	<b>1,478</b>	<b>35,586</b>	<b>27,554</b>	<b>48,249</b>	<b>35,795</b>

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## FINANCIAL INSTRUMENTS

### Derivative financial instruments

During the quarter 10/2007 – 03/2008, the Company invested in derivative financial instruments in the form of forward exchange contracts through the agency of Amafin Asset Management und Finance S.A., Zug, Switzerland – as it had in previous financial periods. Amafin Asset Management und Finance S.A. is an independent asset management company. In accordance with the terms and conditions of Bank Leu for handling option and futures contracts, the bank concludes options and futures contracts on behalf of SANOCHEMIA albeit it in its own name. These transactions involve SANOCHEMIA as the writer of both put and call options. The option premium received through option sales are deposited in a term account.

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

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

### Interest rate, foreign exchange and credit risks

With the exception of a decline in receivables and liabilities arising out of option contracts, there have been no significant changes in the risks mentioned above since 30.09.2007. The investment criteria applied by Amafin Asset Management und Finance S.A., Zug, for investing in foreign exchange options and forward exchange contracts have not changed since 30.09.2007 resulting in the associated currency exchange risks also remaining unchanged.

	31.03.2008	30.09.2007
Foreign exchange options	T€	T€
Other receivables arising out of foreign exchange options	16,894	948
Other liabilities arising out of foreign exchange options	13,545	5,284

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

The foreign exchange options and forward exchange contracts have had the following impact on the company's financial position for the period 1 October 2007 to 31 March 2008:

	31.03.2008 T€
<b>Foreign exchange options</b>	
<hr/>	
Expenditure arising out of foreign exchange options	-14,342
Income arising out of foreign exchange options	14,683
<b>Forward exchange contracts</b>	
<hr/>	
Loss	-138
Gain	105

#### **EVENTS AFTER THE BALANCE SHEET DATE**

No reportable events have occurred since the balance sheet date.

## OTHER INFORMATION

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### ▪ Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.”

*Vienna, 26 May 2008*

SANOCHEMIA Pharmazeutika AG

The Board of Management



Herbert Frantsits



Anton Dallos



Maximilian Hudl

### ▪ Auditing

The same accounting and valuation principles have been applied as are used in the consolidated financial statements of the 2006/2007 annual report. These interim consolidated financial statements have not been audited.

### ▪ Upcoming financial events

28 August 2008: Publication of Q3 results

November: Analysts' conference at the German Equity Forum

Details of further events will be published in due course.