ANNUAL REPORT 2010/2011

PHOENIX group

Wir bringen Gesundheit

Three-year overview

	2008/2009	2009/2010	2010/2011
Revenue (EUR k)	21,310,679	21,317,594	21,737,772
EBIT (EUR k)	529,859	422,715	483,181
EBT (EUR k)	205,717	241,344	271,050
Employees (total number as of 31 January)	28,291	28,156	28,721
Employees (full-time)	23,365	23,261	23,206
Number of pharmacies	1,458	1,487	1,562

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LETTER FROM THE CHIEF EXECUTIVE OFFICER

Ladies and Gentlemen,

Fiscal year 2010/2011 was of decisive importance for the PHOENIX group, as it was the year in which we succeeded under our own steam, in overcoming the difficulties that the group had suffered as a result of the financial market and economic crisis. We have based our financing on a fundament that will remain stable on a long-term basis, and we have greatly reduced liabilities. At the same time, our business model has proved effective in an extremely challenging environment. We have grown faster than the overall market in Europe, and our EBIT increased considerably. Thus, the PHOENIX group has again proven its leading role in the European pharmaceutical trade. We are also pleased because this demonstrates our ability to generate above-average results with a clear strategy and an effective business model, even in a volatile regulatory setting and under difficult market conditions. In this context, the PHOENIX group benefited especially from long-standing, cooperative relationships with its customers and the application of its best practice models throughout Europe. Thanks to the expertise in the two core business segments pharmaceutical wholesale business and pharmacy retailing, the international networking of its supplier services, and a wide geographic coverage, the group is well prepared for using the existing opportunities for further growth in Europe.

Development in Europe

Like the health sector as a whole, the pharmaceutical trade in Europe is characterised by demographic and political change. There is a need for medical progress and pharmaceutical innovation, while economic restrictions force political decision makers to implement more stringent cost control.

Though the pharmaceutical market in Europe exhibited a slightly positive performance over the past year, the economic success of the sector was encumbered by the political framework conditions. In Europe, the market grew by 0.7%. The performance was heterogeneous, ranging from -12.6% in Greece to +15.3% in Romania[1]. All in all, the market performance in Western Europe was positive. Results in Northern Europe varied due to country-specific peculiarities. On average, performance in many Eastern European countries was satisfactory due to the economic recovery.

[1] In terms of the revenue; see IMS Executive Market Report 2010 yearly, IMS Health Inc. 2011

Reimund Pohl
Chief Executive Officer

Figures and activities in the fiscal year 2010/2011
The PHOENIX group has been very successful in a challenging environment. In the fiscal year ended, the group generated revenues amounting to EUR 21.7b, an increase of 2% over the prior year. At EUR 483.2m, the EBIT was even 14% better than in 2009/2010. Thanks to this vigorous performance, the group generated a cash flow of EUR 580m from operating activities.

Apart from a partly more positive market environment, the excellent country coverage and the extensive service portfolio contributed to the result achieved. With about 150 distribution centres in 23 countries and more than 100,000 items in its product range, PHOENIX ensures timely delivery of drugs to pharmacies throughout Europe. Strategically, the enterprise is on a good path. With our wholesale and retail business and supplier services, we cover the entire logistics bandwidth from the manufacturer to the patient. The integrated business model, a decentralised organisational structure, and a strong local management enable the PHOENIX group to respond quickly to challenges and opportunities in the individual European countries. In this way, the group can effectively accommodate the special needs of individual countries.

In the past year, considerable progress was made in the core business segments. The pharmaceutical wholesale business was marked by the strong growth in Eastern Europe and the conclusion of strategic partnerships with renowned manufacturers. Our strategic positioning as the European enterprise with the broadest international coverage provides a major competitive advantage. In wholesale, the group also benefits from the fact that it has been established as a reliable partner of the pharmaceutical industry for many years and offers advanced supplier services.

In 2010/2011, the pharmacy retail business again witnessed selective acquisitions of pharmacies and portfolio consolidations. As a result, we were able to significantly reinforce our position especially in Hungary and the Netherlands.

PHOENIX also broke new entrepreneurial ground. For a joint venture with Celesio AG in the Netherlands, both parties placed their portfolio of pharmacies under the management of PHOENIX subsidiary Brocacef; the PHOENIX group also contributed its wholesale business. With 110 own pharmacies and 40 franchises, the joint venture is the Number Two in the Dutch market.

Consolidation and refinancing

Thanks to the excellent business performance and high cash flow from operating activities, the PHOENIX group was able to consolidate its business under its own steam, substantially reduced its liabilities, and placed its financing on a long-term solid basis once again. In this connection, a key element was the conclusion of a new syndicated loan agreement for EUR 2.6b. By issuing a bond worth about EUR 500m, the PHOENIX group made its first step into the capital market. Furthermore, our shareholders, most prominently the Merckle family, increased equity by more than EUR 500m. Moreover, in the course of the year, VEM paid receivables of PHOENIX amounting to EUR 458.5m including interest. The sale of the interests in KL Holding (in September 2010), in Andreae-Noris Zahn AG, and in the Russian pharmaceutical trader ZAO Rosta (both in December 2010) contributed to the reduction in the liabilities. Together with the positive cash flow of more than EUR 1b, the PHOENIX group has managed to nearly halve its debts from EUR 4.3b to EUR 2.2b over the past two years.

Strategic advantages

Last year's performance bears witness to the effectiveness of our strategic alignment. With its return-oriented growth, a consistent cost orientation, and a customer-focused corporate culture, the PHOENIX group has established sustainable values. The success can be illustrated by means of the following examples:

- Thanks to the integrated approach and the strong presence in close to two dozen European countries, we are able to transfer successful concepts across borders within the scope of best practice exchange. For example, we are introducing our mobile data entry (MDE) devices on a comprehensive international scale. The devices assist us in various warehouse management aspects such as the avoidance of picking, stocktaking, and dispatch errors.

- In recent years, the PHOENIX group has repeatedly proven its strength in the introduction of new procedures and systems. Thus, the PHOENIX ERP system Pharmos, which supports the distribution centres in their order processing and warehouse management, is being used in Germany and other countries (e.g. Austria, Switzerland, Croatia, France, Serbia, and Bulgaria).

"Last year's performance bears witness to the effectiveness of our strategic orientation."

Reimund Pohl, Chief Executive Officer

- We continuously invest in the expansion and improvement of the logistical infrastructure. Last year, investments were made in the expansion of the supplier services in Slovakia and a new subsidiary in Bosnia, by means of which we can further develop the market. We also expanded the warehouse capacities of our German subsidiary Health Logistics: by further developing the cool area, we enable pharmaceutical companies to store temperature-sensitive drugs.
- At the same time, our business models are flexible, enabling us to occupy top positions even in the face of changing market situations. In the United Kingdom, we were quick to enter a highly successful cooperation with one of the leading pharmaceutical companies for the purpose of supporting direct marketing to pharmacies. In Northern Europe, we are positioned as one of the favoured partners in the single channel models.

Stability and continuity

One of the key success factors of the PHOENIX group is its entrepreneurial setting. Thanks to the reliable and continued support of our shareholders, we can successfully align the group on a long-term basis, regardless of short-term market fluctuations. The establishment of an Advisory Board as a supervisory committee in September 2010 was an important contribution to the professional corporate governance of the PHOENIX group. The Advisory Board is chaired by Dr. Bernd Scheifele, an expert well known to us. Among other things, the Advisory Board is responsible for the approval of the consolidated financial statements and of the budget. The relationship between the Executive Board and the Advisory Board is based on long-standing mutual trust. The Executive Board consults the Advisory Board on all important strategic issues.

Thanks to our team and our customers

Our employees, too, benefit from our continuity and stability. As of 31 January 2011, the headcount of the PHOENIX group was over 28,721, slightly more than in the prior year. We would like to use this opportunity to express our sincere gratitude to all executives, employees, and employee representatives for their excellent, loyal collaboration. We would also like to thank our customers for the cooperative trust they put in us last year. Together, we have mastered the severe tests of the recent past and have created a bright perspective for the future.

Outlook

We expect the coming fiscal year to be just as challenging as the fiscal year ended. Despite the need for innovative concepts, health care systems remain subject to considerable cost pressure; further regulatory challenges are already foreseeable in the various countries. In Western Europe, the health care policy reforms have curbed pharmaceutical trading. In Germany, it remains to be seen what the effects of the Pharmaceutical Market Restructuring Act (AMNOG) will be. Though the provisions will only come into force for us from January 2012, an intermediate provision will already affect us in the current fiscal year 2011/2012. As the various cost reduction measures and the increasing generics competition start to take effect, we expect, on average, a stagnation or only slight growth in Northern Europe in the coming year. For Eastern Europe, we expect market dynamics to persist and continue to have a positive impact, though the growth has already started to exhibit initial signs of slowdown.

Although further savings efforts are expected, we are convinced that we will benefit from the development of innovative drugs in the long run. Therefore, the PHOENIX group will hold on to the elements of its successful strategy. We will continue to maintain our core activities over the entire logistics bandwidth. The company will retain its European character. We will use the benefits of the large group with its decentralised organisational structure and a great measure of local responsibility. At group level, we are targeting above-market growth. Where this is not possible organically, we may perform selective acquisitions in attractive markets. At the same time, the goal of further reducing our liabilities remains a top priority.

In the fiscal year 2011/2012, we anticipate good opportunities for profitable growth in Europe. Together with our shareholders, employees, and customers, we are upbeat about the year.

On behalf of the Executive Board,
Mannheim, June 2011

Reimund Pohl
Chief Executive Officer

EXECUTIVE BODIES OF THE PHOENIX GROUP

The Executive Board (from left to right): Stefan Herfeld, Dr. Michael Majerus, Dr. Hans-Ulrich Kummer, Reimund Pohl, Henry Iberl, and Oliver Windholz

Executive Board

Reimund Pohl
Chief Executive
Officer

Dr. Hans-Ulrich Kummer
Operations/Logistics

Stefan Herfeld
Retail
(from 1 August 2010)

Dr. Michael Majerus
Finance

Henry Iberl
Sales/Marketing
(until 30 June 2011)

Oliver Windholz
Sales/Marketing
(from 1 February 2011)

Advisory Board

Dr. Bernd Scheifele
Chairman of the
Advisory Board,
Chairman of the Managing
Board of HeidelbergCement
AG, Heidelberg, Germany

Rolf Glessing
Director of F. Reichelt AG,
Hamburg, Germany
Director of Merckle Service
GmbH, Ulm, Germany

Ludwig Merckle
Company shareholder,
Director of Merckle Service
GmbH, Ulm, Germany

Dr. Lorenz Näger
Member of the Managing
Board of HeidelbergCement
AG, Heidelberg, Germany

Dr. Wolfram Freudenberg
Chairman of the Board of
Partners of Freudenberg &
Co. KG, Weinheim, Germany

REPORT OF THE ADVISORY BOARD

Last fiscal year, the Annual General Meeting of the PHOENIX group decided to establish an Advisory Board as the group's advisory and supervisory body. The five-strong Advisory Board commenced its work with its first meeting in September 2010. The Advisory Board is chaired by Dr. Bernd Scheifele, Chairman of the Managing Board of HeidelbergCement AG. Moreover, Ludwig Merckle, shareholder representative, Dr. Wolfram Freudenberg, Chairman of the Board of Partners of Freudenberg & Co. KG, Rolf Glessing, Director of Reichelt AG and Director of Merckle Service GmbH, and Dr. Lorenz Näger, CFO of HeidelbergCement AG, belong to the Advisory Board.

The Advisory Board regards itself as a representative of the shareholder interests. It supports the values and management guidelines of the company, which guide the cooperative actions of the employees and their relationships with the customers. This form of cooperation is marked by respectful treatment, integrity, mutual trust, and fairness.
The objective of the Advisory Board's activity is to support the Executive Board of the PHOENIX group in enabling long-term profitable company growth. The Advisory Board assists the Executive Board in practical ways and supervises it in its activities. In this way, the Advisory Board is involved in all major decisions at an early stage.

As a family-managed company, the shareholder structure of the PHOENIX group enables the management to concentrate entirely on long-term corporate development, instead of making decisions solely on the basis of short-term goals. The PHOENIX group, its management, and the Advisory Board stand for this value-oriented management approach. PHOENIX stands for continuity, stability, and long-term growth. The Advisory Board, too, is jointly committed to these values.

Competencies of the Advisory Board

In order to responsibly meet its demanding goals and duties, the Advisory Board has been provided with corresponding statutory powers: within the scope of its power to appoint and dismiss staff, the Advisory Board on the one hand appoints the Executive Board of PHOENIX and on the other hand is responsible for appointing the auditor, in addition to specifying the conditions and focuses of the audit, and for approving the annual financial statements. Furthermore, the Advisory Board is responsible for managerial decisions concerning transactions that exceed ordinary business in terms of volume, duration or importance, including taking out large loans and making large investment decisions. Within the scope of its planning, the Advisory Board fixes the group and annual budgets. The Advisory Board is informed in good time about all important personnel decisions within the PHOENIX group.

Dr. Bernd Scheifele
Advisory Board Chairman

Focuses of the Advisory Board's activities
In the previous four meetings, the Advisory Board dealt with the annual financial statements for the fiscal year ended, the approval of the annual budget for the current fiscal year, and all other financing issues. This includes the reduction of the debt, the group's general earnings situation, the business performance, and the growth of the operating activities in the individual foreign shareholdings.

The Advisory Board assisted the Executive Board in the medium-term strategic alignment of the group and the development of the core business areas. Apart from wholesale as the centrepiece of PHOENIX and the supplier services activities, the company focused on possibilities to expand the pharmacy retail business.

Last year, the Advisory Board was also involved in important group decisions. One of the decisions concerned the merger of the PHOENIX operations in the Netherlands with the operations of Lloyds Nederland B.V., a subsidiary of Celesio AG. The operations were bundled under the corporate management of PHOENIX in our Dutch subsidiary Brocacef Holding N.V. In the past fiscal year, the Advisory Board also supervised the sale of the non-strategic interests in ZAO Rosta, Russia, and in Andreae-Noris Zahn AG, Frankfurt/Main, Germany.

The Advisory Board closely supervised the aforementioned measures, coordinating these with the Executive Board during and outside of meetings. In addition, it was regularly and comprehensively informed about the intended business policy, fundamental issues relating to financial, investment and human resources planning, the course of business and the profitability of the PHOENIX group, both verbally and in writing. It was informed in detail by the Executive Board of any deviations from the planned course of business. The Executive Board also coordinated the strategic alignment of the PHOENIX group with the Advisory Board.

The Advisory Board was also included directly in all other decisions that were of material importance for the PHOENIX group. Investment, disinvestment and, in particular, financing projects that were subject to approval were explained by the Executive Board and discussed with the Advisory Board prior to resolution.

The Advisory Board satisfied itself that the Executive Board has installed an efficient risk management system that is capable of identifying developments that might jeopardise the continued existence of the company as a going concern in good time.

Audit and approval of the annual financial statements

Prior to commissioning the audit of the company and consolidated annual financial statements, the audit focuses, content and costs were discussed with the auditor, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart. The Executive Board informed the Advisory Board in advance 2011 about the preliminary, uncertified key financial figures for the 2010/2011 fiscal year and about the status of the audit. The annual financial statements prepared by the Executive Board as well as the summarised company and consolidated management report were audited by the auditor and certified without qualification. Financial statements and audit reports were sent to the Advisory Board members, whereupon the Advisory Board discussed the financial statements in detail in the presence of the auditor. The Advisory Board recognised and approved the audit results. It assessed the annual and consolidated financial statements as well as the summarised management report. Subsequent to the final results of this assessment, the Advisory Board does not raise any objections. The Advisory Board therefore approved the annual financial statements and consolidated financial statements.

The Advisory Board concurs with the Executive Board's proposal regarding the appropriation of the retained earnings.

Executive Board changes

The Executive Board has undergone a number of scheduled changes: as of 1 August 2010, Stefan Herfeld assumed responsibility for the European pharmacy retail business. Oliver Windholz joined the company on 1 February 2011 as the successor to Henry Iberl in the sales/marketing division. Henry Iberl will be taking his well-earned retirement at the end of June 2011 after having worked for the company for more than 30 years. Mr Iberl started his career in 1978 as the assistant to the head of the accounting department of what was at the time Otto Stumpf AG in Fürth, one of the predecessors of PHOENIX. Only two years after being appointed as head of finance and accounting in 1980, Iberl was promoted to head of the Fürth subsidiary. Mr Iberl supported the establishment and rapid growth of PHOENIX as the regional head of sales responsible for Fürth and the Eastern German distribution centres, as head of the competence centre in the Czech Republic and, since July 1998, as member of the Executive Board responsible for sales and marketing. On behalf of the entire Advisory Board, I would like to thank Mr Iberl for his many years of successful service, which contributed decisively to the success of PHOENIX, and to wish him all the best for the future.

Trusting collaboration

Thanks to the long-standing, trusting contact between the Chief Executive Officer and the Chairman of the Advisory Board, the committees communicate regularly, even outside the Advisory Board meetings. Clear goals, quick decisions, open and transparent communication, short routes, and structured actions – these elements form the basis for the collaboration between the Executive Board and the Advisory Board.

In the fiscal year 2010/2011, the PHOENIX group achieved excellent results. The company has thus provided evidence of its great operational and financial efficiency. The Advisory Board is convinced that the company and its employees are on the right track and will continue to exhibit profitable growth in the coming year, thereby delivering high added value to its customers and other stakeholders.

On behalf of the Advisory Board,
Mannheim, June 2011

Dr. Bernd Scheifele
Advisory Board Chairman

EXTENDING THE LEAD

The fundamental trend in the pharmaceutical market is characterised by growth, as was again evident in the fiscal year 2010/2011. The demographic change in Europe and the medical progress are triggering a growing demand for drugs. At the same time, however, many European countries are facing challenges with regard to financing their health care systems. Thus, the subject of cost control remains a key agenda item. This has triggered regulatory intervention in many countries, with substantial effects on the entire industry and thus also on the pharmaceutical trade.

As leading pharmaceutical trader, the PHOENIX group possesses in Europe a much wider geographic positioning than any other enterprise in the industry, both in pharmaceutical wholesale and in pharmacy retail. Our company benefits from an established business model and from our experience in reacting quickly and cost-efficiently to influences of various countries. In the past years, we have demonstrated this impressively.

Business model and key indicators

The PHOENIX group operates in two core business areas: pharmaceutical wholesale and pharmacy retail. In these areas, the company offers specific services, e.g. for pharmacies or supplier services for pharmaceutical companies. Thus, PHOENIX is positioned along the entire pharmaceutical value chain from the manufacturer to the patient.

Three-year overview

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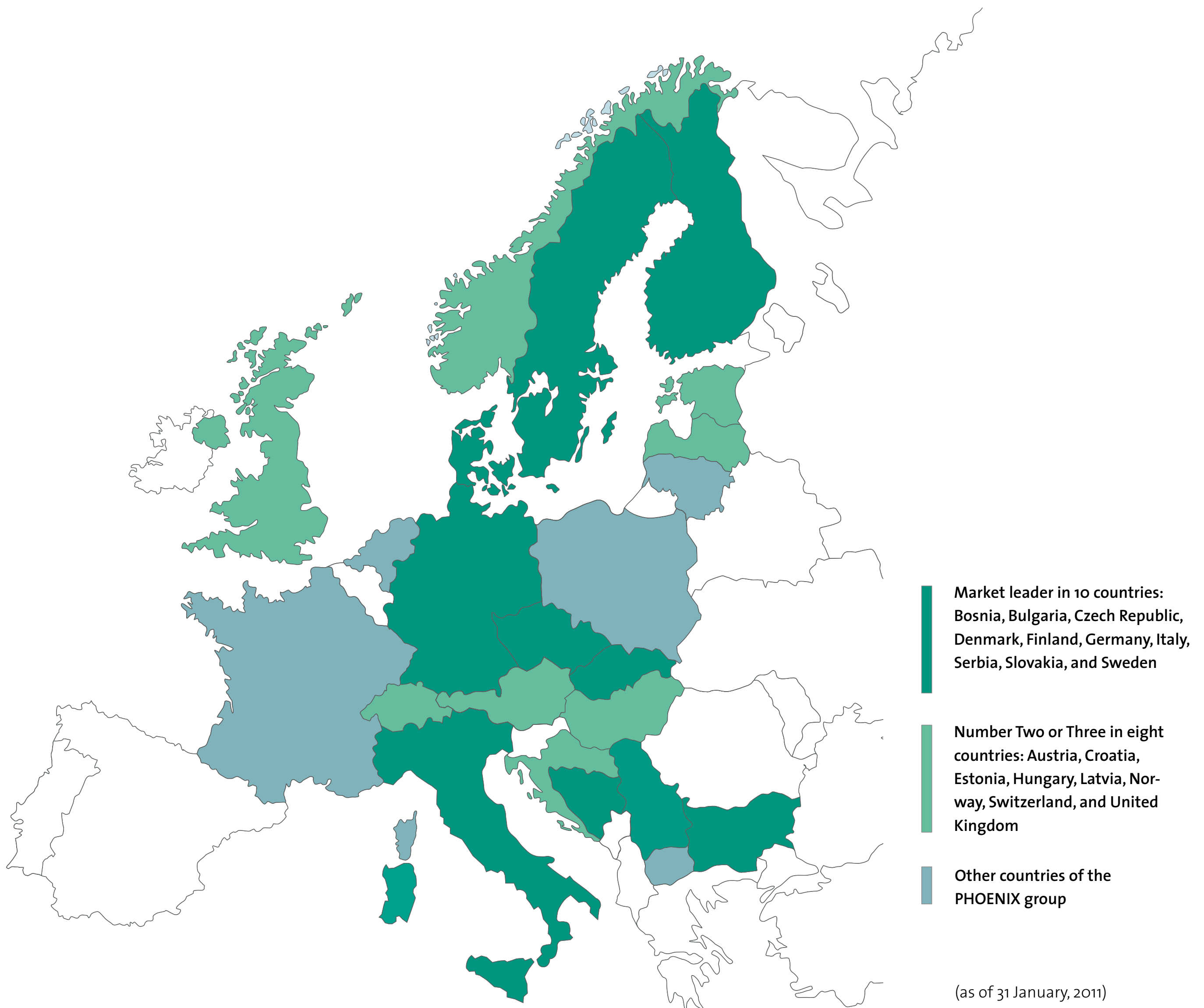

In the pharmaceutical wholesale business, we were active with about 150 branches in 23 countries as of the end of the fiscal year 2010/2011. Our customer base comprises approximately 69,000 pharmacies, doctors, and hospitals throughout Europe. In the field of supplier services, our range of customers consists of more than 200 pharmaceutical enterprises. In the pharmacy retail business, PHOENIX operates 1,562 own pharmacies in 12 countries.

In the fiscal year 2010/2011, the revenue of the PHOENIX group amounted to EUR 21.7b, an increase of 2% over the prior year. EBIT climbed by 14% from EUR 422.7m in 2009/2010 to EUR 483.2m in the fiscal year ended.

In the fiscal year 2010/2011, the PHOENIX group successfully completed the financial consolidation and refinancing. Thus, we have secured the company's long-term financing. All in all, we almost halved our debts to EUR 2.2b over the past two fiscal years, especially due to the strong cash flow.

"Our solid capital structure represents the basis for further systematic development of our business model."

Dr. Michael Majerus, Executive Board Member Finance

What makes us special

We focus on pharmaceutical trading along the entire logistics bandwidth from the manufacturer to the end customer. Our business is built on the principle that "all business is local". Our decentralised organisational structure makes our international subsidiaries highly competent and provides us with proximity to our customers and their specific requirements. This model also enables us to react quickly to sudden local changes. The exchange of best practice throughout the group helps us to transfer concepts successfully developed in one country to other countries.

We aim to reach a leading market position in the European countries in which PHOENIX is active. Our goal is to achieve profitable organic growth above market average. Additionally, we want to expand our position by means of selective acquisitions of pharmacies and wholesale companies with an above-average growth potential in attractive markets.

Leading position in wholesale

On 31 January 2011, PHOENIX was the pharmaceutical wholesale market leader in ten countries: Germany, Italy, the Czech Republic, Slovakia, Serbia, Bosnia, Bulgaria, Denmark, Finland, and Sweden. As a wholesaler with a leading position in almost all of the 23 markets supplied by us, we ensure that important drugs and other health products are quickly available and reach their destination safely every day.

Logistic delivery is decisive for customers. In Germany, Switzerland, Austria, the Czech Republic, and Slovakia, for example, our subsidiary transmed is a qualified specialist for the transport of drugs and other highly sensitive and complex products, e.g. products that depend on time-critical delivery. In Germany alone, the logistics network of transmed makes more than 6,000 trips every day, visiting about 10,000 pharmacies several times a day and delivering about 200,000 boxes. Additionally, more than 950 trips are made at night. In the other countries, too, we ensure maximum delivery readiness of our transport services, regardless of whether we render these directly or through third parties.

"Traditional virtues of the PHOENIX group include taking customers' demands into consideration, investing in innovative technology, and striving to achieve top quality."

Dr. Hans-Ulrich Kummer, Executive Board Member Operations/Logistics

"Our existing retail countries offer us outstanding growth opportunities for the years to come: both in terms of expanding our branch network as well as comparable space."

Stefan Herfeld, Executive Board Member Pharmacy Retail

By means of the activities of the supplier services in 19 countries, pharmaceutical companies and wholesale customers benefit from our logistics expertise. In so doing, we can handle the entire supply chain and processing, merge orders, and thus reduce the complexity for all involved. In the fiscal year 2010/2011, we greatly expanded our capacities, e.g. by upgrading storage centres and cooling systems. In this field of activity, we offer numerous services, such as the central supply, storage, and distribution of orphan drugs for the whole of Europe. We are also able to deliver thermolabile drugs on behalf of the manufacturers to virtually all locations in Europe within 24 hours.

Close to patients and customers in the pharmacy retail business

In the fiscal year 2010/2011, the pharmacy retail operations of PHOENIX comprised 1,562 pharmacies in Norway, the United Kingdom, the Netherlands, Switzerland, Hungary, the Czech Republic, and other Western and Eastern European countries. In most of these countries, the PHOENIX group occupies a leading market position, renders wholesale and supplier services, and makes an important contribution to the reliable, convenient supply of the population with drugs. Almost 12,000 pharmacy personnel have more than 120 million customer contacts each year, supplying patients with more than 250 million drug packages.

In the pharmacy retail segment, PHOENIX boasts an unmatched country coverage that includes large European pharmaceutical markets and small fast-growing markets. Our employees on site at the international subsidiaries have the necessary expertise and are responsible for the local business and specific needs of our customers. For example, we enable synergies throughout Europe in the interior equipment of pharmacies, resulting in cost savings and an improved local market image of the pharmacies.

In June 2010, our subsidiary Brocacef Holding N.V. and Lloyds Nederland B.V., a subsidiary of Celesio AG, Stuttgart, Germany, entered a joint venture. Under the management of PHOENIX, the Lloyds pharmacies were integrated in Brocacef, which thus became the Number Two on the Dutch retail market, with about 150 directly owned, co-owned, or franchised pharmacies. The merger enabled us to achieve major synergies and improve our market position as well as our future earning potential as a result, without investing large amounts of capital.

In the pharmacy retail segment, the franchise programmes in the various countries are being expanded continually. We use our knowledge and experience to offer individual pharmacies solutions tuned to customer needs. Elsewhere, we benefit from partnerships: in the United Kingdom, for example, upwards of 2,000 members draw on the benefits of our cooperation with Numark. Another key retail project is the ongoing expansion of the existing trading brand range, especially in the field of OTC products.

Goals for the coming years

We plan to further expand the broad positioning in the various areas of pharmaceutical trading and in different European countries in the coming years. Thanks to the activities in strategically balanced, stable growth markets, we see a lot of potential for the future. Moreover, we have identified areas requiring action for the medium-term development of our company. This strengthens us at a time when many of the countries in which we operate have taken or announced new health care policy measures. Overall, a number of indicators give us reason to maintain a positive outlook:

- The demographic development and the medical progress remain long-term growth drivers.
- PHOENIX occupies a leading market position in Europe.
- The group has long-standing customer relationships – more than 90% of our customers have worked with us for more than 20 years.
- The integration of the pharmaceutical wholesale and pharmacy retail activities at the local level enables further synergy effects.
- PHOENIX has access to a state-of-the-art logistical infrastructure. Thanks to the best practice exchange throughout the group, proven processes can also be applied at other locations.
- The new financing structure, a strong cash flow, and the ongoing debt reduction create the basis for further growth.

Moreover, our owner structure provides substantial advantages. As a family-owned enterprise, we are able to align our entrepreneurial actions with long-term goals and values. Despite the many challenges in the European markets, our owner structure enables us to provide the necessary flexibility and stability for the benefit of our customers.

CONVINCING CUSTOMERS

PHOENIX offers a broad portfolio in the health market at the interface between the pharmaceutical industry and patients. The PHOENIX group assumes the special responsibility associated with the handling of drugs by means of high-quality, innovative services for the customers. Each European market is addressed individually in order to take special national characteristics into consideration. Our objective is to create needs-oriented, sustainable added value for our customers, with benefits for all involved: pharmaceutical companies, hospitals, doctors, pharmacies, and patients. At the same time, we must tackle market challenges that affect us and our customers, especially budget cuts or changes in the individual national health policy.

Customer orientation and efficiency on the European market

Having reached their limits all over Europe, health budgets require market players to maintain consistent cost discipline. Among other things, the PHOENIX group faces this responsibility by means of continuous wholesale business process optimisation and the deployment of state-of-the-art technologies and market-specific solutions for its customers. The use of a uniform ERP system in many countries demonstrates how quality and cost efficiency are implemented in logistics processes by means of modern IT systems. For our ERP, we use the modern PHOENIX IT system Pharmos, which is centrally maintained and continually adapted to new requirements. Pharmos maps all product streams, enabling us to achieve maximum delivery readiness and minimise potential errors. Apart from Germany, the IT system is already being successfully used in Croatia, Austria, Switzerland, Serbia, Bulgaria, and France. Pharmos enables country-specific customisation. In France, for example, a seamless batch tracking solution that fulfils all regulatory specifications was developed in the ERP system. If necessary, we can inexpensively transfer this further development to other countries with similar batch tracking requirements.

Another innovative development in the field of IT is data networking between pharmaceutical companies and PHOENIX – a project whose pilot phase was launched last year. The direct data transfer enables a quality increase at the interface to our suppliers (e.g. by reducing manual data input), electronic transmission of delivery note data, and implementation of seamless batch tracking. In the future, electronic transmission of delivery note data will not only reduce the goods acceptance overhead, but will also contribute to the further optimisation of warehouse processes and logistical challenges.

"69,000 satisfied customers in Europe confirm that each and every day we must maintain close dialogue with our customers and find individual solutions that will be successful in the long term."

Henry Iberl, Executive Board Member Sales/Marketing

Logistics excellence

Our goal is to offering our customers the highest quality standard. For PHOENIX, logistics excellence begins with the alignment of our business processes to the actual demand and culminates in smooth processing. In all of this, PHOENIX combines quality and security standards with continuous innovation.

Correct storage of the products and accurate, complete delivery of an order are key quality features. Modern mobile data entry (MDE) devices are used to ensure that all goods that enter or leave the warehouse are recorded and checked and the data are forwarded to the ERP system. MDE devices allow the scanning of drug packages, which facilitates the recording of all incoming and outgoing goods and optimises various logistical processes. We also use MDE devices for stocktaking purposes. MDE devices enable paperless picking, support batch tracking, and can be used for asset tracking in the downstream supply chain, i.e. the goods can be tracked all the way to the pharmacy. The latter has been successfully introduced in Switzerland and is in preparation for other countries, too. Currently, about 3,500 MDE devices are in use all over Europe.

Photograph documentation is another measure to improve the delivery quality and to optimise drug safety. In a simple but efficient procedure, every packed box passes through an automated documentation machine. The content is photographed by a high-end camera. Combined with the box data from the ERP system, the photograph is allocated to the order of the respective pharmacy within a few seconds. This effective self-check and documentation method is already in use in a number of countries including Germany, Switzerland, Norway, and Denmark. The deployment in further countries is currently in preparation.

Innovative services

In the field of information technology, PHOENIX offers modern customer solutions ranging from hardware to software to support. Our subsidiary ADG is active throughout Europe, developing IT solutions especially for pharmacies. The custom-developed software combines billing optimisation tools with interfaces for tax advisors and special analysis functions as well as for use as POS/ERP system. The comprehensive range of functions of our software solutions is accompanied by a high level of user-friendliness and comprises programmes ranging from staff scheduling to administrative management of the pharmacy.

For PHOENIX, dialogue constitutes the basis of a successful customer relationship. Only cooperative exchange of information enables us to further develop our logistical performance and our added value-oriented service portfolio. The example of VMI demonstrates the potential success of a cooperative business relationship between wholesalers and pharmacies. VMI stands for "Vendor Managed Inventory", a customer-oriented service offer of our Danish subsidiary Nomeco. Nomeco, which is the market leader in Denmark, organises and coordinates the warehouse stock for pharmacies and manages purchase orders accordingly. The order process is triggered automatically on the basis of the electronic exchange of turnover and inventory figures of the pharmacy. So far, more than 160 pharmacies already use this business-supporting service. All in all, 60% of the total turnover in Danish pharmacies is handled via the VMI logistics partnership.

In various countries, we offer our customers PHOENIX consulting services to support their business. In the areas of marketing, business administration, and business development, we have been offering pharmacies advice and support in location analyses, local market research, back office optimisation, profitability checks, and category management implementation for many years.

Retail activities strengthen patient proximity

To PHOENIX, being close to the customer also means to continue to expand the pharmaceutical retail business and to further strengthen the approximately 1,600 existing pharmacies. Therefore, the focus is on process optimisation, quality orientation, and branding. Last fiscal year, our pharmacy brand Rowlands Pharmacy achieved considerable success in the United Kingdom. Within the framework of a quality initiative, the UK subsidiary expanded its portfolio with services such as health consulting, prescription fetching, and delivery. In 2010, the new services received various industry awards, particularly the "C&D Retailer of the Year", "Welsh Pharmacy Award", and four "Scottish Pharmacist Awards".

In Norway, our pharmacy brand Apotek1 improved its end customer contact management and reinforced its market leadership by means of excellent customer service, effective marketing measures, and a uniform shop design. The pharmacy array consisting of about 250 pharmacies closed the fiscal year 2010/2011 with a very positive result.

To enable pharmacists to focus on their customers, we offer services that simplify daily processes. In the Netherlands, for example, we assist our wholesale customers in the customer-specific preparation of the distribution of drugs. In this country, pharmacists are required by law to apply patient-specific information directly to the packaging of prescription drugs. This time-consuming personalisation process ties up resources at pharmacies. With our "central filling" service, we relieve the retail locations by centralising the application of patient-related data to drug packages and supplying pharmacies with the individualised goods for dispensing to patients. Our pharmacy-based "central filling" is the only ISO-certified service of its kind in the Netherlands.

Pharmaceutical industry benefits from PHOENIX supplier services

As leading European pharmaceutical trader, we also provide the competence gained in the wholesale and retail business in the form of supplier services developed especially for pharmaceutical companies. Our customers benefit from more than 20 pre-wholesale logistics centres in 19 European countries and can implement synergy-oriented regional or cross-border logistics concepts with us. In this context, we offer logistics excellence for our pharmaceutical customers in the field of incoming goods and shipment, storage, and return service.

Additionally, we offer industry-relevant value-added services. For example, we support the pharmaceutical industry in order and cash management, process individual inquiries in the field of secondary packaging, and organise the distribution of sample packages. In clinical studies, we handle extensive tasks including the dispatch of test drugs. Our service also includes the distribution of marketing material, import/export solutions, and correct disposal of expired or unused drugs. For customers with large product quantities as well as customers that are specialised in biotechnology products or that only produce small quantities of drugs such as orphan drugs, PHOENIX offers central warehouse solutions with the option of direct shipping to hospitals and pharmacies all over Europe. This offer also encompasses the logistics for time-critical shipments and temperature-sensitive products.

“Our customers benefit from our implementing innovative solutions and models successfully introduced in one country into other markets.”

Oliver Windholz, Executive Board Member Sales/Marketing

PHOENIX also considers itself a pioneer and reliable partner for pharmaceutical companies in connection with the implementation of new business models. Our services include pharmacy direct marketing solutions and comprehensive supply concepts. In the United Kingdom, for example, we successfully collaborate with a renowned pharmaceutical company as logistics service provider in pharmacy direct marketing. In other countries such as Finland and Sweden, we operate models as a single channel partner of the pharmaceutical industry. Apart from the logistical challenges, PHOENIX also takes care of administrative activities for the companies such as the billing of retailers.

The PHOENIX group will further expand its leading role in the European pharmaceutical trade. The success achieved in our various activities in the fiscal year 2010/2011 confirms the direction we are headed. In the future, we will to continue to live up to our responsibility towards our customers and the health market.

EMPOWERING EMPLOYEES

To us as a family owned enterprise, assuming responsibility for our employees is of central significance. We want to reinforce and support their strengths in order to continue to pursue our successful path in a target-oriented, concentrated manner.

Our employees – the basis of our success

The success of the PHOENIX group is based on our more than 28,000 employees in 23 European countries. By means of our management guidelines, we have established a guiding principle for the relationship between supervisors and employees throughout Europe, comprising uniform management principles. These define the framework for a joint understanding of good management and take national and regional differences into consideration. The management guidelines help reinforce a practical corporate culture across country and language boundaries.

Central management instruments of our corporate culture include employee development reviews, management by objectives, and regular supervisor feedback to ensure that our executives are fully aware of the effectiveness of their management behaviour. The results-oriented culture that manifests itself in the management guidelines is also evident from the fact that the remuneration of the management contains variable components that depend on the achievement of ambitious business goals.

We endeavour to continually develop our employees. Thus, we conducted numerous training measures for our employees in 2010/2011. We are convinced that qualified and committed employees enhance our competitiveness. Moreover, the development measures bolster the loyalty and trust of each individual.

Employees with potential for promotion to a higher management position are promoted by means of modular development programmes in all countries. Throughout the PHOENIX group, we offer the European Management Development Programme (EMDP) for our junior executives, which is jointly conducted by the malik management centre in St. Gallen, Switzerland, and the Mannheim Business School. Currently, 24 employees from 14 countries are participating in this programme. Over a period of two years, the employees will enhance their professional and interpersonal skills. Project exercises promote intercultural cooperation throughout Europe. Thus, the EMDP contributes to the improved deployment of specialists and executives in the entire company.

Apart from our personnel training measures, the training of young people was actively continued in the fiscal year 2010/2011. At all PHOENIX subsidiaries, great importance is attached to apprenticeships. In Germany alone, we currently have 131 apprentices for the following professions:

- Management assistant in wholesale and foreign trade
- Warehouse logistics specialist
- IT specialist
- Management assistant in IT

A significant part of our junior staff development programme includes the training of graduate business administrators in the fields of trade, business IT, and online media in cooperation with the Baden-Wuerttemberg Cooperative State University (DHBW).

We endeavour to staff executive positions with our own employees, to strengthen the competencies and experience in all areas, and to bond employees to our company on a long-term basis. For this reason, we usually offer permanent contracts to our apprentices and students after they complete their training. One key objective of all training activities is to be an attractive employer for our current and prospective employees. A sound HR policy, staff development, and staff management are vital to offer our customers optimum services and to continue to ensure successful market positioning.

"With targeted of the training measures, we systematically promote the professional and personal development of the individual employees and are thus able to staff most executive positions from our own ranks."

Reimund Pohl, Chief Executive Officer

TAKING RESPONSIBILITY

For the PHOENIX group, the management, and the employees, long-term commitment is the main priority of all activities at all times. As a family owned company, we are aware of our entrepreneurial responsibility, especially of the great importance of health, an asset we are closely familiar with due to our operations in the pharmaceutical value creation. For us, this also includes taking on responsibility for social projects and supporting humanitarian projects in various countries as well as regional activities in the vicinity of our locations.

Responsibility for the scientific base

Due to their tight budgets, the pharmaceutical research at German universities are in need of financial support. By means of selective sponsorship of pharmaceutical research and development, PHOENIX advocates the development of medical and pharmaceutical innovation. Thus, for example, we have been conferring the PHOENIX Pharmacentics Science Award, which is worth EUR 40k, for the past 15 years. An independent jury, consisting of Prof. Dr. Jörg Kreuter, University of Frankfurt; Prof. Dr. Armin Buschauer, University of Regensburg; Prof. Dr. Gabriele M. König, University of Bonn; as well as Prof. Dr. Peter Ruth, University of Tübingen, honours outstanding scientific performance in the four categories of pharmacology, pharmaceutical biology, pharmaceutical chemistry, and pharmaceutical technology. In 2010, the award ceremony was held in Erlangen, Germany. Prof. Dr. Gisela Drews from the Pharmaceutical Institute of Tübingen University, received the award in the pharmacology category. Prof. Dr. Drews and her team have developed a potentially effective principle for the treatment of diabetes. Prizes were also awarded to Prof. Dr. Ludger Beerhues, Braunschweig Technical University, and Prof. Dr. Christa E. Müller as well as Prof. Dr. Alf Lamprecht from the University of Bonn.

In addition to sponsoring the Science Award, the PHOENIX group also supports the practical training of prospective pharmacists. We promote pharmacy graduates with the seminar series “Futura, into the future with safety“” and give them insights into the practical work of the pharmaceutical wholesale business.

The PHOENIX group also supports students of other disciplines. In March 2010, we were one of the 30 companies and foundations that granted a total of 154 tuition fee scholarships worth EUR 1k each. The scholarships were granted to the best performing students at Mannheim University.

Humanitarian projects

Supporting humanitarian projects around the globe is part of our work. For the past 15 years, we have supported a child aid institution in Fortaleza, Brazil, by means of the Kulturbras organisation. The non-profit association promotes the education of children and youths by setting up and operating a full-time school. So far, more than 1,000 children have been enabled to attend a higher school. Currently, about 100 children are being provided with schooling, medical care, and a balanced diet. Last year, the chairman of the association, Wilhelm Posth, Executive Board Member responsible for the PHOENIX distribution centres in Munich and Augsburg, Germany, received the Order of Merit of the Federal Republic of Germany in recognition of his commitment.

In the past, we have also made donations in special emergencies or on other occasions. In June 2010, for example, our subsidiary transmed supported the Special Olympics National Summer Games in Bremen, Germany, supplying Essilor corrective glasses free of charge and delivering them to the games overnight. At a regional level, we have supported local campaigns of various organisations in the vicinity of our international locations for many years, especially during the Christmas season. Moreover, as a supporting member of the metropolitan Rhine-Neckar region, we are part of a network for the regional development at our group headquarter in Mannheim.

"The Science Award is an excellent example of how PHOENIX takes on extensive responsibility as a company."

Henry Iberl, Executive Board Member Sales/Marketing

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GROUP MANAGEMENT REPORT

Business and general environment

Overview PHOENIX

PHOENIX is a leading European company in pharmaceuticals trading and one of the largest family firms in Germany and Europe. The core business of PHOENIX is wholesale and retail pharmaceuticals. In addition, group companies operate in related business areas such as services for pharmaceuticals manufacturers, pharmacy IT systems, and logistics.

At the end of the fiscal year PHOENIX operated 157 wholesale branches in 23 countries in its core business, as well as 1,562 pharmacies in a large number of countries. This makes PHOENIX's country portfolio highly diversified. The proportion of consolidated revenue generated by German business has fallen over the last few years due to the European expansion and is now around 31%. None of the foreign subsidiaries accounts for more than 11% of consolidated revenue. Eastern European countries account for approximately 16% of revenue. These markets generally grow faster than the mature pharmaceutical markets.

PHOENIX is the market leader in wholesale pharmaceuticals in ten countries: Germany, Italy, the Czech Republic, Slovakia, Serbia, Bosnia, Bulgaria, Denmark, Finland and Sweden. PHOENIX operates the retail pharmacy business mainly in the UK, Norway, the Netherlands, Switzerland and eastern Europe.

In the fiscal year 2010/2011, the PHOENIX group had an average headcount of 23,206 full-time equivalents. This is 55 fewer than in the prior year (average in the prior year: 23,261). Common management principles as well as training programmes and management tools based on these principles ensure that the workforce in all countries is well-qualified, motivated and efficient.

Corporate strategy

The corporate strategy of PHOENIX is geared to achieving sustainable values through a customer-oriented corporate culture, strict cost management and profit-oriented growth. The decentralised organisational structure does justice to the regional differences in the various European pharmaceutical markets.

Part of PHOENIX's strategy is, in addition to organic growth, to regularly acquire pharmacies and wholesale companies to expand its market position. PHOENIX also systematically expands its service range for pharmaceutical manufacturers, pharmacies and other customers.

In wholesale pharmaceuticals, PHOENIX has established business relationships with pharmacy customers. Many of the pharmacy customers take part in partnership programmes. In some countries, PHOENIX also offers franchise systems for independent pharmacies. Regular customer surveys help to maintain a strong customer focus and high levels of customer satisfaction.

In logistics, PHOENIX continuously implements best practices across Europe. Process optimisation measures that are successful in one country serve as a starting point for improvement measures in other countries.

The Company is largely managed using the financial indicators of the income statement, the statement of financial position and the cash flow statement. The main P&L indicators are profit before tax and EBITDA. As regards the key indicators of the statement of financial position, we primarily aim to further reduce net debt and at the same time to improve the ratio of net debt to EBITDA. Net working capital is also continuously optimised in order to reduce net debt.

Development of the market

The overall economy improved as a whole in 2010 compared with the prior year. Real GDP in Germany grew by 3.6%. In the euro zone too, real GDP increased by 1.7% in 2010.

Slight growth was recorded on the European pharmaceutical markets. However, in many markets, growth was slowed by healthcare policy.

In the current fiscal year, the wholesale pharmaceuticals market in Germany, the most important market for PHOENIX, recorded relatively substantial growth at 4.4% in the period from January to December 2010. Nevertheless, healthcare policy had an effect. As of 1 August 2010, the statutory discounts of pharmaceuticals manufacturers to statutory health insurance funds were raised to 16% (previously 6%) and a price moratorium was set on refundable pharmaceuticals until 31 December 2013. In another change, since 1 January 2011, new pharmaceuticals are reviewed for their benefits and the price is negotiated with the pharmaceuticals manufacturer on this basis.

The German parliament ("Bundestag") passed the AMNOG ["Gesetz zur Neuordnung des Arzneimittelmarktes in der gesetzlichen Krankenversicherung": Act for the Restructuring of the Pharmaceutical Market in Statutory Health Insurance] on 11 November 2010. Among other things, the law provides as of 1 January 2012 for a structural change to wholesale remuneration. The new system consists of a fixed mark-up independent of price, combined with a percentage mark-up on the sales price of the pharmaceuticals company. By way of an interim solution for 2011, a flat-rate wholesale mark-down of 0.85% on the manufacturer's sales price for prescription pharmaceuticals took effect. PHOENIX aims to use sales and marketing measures to compensate for any resulting burdens. The AMNOG furthermore provides for pharmacies to apply an increased mark-down of EUR 2.05 (previously EUR 1.75) per prescription pack from 1 January 2011.

Elsewhere in western Europe, especially in the UK, growth in the pharmaceuticals market increased compared with the prior year, contributing to our positive business performance. As of 1 October 2010, the National Health Service once again lowered the refunds for generic products in the UK. Italy felt the after-effects of the price cuts introduced for certain pharmaceuticals as of 1 June 2010 as well as the adjusted regulation on margins for wholesale pharmaceuticals and pharmacy retail. The French market continued to be shaped by intense competition, which adversely affected our business performance.

The development of markets in northern Europe was variable in 2010/2011. While the reference price system introduced in Finland in the prior year resulted in a stagnant market, and the Danish market declined slightly, Norway and Sweden both recorded marginal market growth. Sweden saw an increase in the number of pharmacies and an expansion of pharmacy chains following the liberalisation of the pharmacy market.

In eastern Europe, the Hungarian pharmaceuticals market, among others, showed strong growth in pharmaceuticals trading. The new Hungarian pharmacies act entered into effect on 1 January 2011. It requires pharmacists to hold an investment of at least 25% in their pharmacies' capital as of 1 January 2014; as of 1 January 2017, pharmacists will have to hold a majority interest in their pharmacies. In Serbia, where PHOENIX has had a presence since 2008, the Company substantially expanded its market position again in the fiscal year.

Acquisitions, disposals, investments and joint ventures

On 16 June 2010, PHOENIX made an agreement with Celesio AG limited to the Netherlands, under which Celesio AG contributed its 100% investment in Lloyds Nederland B. V. with 62 pharmacies to our Dutch subsidiary Brocacef Holding N. V. and in return received 45% of the shares in Brocacef Holding N. V. With some 110 of its own pharmacies and around 40 franchise partner pharmacies, the merged company is the second largest provider in the Dutch pharmacy market, which places it in a much stronger market position. The transaction increased the group's equity due to a EUR 63.8m capital increase by the non-controlling shareholders.

In addition, individual pharmacies in various countries were acquired in the fiscal year 2010/2011.

The Company made payments of EUR 10.7m (prior year: EUR 69.1m) for business combinations in the fiscal year 2010/2011. The business combinations resulted in an increase in goodwill of EUR 50.0m (prior year: EUR 43.5m).

We sold our Swedish pharmacy retail business as of 30 April 2010 as planned.

In the course of the portfolio clearing of non-core activities, we disposed of our investments of 42.5% in the Russian pharmaceuticals trading company ZAO Rosta.

Furthermore, we sold our investment of 12.5% in Andreae-Noris Zahn AG, a German pharmaceutical wholesaler to the Alliance Boots group for EUR 26 per share. We received EUR 34.7m from this transaction.

In the course of refinancing, PHOENIX sold its investments in KL Holding GmbH to a related party for a price of EUR 58.5m.

Each disposal generated a profit.

Financial restructuring and refinancing

The financial restructuring and refinancing of the PHOENIX group was successfully completed in fiscal year 2010/2011. It comprises the following major elements:

- Conclusion of a syndicated loan agreement for originally EUR 2.6b.
- Issue of a bond with a nominal value of EUR 506.2m.
- Independent financing of the Comifar Group in Italy of up to EUR 750.0m.
- Sale of the investment in KL Holding GmbH.
- Repayment of the loan granted to a related party, including accrued interest, of EUR 458.5m.
- Increase in equity by EUR 505.5m.

On 2 July 2010, PHOENIX concluded a syndicated loan agreement with 17 banks for a total of EUR 2.6b. The syndicated loan agreement expires on 31 December 2013.

Also on 2 July 2010, the Italian Comifar Group agreed new long-term financing with commitments of EUR 750.0m and a term that runs until 31 December 2013 with a group of lenders comprising six Italian banks. This financing package replaces the previous financing in Italy and ends the Italian standstill agreement.

After securing independent financing for the Comifar Group, the PHOENIX group was able to irrevocably terminate the Italian facility of EUR 750.0m contained in the syndicated loan agreement of EUR 2.6b on 5 July 2010, reducing the syndicated loan agreement to EUR 1.85b.

On 13 July 2010, PHOENIX PIB Finance B. V. successfully placed a bond for the first time. The bond, which has a nominal value of EUR 506.2m and a term until 2014, bears a fixed coupon of 9.625%. The proceeds from the issue were deposited on a trust account until the entire refinancing plan had been implemented and was available for the Company to use once the new credit facility had been drawn for the first time.

The sale of the shares in KL Holding GmbH was arranged by agreement dated 27 July 2010. The shares were transferred to the buyer effective 3 September 2010.

On 11 August 2010, all measures for refinancing PHOENIX were successfully completed. The standstill agreement with the lenders and the trust agreement were ended accordingly. With the funds from the new syndicated credit facility, the bond, the EUR 505.5m capital increase and the partial repayment of EUR 435.4m of the loan granted to a related party, the previous liabilities governed by the standstill agreement were repaid in full and the related agreements ended. Furthermore, the previous financing of foreign subsidiaries of the group was also, to a large extent, replaced in the course of the refinancing measures.

A partner loan granted at the end of June 2010 was repaid including interest on 17 August 2010.

On 23 September 2010, the remainder of the loan granted to a related party was repaid including interest. Thus the related party has now repaid the loan amount of EUR 458.5m including all interest to PHOENIX.

Due to the successful reduction of net debt, PHOENIX permanently reduced the long-term tranche of the syndicated loan by EUR 200.0m as of 19 January 2011, bringing the syndicated credit facility down to EUR 1.65b. With regard to the financial covenants to be complied with, we refer to the comments in the Section “Risks and opportunities.”

Change in management

Mr. Stefan Herfeld was appointed general manager of PHOENIX Verwaltungs GmbH on 3 September 2010. He is responsible for retail.

Dr. Michael Keppel stepped down as general manager of PHOENIX Verwaltungs GmbH as planned and left the company with effect as of 30 September 2010.

Mr. Oliver Windholz was appointed to the management of PHOENIX Verwaltungs GmbH with effect as of 1 February 2011. Mr. Windholz will succeed Mr. Henry Iberl (executive director sales/marketing). Having given more than 30 years of service to the company, Mr. Iberl will take his well-earned retirement as planned in June 2011 after his 60th birthday.

Advisory board set up

In accordance with the principles of good corporate governance, an advisory board was established at PHOENIX Pharmahandel GmbH & Co KG as a professional supervisory body. In addition to Mr. Ludwig Merckle, the board includes Dr. Bernd Scheifele (Chairman), Dr. Wolfram Freudenberg, Rolf Glessing and Dr. Lorenz Näger.

Subsequent events

With effect from 11 February 2011, PHOENIX made a further partial repayment of the long-term tranche of the syndicated loan of EUR 15.0m. The syndicated credit facility now amounts to EUR 1,635.0m, of which EUR 625.0m can be utilised on a revolving basis until 31 December 2013 and EUR 1,010.0m is drawn until 31 December 2013.

Under the agreement dated 9 February 2011, PHOENIX improved the margin agreed in the syndicated credit facility for currently EUR 1,635.0m, concluded on 2 July 2010, by some 0.5% p.a. on average, effective as of 11 February 2011.

Net assets, financial position and results of operations

Results of operations

At EUR 21,737.8m, revenue was up 2.0% on the prior-year level. The effect of exchange rates on revenue growth was 1.9%, while at 0.2%, changes in the consolidated group did not have a material effect on revenue development.

PHOENIX Pharmahandel GmbH & Co KG recorded an increase in revenue of 2.2%. Here, revenue growth is attributable to strong market growth.

The gross profit margin, calculated as gross profit in relation to revenue, increased from 8.84% to 8.95%. This is attributable to a selling strategy focused on margins in various countries as well as to the increase in revenue from higher-margin service fees. The Dutch Lloyds pharmacies have also contributed to the increase in gross profit margin.

Other income fell by EUR 3.0m to EUR 147.0m. This is mainly due to lower commission income and decrease in exchange rate gains. This is offset by significantly higher gains on disposal of assets, particularly on the disposal of our 42.5% investment in the Russian pharmaceutical company, ZAO Rosta.

Personnel expenses rose slightly from EUR 930.8m to EUR 937.9m. A legal amendment concerning the treatment of pension plans in Norway and the UK led to a non-recurring EUR 19.2m reduction in pension obligations, which reduced personnel expenses in the reporting year. The Lloyds pharmacies in the Netherlands, which were consolidated from December, contributed EUR 5.8m to the increased personnel expenses. Collectively bargained pay rises also drove up personnel expenses. Further productivity improvements had a decreasing effect on personnel expenses.

Other expenses rose by EUR 24.3m to EUR 589.1m. This mainly stems from an increase in bad debt allowances. For instance, a receivable from a key account in Slovakia had to be written off in full. Changes in the conditions of the pharmacy market in various other countries have also led to increased credit risk, which we have provided for by recognising impairment losses. In addition, an increase in rental costs, partially as a result of the full consolidation of the Lloyds pharmacies as of December, led to an increase in other expenses. This was counterbalanced by a significant reduction in other taxes, which contained additions to a provision for VAT in the prior year. Other expenses contain costs of EUR 8.6m from financial restructuring (prior year: EUR 12.2m).

The result from associates climbed by EUR 1.5m to EUR 2.2m. This was mainly due to the inclusion in the prior year of an impairment loss on pharmacy investments in the Netherlands consolidated using the equity method.

The result from other investments fell from EUR 7.4m to EUR 5.9m. In the reporting year – as in the prior year – this figure includes a dividend received in relation to ZAO Rosta, Russia.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose from EUR 546.4m to EUR 573.0m chiefly due to the increase in gross profit, which more than offset the cost-side increase.

The EBITDA indicator used for comparison with our net debt (adjusted EBITDA) remained almost unchanged and is determined as follows:

EUR k	FY 09/10	**FY 10/11**
EBITDA	546,354	573,000
Interest from customers	22,057	23,656
Costs of financial restructuring	12,200	8,554
Factoring fees	8,355	4,956
Increase in the provision for VAT	21,104	0
Adjusted EBITDA	**610,070**	**610,166**

The return on sales based on adjusted EBITDA stood at 2.81% after 2.86% in the prior year.

At EUR 89.8m, amortisation, depreciation and impairment remained substantially below the prior-year level of EUR 123.6m. This was mainly due to the fact that the regular impairment tests in the current fiscal year did not lead to any impairment charges (prior year: EUR 31.9m).

Earnings before interest and taxes (EBIT) rose driven by the positive development of EBITDA and amortisation, depreciation and impairments from EUR 422.7m in the prior year to EUR 483.2m. The return on sales based on EBIT increased from 1.98% to 2.22%.

The financial result changed from EUR -181.4m to EUR -212.1m. Interest income decreased slightly from EUR 48.6m to EUR 46.3m. Interest cost decreased from EUR 208.7m to EUR 200.9m. Net exchange rate losses in the financial result came to EUR 22.1m (prior year: exchange rate gains of EUR 8.4m). They were partially offset by income from derivatives of EUR 16.0m (prior year: expense of EUR 9.7m). In the current fiscal year, the other financial result of EUR 22.2m (prior year: EUR -0.3m) contains income from the sale of the investments in Andreae-Noris Zahn AG, Germany, and KL Holding GmbH, Germany.

Profit before tax rose as a result of the significant improvement in EBIT from EUR 241.3m to EUR 271.1m.

Profit before tax is impacted by special expenses as part of financial restructuring and refinancing. Profit before tax adjusted for these effects is determined as follows:

EUR k	FY 09/10	**FY 10/11**
Profit before tax	241,344	271,050
Costs of financial restructuring	32,098	81,719
Profit before tax (adjusted)	**273,442**	**352,769**

The increase in the costs of financial restructuring compared with the prior year is mainly attributable to the costs incurred in fiscal year 2010/2011 for the premature repayment of the financing under the standstill agreement.

Taxes on income came to EUR 125.4m, EUR 42.5m up on the prior-year figure. Taxes on income contain expenses from current income taxes of EUR 109.6m (prior year: EUR 89.6m) as well as a deferred tax expense of EUR 15.8m (prior year: deferred tax income of EUR 6.7m). The tax rate rose from 34.4% to 46.3%, chiefly due to impairment losses on unused tax losses and interest carryforwards as a result of the planned restructuring and higher non-tax-deductible expenses under the interest limitation rule.

Profit for the period came to EUR 145.7m (prior year: EUR 158.4m). An amount of EUR -0.2m (prior year: EUR 14.3m) thereof was attributable to non-controlling interests.

Net assets

The group's total assets decreased by 6.2% to EUR 7,560.2m. The currency translation difference on the total assets, which is disclosed in the statement of changes in equity, amounts to EUR -82.1m (prior year: EUR -103.3m).

Intangible assets rose by EUR 56.0m to EUR 1,540.7m. The increase is chiefly due to the purchase accounting of the Lloyds pharmacies acquired in the Netherlands as of 1 December 2010, which resulted in goodwill of EUR 38.5m and other intangible assets of EUR 1.3m. As of 31 January 2011, intangible assets essentially comprised goodwill (EUR 1,201.9m; prior year: EUR 1,150.3m) and pharmacy licenses in the UK (EUR 287.3m; prior year: EUR 283.8m).

Property, plant and equipment increased by EUR 6.8m to EUR 734.6m. The first-time consolidation of the Lloyds pharmacies in the Netherlands increased property, plant and equipment by EUR 10.9m.

Non-current other financial assets decreased from EUR 204.3m in the prior year to EUR 70.0m. This is mainly due to a EUR 110.7m reduction in available-for-sale financial assets to EUR 43.2m as a result of the sale of the 5.81% investment in KL Holding GmbH, Germany, and the investment of 12.5% in Andreae-Noris Zahn AG, Germany.

Inventories rose compared to the prior year by EUR 50.4m to EUR 1,576.0m. The increase is particularly attributable to revenue development towards the end of the fiscal year. The acquisition of the Lloyds pharmacies resulted in an increase in inventories of EUR 9.3m, while the reclassification of the Polish operations to available-for-sale financial assets resulted in a EUR 26.9m decrease.

Trade receivables decreased from EUR 2,857.7m in the prior year to EUR 2,596.2m. As part of a selling policy, which focused in part on net working capital, measures aimed at shortening payment terms helped to further reduce trade receivables. Receivables days (measured as trade receivables/revenue x 360) have decreased from 48.3 days in the prior year to 43.0 in the fiscal year. The reclassification of the Polish operations to available-for-sale financial assets resulted in a EUR 32.8m decrease in trade receivables.

Receivables amounting to EUR 139.3m had been sold as of 31 January 2010 (prior year: EUR 136.2m) under ABS and factoring programmes that are not accounted for in the statement of financial position. Under ABS and factoring programmes that are accounted for only to the extent of the continuing involvement, receivables of EUR 338.2m had been sold as of 31 January 2011 (prior year: EUR 278.9m). The group's continuing involvement came to EUR 15.1m (prior year: EUR 7.2m).

Non-current assets held for sale mainly include our Polish operations in the Wholesale pharmaceuticals, Pre-wholesale and Pharmacy retail segments. The related assets amount to EUR 79.3m. Furthermore, assets held for sale contain four pharmacies in the Netherlands which are to be sold due to requirements imposed by the German antitrust authorities, and real estate and equity investments not required for operations.

Financial position

Equity increased from EUR 1,112.5m as of 31 January 2010 to EUR 1,821.8m as of 31 January 2011. The equity ratio stood at 24.1% (prior year: 13.8%). The main reason for the rise is the EUR 505.5m capital increase conducted in the course of refinancing in August 2010. Profit for the period of EUR 145.7m (prior year: EUR 158.4m) is likewise reflected in the equity increase. As part of the acquisition of the Lloyds pharmacies, equity increased due to a EUR 63.8m capital increase by the non-controlling shareholders. Currency translation had an effect of EUR 21.7m (prior year: EUR 33.2m) and the change in the reserve for financial assets accounted for as available for sale of EUR -25.5m (prior year: EUR 31.9m) on the change in equity. As of 31 January 2011, the available-for-sale reserve amounts to EUR 12.3m (prior year: EUR 37.1m) and mainly contains changes in the fair values of minority investments in pharmacies.

Cash flow from operating activities was clearly positive at EUR 580.0m (prior year: EUR 923.5m). A further decrease of EUR 269.9m in working capital (prior year: down EUR 614.0m) coupled with the stable development of earnings made a substantial contribution to the positive cash flow from operating activities. The further improvement in net working capital chiefly stems from a further reduction in trade receivables. Cash flow from investing activities was positive at EUR 502.5m (prior year: cash outflow of EUR 126.9m). The repayment of the EUR 458.5m loan granted to a related party and the cash received of EUR 130.2m from disposals of financial assets (prior year: EUR 7.7m) more than offset the cash paid for business combinations and investments in non-current assets.

Free cash flow increased from EUR 796.5m in the prior year to EUR 1,082.5m; together with the capital increase of EUR 505.5m (prior year: EUR 0m), it was used to reduce the net financial liabilities.

At EUR 575.0m, cash and cash equivalents in the statement of financial position were substantially above the prior-year level of EUR 396.7m. For the change in cash and cash equivalents, please refer to the cash flow statement.

Provisions for pensions decreased by EUR 14.3m to EUR 112.0m, primarily due to the change in regulations concerning pension plans in Norway and the UK, which led to a non-recurring EUR 19.2m reduction in pension obligations.

Non-current financial liabilities rose from EUR 238.7m in the prior year to EUR 1,633.9m. The increase in non-current liabilities is mainly attributable to the placement of a long-term bond with a nominal volume of EUR 506.2m in July 2010 as well as to the long-term tranche of the syndicated loan with an original nominal volume of EUR 1,225.0m, which was subsequently lowered by EUR 200m in January 2011 owing to the faster than expected debt reduction. Non-current liabilities also contain supplementary contributions of EUR 135m (prior year: EUR 135m).

Current financial liabilities decreased from EUR 3,637.8m in the prior year to EUR 862.9m due to the refinancing carried out in August 2010. Current financial liabilities include among other items liabilities to banks of EUR 289.7m (prior year: EUR 2,774.4m), liabilities from ABS and factoring agreements of EUR 262.6m (prior year: EUR 344.6m) and loans of EUR 167.5m (prior year: EUR 167.6m).

According to the calculation below, net debt fell from EUR 3,678.4m to EUR 2,176.6m.

EUR k	31 Jan 2010	**31 Jan 2011**
+ Financial liabilities (non-current)	238,721	1,633,905
less supplementary partner contribution	–135,032	–135,032
less derivative financial instruments (non-current)	–10,506	–488
+ Financial liabilities (current)	3,637,817	862,921
less derivative financial instruments (current)	–17,912	–5,628
less cash and cash equivalents	–396,716	–575,001
less held-to-maturity financial assets	–60	–60
+ Sold in the course of factoring and ABS transactions	407,971	462,479
less receivables from factoring	–34,359	–47,390
less receivables from ABS programs	–11,506	–19,118
Net debt	**3,678,418**	**2,176,588**

The objective of financial management is to continuously improve the capital structure by reducing the gearing ratio. In the long term, we aim to further improve the equity ratio and to achieve a ratio of net debt to EBITDA of around 3.0.

Trade payables increased by EUR 114.8m compared with the prior year to EUR 2,576.7m. With the successful conclusion of refinancing, payment terms set by suppliers have also returned to normal.

Overall, the PHOENIX group was able to defend its position in the fiscal year 2010/2011 as one of the leading pharmaceuticals traders in Europe and reported a stable business performance. Furthermore, the successful conclusion of refinancing also laid the foundations for continued positive business development.

Risks and opportunities

Risks

The risk management system within the PHOENIX group consists of fully documented and comprehensive planning, approval and reporting structures and an early warning system. The internal audit examines this system regularly for adequacy, operability and efficiency. Findings made by the internal audit are reported to management on a regular basis.

PHOENIX is subject to market risks. As a rule, the pharmaceutical market is less affected by cyclical swings than other industries, but the loss of purchasing power and cost-saving measures in government spending on healthcare can have a negative impact on the pharmaceutical market and PHOENIX's business. For example, the changes in remuneration structures under the AMNOG in Germany could influence our business.

The new Hungarian pharmacies act that entered into effect on 1 January 2011 requires pharmacists to hold an investment of at least 25% in their pharmacies' capital as of 1 January 2014; as of 1 January 2017, pharmacists will have to hold a majority interest in their pharmacies.

The earnings situation in the wholesale pharmaceuticals business is also heavily influenced by the terms and conditions granted to customers and by suppliers. This is why these terms and conditions are monitored on a constant basis on the sales and purchasing side.

In the operating business, the quality and stability of the operating processes is decisive. In many areas, there are contingency plans to manage unforeseen interruptions of business. The standardisation of the IT systems helps ensure the stability of the operating processes.

The credit risk at PHOENIX, measured based on total receivables, is low. Healthcare institutions generally have a good credit rating and the risks are generally diversified by the large number of customer relationships. In the course of liberalisation of the pharmacy markets in Europe, however, pharmacy chains and new sales channels are increasingly emerging, creating an increasing number of major customers with a higher level of receivables outstanding. In the event of default of a key account – as occurred in Slovakia in 2010/2011 through the combination of several adverse factors – this poses the risk of correspondingly large higher bad debt allowances. The receivables management system is subject to a continuous improvement process. The pharmacies are divided into risk clusters according to their ownership structure and economic situation in order to prevent apparently independent pharmacies forming an unknown cluster risk through these two factors. The risk clusters are constantly monitored and, if critical changes arise, measures are taken to limit the risk. In order to monitor international customers, there is a regular exchange between the debtor managers of the various countries. There is a regular exchange on risk customers at every management meeting.

Part of PHOENIX's strategy is to regularly acquire pharmacies and wholesale companies to expand its market position. As a result, PHOENIX is exposed to legal, fiscal, financial and operational risks from acquisitions. Acquisition projects are therefore analysed and reviewed by the central mergers & acquisitions department and also approved by management. It may, however, happen that the development anticipated at the date of acquisition differs from the reality which can, in turn, lead to an impairment loss being recognised on goodwill in the course of impairment testing.

Based on the information currently available, there are no legal proceedings which could have a material influence on the results of operations, net assets and financial position.

In a financing context, PHOENIX is exposed to various risks.

In the course of the refinancing concluded in August 2010, certain financial covenants were agreed, the breach of which presents a risk to financing. The development of the liabilities and the covenants is monitored regularly as a result. In the fiscal year 2010/2011, the agreed covenants will be comfortably complied with.

Derivatives are used in the company to hedge against interest rate and currency risks. Their use is closely monitored on a timely basis. Derivative financial instruments are used for hedging purposes. Counterparty risks are minimised by the careful selection of trading partners.

The agreement underlying our bond contains restrictions and obligations for PHOENIX as issuer as are customary in the market. In the event that we fail to comply with these restrictions and obligations, the amount of the bond plus the interest accrued may fall due.

Please also refer to the comments in the notes.

As regards the translation risk, the exchange rates of the pound sterling and the Norwegian krone are of relevance for PHOENIX. Transaction risks are relevant in some eastern European countries where deliveries by the pharmaceuticals manufacturers are sometimes invoiced in euro and sometimes in US dollar. For the group, however, these are not material.

Due to an investment in the listed pharmaceutical company Polska Grupa Farmaceuticzna SA, Poland, PHOENIX is exposed to share price fluctuations. Fluctuations on the financial markets may also lead to deficits in the pension funds and the inherent risk of an unplanned increase in personnel expenses.

Opportunities

Demographic trends and medical progress are long-term drivers of growth and will ensure a continuing positive trend in the pharmaceutical market. The broad geographic diversification of PHOENIX reduces the impact of changes in healthcare policy in individual markets and provides a strong basis for successfully developing activities further.

Thanks to its broad geographical coverage, for instance, PHOENIX can offer pharmaceuticals manufacturers Europe-wide logistics services.

PHOENIX holds a leading market position in wholesale pharmaceuticals in almost all countries in which the company operates. Indeed, we are the market leader for wholesale pharmaceuticals in a large number of countries. Our market position is particularly strong in eastern Europe. There, no competitor has comparable country coverage or market position.

In wholesale pharmaceuticals, PHOENIX has established business relationships with pharmacy customers. Many of the pharmacy customers take part in partnership programmes. In some countries, PHOENIX also offers franchise systems for independent pharmacies.

The integration of the wholesale and retail pharmaceutical business offers opportunities, allowing cost savings in pharmaceuticals sales channels.

In logistics, PHOENIX continuously implements best practices across Europe. Process optimisation measures that are successful in one country serve as a starting point for improvement measures in other countries.

The new financing structure established in fiscal year 2010/2011 created the financial basis for the further growth of PHOENIX. This applies both for organic growth and for appropriate acquisitions. With bank financing, a bond, and a capital increase, the new financing structure is more diversified and longer term than in the past.

Overall, PHOENIX operates in a stable market with substantial opportunities and is well positioned to successfully make use of these opportunities and to further expand its strong market position in the future.

Forecast

We expect the pharmaceutical markets in Europe to record slight growth in the fiscal year 2011/2012. Nevertheless, the market development will continue to reflect the cost-cutting measures introduced by healthcare policymakers in various countries.

In Germany, the AMNOG will result in a new remuneration structure for the German wholesale pharmaceutical business, first in 2011 through the flat-rate wholesale mark-down of 0.85% on the manufacturer's sales prices and in 2012 through a change in the spread provision towards a combination of fixed mark-up and a percentage component. We endeavour to use sales and marketing measures to compensate for any resulting burdens.

We expect our revenue growth to slightly outpace the market in the fiscal year 2011/2012, on the back of both organic and M&A growth, and in particular the transactions in the Netherlands, which will have an impact over the full year. At the level of adjusted EBITDA, we expect to exceed the 2010/2011 level in the fiscal year 2011/2012.

For 2011/2012, we plan to invest more in property, plant and equipment than in the prior year, especially due to the expansion of a wholesale branch office in northern Europe.

The current income situation as of February so far confirms the development anticipated in the planning for 2011/2012.

For the following fiscal year, we anticipate revenue growth of about 3% and a further increase in earnings. In addition to the development of market growth and the gross profit margin, especially against the backdrop of healthcare policy measures, a continuing source of uncertainty for us is how foreign currencies and market interest rates relevant for us will develop.

Mannheim, 31 March 2011

Reimund Pohl	Stefan Herfeld	Henry Iberl
Dr. Hans-Ulrich Kummer	Dr. Michael Majerus	Oliver Windholz

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Consolidated income statement for fiscal year 2010/11

EUR k	Note	FY 09/10	FY 10/11
Revenue	1	**21,317,594**	**21,737,772**
Cost of purchased goods and services		–19,433,656	–19,792,954
Gross profit		**1,883,938**	**1,944,818**
Other operating income	2	149,979	147,012
Personnel expenses	3	–930,848	–937,909
Other operating expenses	4	–564,808	–589,103
Results from associates	5	686	2,237
Result from other investments	5	7,407	5,945
Earnings before interest, taxes depreciation and amortisation (EBITDA)		**546,354**	**573,000**
Amortisation of intangible assets and depreciation of property, plant and equipment	6	–123,639	–89,819
Earnings before interest and taxes (EBIT)		**422,715**	**483,181**
Interest and similar income		75,338	136,440
Interest and similar expenses		–256,419	–370,771
Other financial result		–290	22,200
Financial result	7	**–181,371**	**–212,131**
Profit before tax		**241,344**	**271,050**
Income taxes	8	–82,917	–125,368
Profit for the period		**158,427**	**145,682**
Thereof attributable to non-controlling interests		14,336	–165
Thereof attributable to owners of the parent company		**144,091**	**145,847**

Consolidated statement of comprehensive income for fiscal year 2010/11

EUR k	FY 09/10	FY 10/11
Profit for the period	**158,427**	**145,682**
Gains/losses from changes in the fair value of available-for-sale financial assets	31,933	2,293
Reclassification adjustments	0	–27,741
Currency translation differences	33,156	21,692
Other comprehensive income, net of taxes	**65,089**	**–3,756**
Total comprehensive income	**223,516**	**141,926**
Thereof attributable to non-controlling interests	16,116	–289
Thereof attributable to owners of the parent company	**207,400**	**142,215**

Consolidated statement of financial position as of 31 January 2011

EUR k	Note	31 Jan 2010	**31 Jan 2011**
Non-current assets			
Intangible assets	9	1,484,719	1,540,719
Property, plant and equipment	10	727,826	734,628
Investments in associates	11	25,156	23,741
Other financial assets	12	204,314	70,031
Deferred tax assets	8	54,451	34,680
Other non-current assets		0	282
Income tax receivables		0	4,052
		2,496,466	**2,408,133**
Current assets			
Inventories	13	1,525,542	1,575,963
Trade receivables	14	2,857,738	2,596,177
Income tax receivables	8	9,420	16,071
Other receivables and other current financial assets	14	678,332	212,048
Other assets	15	82,816	71,952
Cash and cash equivalents	16	396,716	575,001
		5,550,564	**5,047,212**
Non-current assets classified as held for sale	23	12,128	104,903
Total equity and liabilities		**8,059,158**	**7,560,248**

Consolidated statement of financial position as of 31 January 2011

EUR k	Note	31 Jan 2010	31 Jan 2011
Equity			
Unlimited and limited partners' capital	17	500,000	1,050,000
Reserves	17	567,428	653,987
Other comprehensive income	17	–66,141	–69,773
Non-controlling interests	17	111,210	187,536
		1,112,497	**1,821,750**
Non-current liabilities			
Financial liabilities	20	238,721	1,633,905
Provisions for pensions and similar obligations	18	126,288	111,975
Deferred tax liabilities	8	122,788	125,974
Other non-current liabilities		0	435
		487,797	**1,872,289**
Current liabilities			
Financial liabilities	20	3,637,817	862,921
Trade payables	21	2,461,916	2,576,711
Other provisions	19	49,055	32,816
Income tax liabilities	8	61,540	89,973
Other liabilities	22	248,536	251,554
		6,458,864	**3,813,975**
Liabilities directly associated with assets classified as held for sale	23	0	52,234
Total equity and liabilities		**8,059,158**	**7,560,248**

Consolidated cash flow statement for fiscal year 2010/11

EUR k		FY 09/10	FY 10/11
Profit for the period		**158,427**	**145,682**
+/-	Write-downs/write-ups of fixed assets	124,813	89,819
-/+	Gain/loss from the disposal of fixed assets	–15,397	–14,834
+/-	Increase/decrease in non-current provisions	7,868	–20,005
+/-	Other non-cash expenses/income	15,700	27,012
-	Interest income	–48,649	–46,325
+	Interest expense	208,676	200,876
-	Tax income	–13,439	–7,550
+	Tax expense	96,356	132,918
-	Interest paid	–189,632	–159,053
+	Interest received	28,286	43,560
Interest paid		**–161,346**	**–115,493**
-	Income taxes paid	–67,057	–91,777
+	Dividends received	3,550	9,827
Net interest and taxes paid and dividends received		**–224,853**	**–197,443**
RESULT BEFORE CHANGE IN WORKING CAPITAL		**309,502**	**310,150**
-/+	Increase/decrease in inventories	37,462	–49,855
-/+	Increase/decrease in trade receivables	501,432	246,520
-/+	Increase/decrease in other receivables and other assets	–28,699	–11,506
+/-	Increase/decrease in trade payables	92,425	100,758
+/-	Increase/decrease in current provisions	10,751	–5,722
+/-	Increase/decrease in other payables and other liabilities*	609	–10,307
Changes in working capital		**613,980**	**269,888**
CASH FLOW FROM OPERATING ACTIVITIES		**923,482**	**580,038**

* The reporting item increase/decrease in finance lease liabilities was newly added in the year under review. Prior year figures have been adjusted accordingly.

Consolidated cash flow statement for fiscal year 2010/11

EUR k		FY 09/10	FY 10/11
-	Cash paid for the purchase of consolidated companies and business units	–73,022	–16,693
+	Cash received from the purchase of consolidated companies and business units	3,899	5,953
Cash paid for the purchase of consolidated companies and business units		**–69,123**	**–10,740**
+	Cash received from the sale of consolidated companies and business units	10,654	11,234
-	Cash paid for the sale of consolidated companies and business units	0	–65
Cash received from the sale of consolidated companies and business units		**10,654**	**11,169**
+	Cash received from disposals of intangible assets	634	73
+	Cash received from disposals of property, plant and equipment	14,894	5,817
+	Cash received from disposals of financial assets	7,714	130,241
Cash received from disposals of fixed assets		**23,242**	**136,131**
-	Cash paid for investments in intangible assets	–11,727	–5,636
-	Cash paid for investments in property, plant and equipment	–76,791	–88,197
-	Cash paid for investments in financial assets	–4,947	–488
Cash paid for investments in fixed assets		**–93,465**	**–94,321**
+	Cash received from the issue of loans to related parties	0	458,495
+	Cash received from securities and financial assets	1,756	1,731
CASH IN/OUTFLOW FROM INVESTING ACTIVITIES		**–126,936**	**502,465**
CASH FLOW AVAILABLE FOR FINANCING ACTIVITIES		**796,546**	**1,082,503**
+	Capital increase	0	505,450
-	Payments to non-controlling interests (dividends)	–1,639	–2,454
+/-	Increase/decrease in ABS/factoring liabilities	–502,054	–82,497
+/-	Increase/decrease in loans to partners in the parent company	–1,006	0
+	Cash received from the issue of bonds and loans	74,443	1,959,012
-	Cash repayments of bonds and loans	–393,768	–3,287,221
+/-	Increase/decrease in finance lease liabilities*	9,768	3,672
CASH FLOW FROM FINANCING ACTIVITIES		**–814,256**	**–904,038**
CHANGE IN CASH AND CASH EQUIVALENTS		**–17,710**	**178,465**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**398,728**	**396,716**
Exchange rate effect on cash and cash equivalents		15,698	3,532
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**396,716**	**578,713**

Statement of changes in equity for fiscal year 2010/11

Statement of changes in equity EUR k	Unlimited and limited partners' capital	Reserves
1 February 2009	**500,000**	**423,822**
Profit for the period		144,091
Other comprehensive income		
Total comprehensive income, net of tax		**144,091**
Capital increase/reduction		
Changes in basis of consolidation		
IFRIC 14 pension liability adjustment		–679
Dividends		
Other changes		194
31 January 2010	**500,000**	**567,428**
Profit for the period		145,847
Other comprehensive income		
Total comprehensive income, net of tax		**145,847**
Capital increase/reduction	550,000	–44,550
Changes in basis of consolidation		–16,207
Dividends		
Other transactions with owners		–1,027
Other changes		2,496
31 January 2011	**1,050,000**	**653,987**

Currency translation difference	IAS 39 Available-for-sale financial assets	**Equity attributable to partners**	**Non-controlling interests**	**Total equity**
–135,381	**5,931**	**794,372**	**98,993**	**893,365**
		144,091	14,336	158,427
32,120	31,189	63,309	1,780	65,089
32,120	**31,189**	**207,400**	**16,116**	**223,516**
			1,018	1,018
		–679		–679
			–1,849	–1,849
		194	–3,068	–2,874
–103,261	**37,120**	**1,001,287**	**111,210**	**1,112,497**
		145,847	–165	145,682
21,184	–24,816	–3,632	–124	–3,756
21,184	**–24,816**	**142,215**	**–289**	**141,926**
		505,450	63,841	569,291
		–16,207	14,626	–1,581
			–1,871	–1,871
		–1,027		–1,027
		2,496	19	2,515
–82,077	**12,304**	**1,634,214**	**187,536**	**1,821,750**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 JANUARY 2011

GENERAL

The Company

PHOENIX Pharmahandel GmbH & Co KG, Mannheim, Germany ('PHOENIX' or 'the group') is a European pharmaceuticals distribution group. PHOENIX operates wholesale distribution centres in 23 European countries. In several countries, PHOENIX also operates pharmacy chains of its own. The registered office is located in Mannheim, Germany.

Basis of presentation

The consolidated financial statements of PHOENIX have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), London, United Kingdom, as approved for adoption in the European Union at the reporting date and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB (Handelsgesetzbuch: German commercial code).

The consolidated financial statements have been prepared in euro (EUR) and all values are rounded to the nearest thousand (EUR k) except when otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis. This does not apply to derivative financial instruments and available-for-sale financial assets which are measured at fair value. The carrying amounts of recognised assets and liabilities that are hedged items in fair value hedges that would otherwise be carried at cost are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The income statement has been prepared using the nature of expense method. The statement of financial position has been categorised into current and non-current items in line with IAS 1. For the sake of clarity certain items in the statement of financial position and the income statement are summarised. Details of these items are presented in the notes to the financial statements.

The consolidated financial statements of PHOENIX as of 31 January 2011 and the year then ended were authorised for issue on 31 March 2011 by the management of PHOENIX Pharmahandel GmbH & Co KG.

Basis of consolidation

The consolidated financial statements comprise the financial statements of PHOENIX and its subsidiaries as of 31 January 2011 and the year then ended.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control by the parent ceases.

The financial statements of most of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Only companies belonging to the Luxembourg subgroup and LIBRA AG, Sofia, Bulgaria as well as the Serbian, Bosnian and Mazedonian subsidiaries have 31 December as their reporting date. In general there is no material impact on the financial statements, and in case of any material effect this impact is considered.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets that is not held by the group The portion of profit or loss attributable to non-controlling interests was consequently disclosed separately in the income statement from the portion attributable to the owners of the parent company. They are reported directly in equity in the consolidated statement of financial position, separately from the equity attributable to the owners of the parent company. Acquisitions of non-controlling interests and changes in the interests attributable to the parent company that do not lead to a loss of control are accounted for as equity transactions.

The fully consolidated group comprises 308 (31 January 2010: 365) German and foreign companies. 34 affiliates (31 January 2010: 38) were accounted for using the equity method, and 3 entities (31 January 2010: 6) were consolidated proportionately. In addition, a special purpose entity (31 January 2010: 2) was included in the consolidated group in accordance with the rulings of SIC 12. The complete list of shareholdings is an integral component of the notes to the consolidated financial statements and will be published in the electronic version of the German Federal Gazette.

The table presents changes in interests without loss of control in the fiscal year under review.

in %	31 Jan 2010	**31 Jan 2011**
Interest changes without loss of control		
Brocacef Holding NV, Maarssen	100.00	55.00
Amedis Holding AG	94.39	94.61
Floortarget Ltd	100.00	60.00
PHOENIX Farmacija d.d.	99.38	99.70

PHOENIX Pharmahandel GmbH & Co KG, Mannheim, exercised the exemption provision of Sec. 264b HGB.

Currency translation

The consolidated financial statements are presented in euros, which is also the parent company's functional currency. This is the currency of the primary economic environment in which PHOENIX operates.

Transactions in foreign currency are translated to the functional currency at the rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at the reporting date. All exchange differences are taken to the income statement, provided they are not allocable to monetary items denominated in foreign currency which are part of a net investment in a foreign operation, in which case the exchange differences are recorded in other comprehensive income.

The assets and liabilities of foreign operations are translated to euro at the rate of exchange prevailing as of the reporting date and their income statements are translated at average rates. The exchange differences arising on the translation are recorded in other comprehensive income until the subsidiaries are disposed of.

Country	Currency	Closing rate		Average rate	
		31 Jan 2010	**31 Jan 2011**	FY 09/10	**FY 10/11**
Bulgaria	BGN	1.9558	1.9558	1.9558	1.9558
Bosnia and Herzegovina	BAM	1.9558	1.9558	1.9558	1.9558
Czech Republic	CZK	26.2230	24.2230	26.3508	25.1507
Croatia	HRK	7.3150	7.4171	7.3347	7.2977
Denmark	DKK	7.4443	7.4544	7.4455	7.4480
Estonia	EEK	15.6466	15.6466	15.6466	15.6466
United Kingdom	GBP	0.8666	0.8609	0.8881	0.8550
Hungary	HUF	271.1500	273.8500	279.5107	275.9353
Latvia	LVL	0.7087	0.7030	0.7061	0.7083
Lithuania	LTL	3.4528	3.4528	3.4528	3.4528
Macedonia	MKD	61.5760	61.7880	61.7737	61.6200
Norway	NOK	8.2120	7.9270	8.6448	7.9757
Poland	PLN	4.0463	3.9362	4.3155	3.9803
Serbia	RSD	98.4533	104.6485	94.5194	104.1478
Sweden	SEK	10.2388	8.8670	10.5769	9.4359
Switzerland	CHF	1.4662	1.2891	1.5088	1.3646

Application of new accounting standards

In the fiscal year 2010/11, PHOENIX applied the following revised standards and interpretations that are mandatory for the fiscal year 2010/11 for the first time.

The amendment to IFRS 2 "Group and Treasury Share Transactions" was published in June 2009. This amendment clarifies the scope of IFRS 2 specifying that an entity receiving goods or services in a share-based payment arrangement must account for those goods or services regardless of which entity in the group settles the transaction and regardless of whether the transaction is settled in cash or shares. The first-time application of the amendment had no impact on the net assets, financial position and results of operations of the group.

The major changes from the revision of IFRS 3 "Business Combinations" concern the determination of the purchase price, the measurement of non-controlling interests, the accounting for step acquisitions and the treatment of conditional elements of purchase price and acquisition costs.

Under the amendment, non-controlling interests can either be measured at fair value (full goodwill method) or pro rata at fair value of the net assets identified. In the case of step acquisitions, the previously held equity interest is remeasured at fair value through profit or loss on the date of transfer of control. Any adjustment to conditional elements of the purchase price, which are recognised as a liability on the date of purchase, is also to be recognised through profit or loss. Acquisition-related costs are expensed as incurred. First-time adoption of IFRS 3 (2008) resulted in transaction costs totalling EUR 1.2m being expensed.

The major changes to IAS 27 "Consolidated and Separate Financial Statements" relate to accounting for changes in shareholdings and non-controlling interests. Changes in shareholdings which do not lead to a loss of control are recognised as an equity transaction between partners. However, if transactions lead to a loss of control, the resulting gain or loss is to be recognised through profit or loss. Losses should even be allocated to non-controlling interests if this means that the non-controlling interests have a negative balance. First-time adoption of IAS 27 (2008) resulted in the transfer of EUR 22.0m from reserves to non-controlling interests and EUR 1.6m being offset against reserves.

Otherwise, the following standards and interpretations were mandatory in the year under review but had no material impact on the presentation of the consolidated financial statements:

- IFRS 1: First-time Adoption of IFRS (revised)
- IFRS 1: Additional Exemptions for First-time Adopters
- IFRS 1 / IFRS 5: Improvements to International Financial Reporting Standards (2008)
- IFRS 2: Group Cash-settled Share-based Payment Transactions
- IAS 32: Classification of Rights Issues
- IAS 39 / IFRS 7: Reclassification of Financial Assets – Effective Date and Transition
- IAS 39: Eligible Hedged Items – Amendment to IAS 39
- IFRIC 12: Service Concession Arrangements
- IFRIC 15: Agreements for the Construction of Real Estate
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- IFRIC 17: Distributions of Non-cash Assets to Owners
- IFRIC 18: Transfers of Assets from Customers
- Improvements to International Financial Reporting Standards 2009 – minor improvements to a number of standards (IFRS 2, IFRS 5, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) and consequential amendments

Standards, interpretations and amendments issued, but not yet adopted

The IASB and IFRIC have adopted the standards and interpretations listed below, whose application is not yet mandatory for the FY 2010/2011 or have not yet been endorsed by the European Commission in some cases as of the reporting date. We are currently examining how they might affect the consolidated financial statements of PHOENIX.

Standard / Interpretation		Mandatory as of the fiscal year	Endorsed by the EU
IFRS 1	Limited Exemption from Comparative IFRS 7 – Disclosures for First-time Adopters	2011/12	Yes
IFRS 1	Hyperinflation and Fixed Transition Date	2012/13	No
IFRS 7	Disclosures on Transfers of Financial Instruments	2012/13	No
IFRS 9	Financial Instruments: Classification and Measurement	2013/14	No
IAS 12	Deferred Taxes – Realising the Carrying Amount of an Asset	2012/13	No
IAS 24	Related Parties	2011/12	Yes
	Improvements to International Financial Reporting Standards 2010	2011/12	No
IFRIC 14	Prepayments of a Minimum Funding Requirement	2011/12	Yes
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	2011/12	Yes

Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of the business combination corresponds to the fair value of the assets given, the equity instruments issued and the liabilities incurred and assumed as of the date of exchange. It also includes the fair value of any recognised asset or liability resulting from a contingent consideration arrangement. Costs related to the business combination are expensed as incurred. On initial recognition of an acquisition, all identifiable assets, liabilities and contingent liabilities are measured at fair value on acquisition date. For each business combination, the group decides on a case-by-case basis whether the non-controlling interests in the acquiree are measured at fair value or the proportionate share in the recognised amounts of the acquiree's net identifiable assets.

Any difference between (i) the aggregate of cost of the business combination, any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interests; and (ii) the group's share in the net identifiable assets acquired is recognised under goodwill. Following initial recognition, goodwill is valued at cost less cumulative impairment charges and not amortised. Goodwill is subjected to an impairment test at least once annually at the reporting date or whenever there is any indication of impairment.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired as of the acquisition date, the difference is recognised directly in the income statement.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at acquisition cost plus any incidental costs of acquisition and less any trade discounts or rebates. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. Internally generated intangible assets are stated at cost.

Following initial recognition, intangible assets are carried at historical cost less any accumulated amortisation and any accumulated impairment losses. For the purposes of amortisation, the useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each fiscal year end.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Licenses with indefinite useful lives are granted with unlimited protection for the sale of drugs and other pharmaceutical products in the related territory under public law. All other licenses are granted for periods ranging between three and 30 years depending on the specific license.

The useful lives of the main types of intangible assets are as follows:

- Pharmacy licenses indefinite or 3 to 30 years
- Software 3 to 5 years

Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Maintenance and repair costs are expensed as incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

With the exception of land, property, plant and equipment is depreciated over the expected useful life. Items of property, plant and equipment are depreciated pro rata in the year of acquisition. The residual values, useful lives and the depreciation method are reviewed at least at the end of each reporting period.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognised.

The useful lives the main types of tangible assets are as follows:

- Buildings 25 to 50 years
- Technical equipment and machines 5 to 14 years
- Other equipment, fixtures and fittings 3 to 13 years

Investments in associates

An associate is an entity in which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Investments in associates are reported using the equity method and initially measured at cost. Goodwill relating to the associates is included in the carrying amount of the investment and is not amortised or tested for impairment separately.

The income statement reflects the group's share of the associates' profit or loss for the period. Where there has been a change recognised directly in the equity of the associates, the group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Any unrealised gains and losses resulting from transactions between the group and the associates are eliminated to the extent of the interest in the associates.

Where necessary, adjustments are made to bring the accounting policies in line with those of the group.

After application of the equity method, the group determines whether it is necessary to recognise an additional impairment loss on the group's investment in its associates. The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the investment in the associate and its carrying amounts and recognises the difference in the income statement.

Non-current assets held for sale

Non-current assets or groups of assets and liabilities are classified as held for sale if their carrying amount is likely to be principally realised from a sale and not from their continued use. They are measured at the lower of their carrying amount or fair value less cost to sell.

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required (e.g., for intangible assets with an indefinite useful life), the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. As the cash flows necessary can often not be obtained for individual items, assets being used together and being largely independent from other assets or groups of assets are grouped to a cash-generating unit. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by publicly available market information to the extent available or other available fair value indicators. Impairment losses are recognised in the income statement.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. Such reversal is recognised in the income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as of 31 January) and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Any impairment loss recognised on goodwill is not reversed in a subsequent period.

Cash-generating units are defined on a country level and goodwill has been allocated accordingly. The recoverable amount for all cash-generating units is determined on the basis of a discounted cash flow model (weighted average cost of capital approach) by discounting free cash flows using an appropriate discount rate. The free cash flows are based on financial budgets (business plans) approved by senior management covering a four-year detail planning period.

Intangible assets with an indefinite useful life

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 January either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired. and when circumstances indicate that the carrying value may be impaired.

Financial assets and financial liabilities (financial instruments)

Measurement and recognition of financial assets and financial liabilities

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised when PHOENIX becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the settlement date. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Financial assets and **financial liabilities** are recognised initially at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to listed market bid prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

At initial recognition **financial assets** are classified as loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial assets at fair value through profit or loss or as derivatives designated as hedging instruments in an effective hedge. The subsequent measurement and recognition of financial assets depends on their classification.

Other financial assets classified as available-for-sale financial assets in accordance with IAS 39 are measured at fair value with unrealised gains or losses recognised in other comprehensive income. Financial investments for which no quoted market price is available, and whose fair value cannot be reliably measured, are carried at cost. When the investment is derecognised, the cumulative gain or loss recorded in equity is recognised in the income statement. If the asset is determined to be impaired, the cumulative loss recorded in equity is recognised in the income statement. Non-derivative other financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity investments when the group has the positive intention and ability to hold it to maturity.

Trade receivables are categorised as loans and receivables and are measured at amortised cost. All discernible specific risks and impairment losses are accounted for through the use of an allowance account. Reversals are carried out if the reasons for the impairment no longer apply. Default leads to the immediate derecognition of the receivables.

Other receivables and loans are categorised as loans and receivables and are measured at amortised cost. Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. Gains and losses are recognised when the loans are derecognised or impaired, as well as through the amortisation process due to the effective interest method. All discernible specific risks and impairment losses related to customer loans are accounted for through the use of an allowance account.

At initial recognition **financial liabilities** are classified as financial liabilities at amortised cost, as financial liabilities at fair value through profit or loss or as derivatives designated as hedging instruments in an effective hedge.

Financial liabilities and **trade payables** are carried at amortised cost using the effective interest method, if appropriate. Gains and losses are recognised when the liabilities are derecognised as well as through the amortisation process due to the effective interest method. The gain or loss on the hedged item in a fair value hedge under IAS 39 attributable to the hedged risk leads to an adjustment of the carrying amount of the hedged item.

The group has not designated any non-derivative financial assets or financial liabilities at fair value through profit or loss.

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

The group has not issued any financial guarantees for a consideration. The probability of default of the financial guarantee is considered low.

Impairment of financial assets

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of assets is impaired. Financial assets that are not measured at fair value through profit or loss are deemed to be impaired if there is objective evidence of impairment (e.g., debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults). PHOENIX assesses individually whether objective evidence of impairment exists for financial assets. Furthermore assets are included in a group of financial assets with similar credit risk characteristics and are assessed collectively for impairment. Any impairment loss is recognised in the profit or loss.

Impairment losses of financial assets measured at amortised cost are caused by the present value of estimated future cash flows being lower than the carrying amount. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. In case of a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Impairment losses of available-for-sale financial assets are measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the income statement. Any impairment loss is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Impairment losses on equity instruments are not reversed through the income statement, but are recognised in other comprehensive income.

Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired. In addition a financial asset is derecognised when the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement: Additionally the group has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

PHOENIX sells significant volumes of receivables through securitisation programs or factoring transactions. When the receivables sold do not meet IAS 39 derecognition requirements the receivables are recognised in the consolidated financial statements even though they have been legally sold. A corresponding financial liability is recorded in the consolidated statement of financial position. Gains and losses related to the sale of such assets are not recognised until the assets are removed from the consolidated statement of financial position. Within certain securitisation programs PHOENIX has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset. These transactions are recognised to the extent of the group's continuing involvement.

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments such as forward exchange contracts, interest rate swaps and cross currency swaps to hedge its foreign currency risks and interest rate risks. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting and the ineffective portion of an effective hedge are taken directly to the income statement.

In the case of derivatives with quoted market prices, fair value is the positive or negative fair value, if necessary after any reduction for counterparty risk. If no quoted market prices are available, fair value is estimated on the basis of the conditions obtained at the end of the reporting period, such as interest rates or exchange rates, and using recognised valuation techniques, such as discounted cash flow models or option pricing models.

PHOENIX does not use hedge accounting at present.

Inventories

Inventories are initially recognised at cost based on the first in first out method. Costs incurred in bringing each product to its present location and condition are included in cost at initial recognition.

At each reporting date, inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits.

Equity

The components of equity are recognised in accordance with IAS 32 (rev. 2008). Financial instruments have to be classified on initial recognition as a financial liability, financial asset or an equity instrument in accordance with the substance of the contractual arrangements and the definitions of IAS 32 (2008). As of 31 January 2011 the capital contributions of the unlimited and limited partners of the PHOENIX Pharmahandel Gesellschaft mit beschränkter Haftung & Co KG (puttable instruments) were classified as equity as all criteria of IAS 32 (2008) were satisfied. The criteria for puttable instruments that should be classified as an equity instrument are:

a) The instrument entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation.
b) The instrument is in the class of instruments that is subordinate to all other classes of instruments.
c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial assets to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments as set out in the definitions for financial liabilities in accordance with IAS 32.
e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instruments).

The supplementary contributions made by PHOENIX's partners as of 31 January 2008 are classified as financial liabilities in accordance with IAS 32 (2008). The supplementary contributions are also puttable instruments, but do not have all features required by IAS 32 (2008).

Treasury shares

Own equity instruments which are repurchased (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale or cancellation of the group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in retained earnings.

Pensions and other post-employment benefits

Liabilities for defined benefit plans are measured using the projected unit credit method in accordance with IAS 19, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary increases. The interest rate used to determine the present value of the obligations was set on the basis of high-quality fixed interest-bearing securities/corporate bonds with a duration corresponding to the pension plans in the relevant country. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the prior reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans. The return on plan assets is classified as interest income.

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

Provisions

A provision is recognised when there is a present (legal or constructive) obligation towards a third party on the basis of a past event where it is more likely than not that there will be an outflow of resources to settle the obligation and the obligation can be reliably estimated. Provisions are stated at the amount needed to settle the obligation and are not netted against positive contributions to earnings. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Current and deferred taxes

The tax expense of the period comprises current and deferred taxes. Taxes are recognised in the income statement, unless they relate to items recognised directly in equity or in other comprehensive income in which case the taxes are also recognised in equity or in other comprehensive income.

Current income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income taxes

Deferred taxes are recognised for all temporary differences between the tax base of the assets/liabilities and their carrying amounts pursuant to the IFRS financial statements (liability method). If, however, deferred tax arises from the initial recognition of an asset or liability as part of a transaction other than a business combination, which as of the date of the transaction has no effect on neither the accounting nor the taxable profit or loss, a deferred tax item is not recognised neither on the date of initial recognition nor subsequently. Deferred taxes are measured using the tax rates and tax provisions enacted or substantively enacted by the reporting date and that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries and associates are recognised, unless the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes are levied by the same taxation authority and either relate to the same taxable entity or different taxable entities which intend to settle on a net basis.

Leases

Group as a lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases where the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and concluding an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Revenue recognition

PHOENIX mainly originates revenue from the sale of pharmaceutical and related goods and – to a lesser extent – from the rendering of services.

In cases where PHOENIX acts as principal, i.e., has the exposure to the significant risks and rewards associated with the sale of goods, (gross) revenue from the sale of pharmaceutical and related goods is recorded. Indicators for this case are contract situations in which the group is primary obligor towards the customer, carries the significant risks and rewards connected to inventory, has latitude over product pricing and carries the credit risk of the sales transaction.

In cases where the group acts as an agent (net) revenue for the rendering of services is recorded. These activities typically relate to distribution, stockholding and providing logistics information services to the principal. This situation occurs when PHOENIX does not substantially carry the risks or the ownership of the goods. Goods are then stocked on a commission basis.

Pharmaceutical and related goods revenue is recognised at the time when PHOENIX has transferred to the buyer the significant risks and rewards of ownership of the goods, when it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

Revenue from services is recognised upon performance of the related services.

Significant accounting estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions. Estimates are made primarily for the measurement of assets, liabilities and contingent liabilities acquired through business combinations, impairment tests according to IAS 36, measurement of provisions for pensions, other provisions as well as income taxes, particularly related to deferred tax assets on loss carryforwards. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions and estimates concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

Impairment of non-financial assets

The group's impairment test for goodwill is principally based on value in use calculations that use a discounted cash flow model (weighted average cost of capital approach). The cash flows are derived from the budget for the next four years and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

The recoverable amount is most sensitive to the perpetual capital expenditures and the discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Intangible assets with indefinite useful lives are based on fair value less costs to sell calculations that use a relief from royalty approach or an EBITDA multiple.

Further details on impairment are disclosed in Note 9.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on deferred taxes are disclosed in Note 8.

Bad debt allowance for trade receivables and other assets

Recording a bad debt allowance or recognising a write-off for receivables and other assets is to a large extent based on judgment, taking into account the ability of the debtor to pay outstanding balances.

Further details on bad debt allowances are disclosed in Note 14.

Pension benefits

The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the interest rates of high-quality fixed interest-bearing securities with a duration corresponding to the pension plans in the related country. The mortality rate is based on publicly available mortality tables for the specific country.

Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are given in Note 18.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Revenue recognition

Following IAS 18, the gross versus net sales presentation of distribution agreements with pharmaceutical suppliers depends on whether the group acts as a principal or an agent. This judgement requires among others an estimation of the risks and rewards related to inventories and trade receivables incurred by PHOENIX in the context of these distribution agreements.

Further details on revenue are disclosed in Note 1.

Business combinations

The business combinations carried out in FY 2010/11 and FY 2009/10 are explained below. Purchase accounting is performed in accordance with the purchase method pursuant to IFRS 3 “Business Combinations”.

In FY 2010/11, the aggregated contributed net profit of the acquisitions to the group’s profit for the year amounted to EUR 577k (FY 2009/10: EUR 517k). Assuming the acquisition date for all business combinations had been the beginning of the period, the aggregated revenues would have amounted to EUR 203,626k (in FY 2009/10: EUR 51,477k). Assuming the acquisition date for all business combinations had been the beginning of the period, the aggregated profit for the period would have amounted to EUR 2,752k (FY 2009/10: EUR 6,090k).

Acquisitions in FY 2010/11. Amounts recognised as of the acquisition date

EUR k	Lloyds	Other	Total
Cash and cash equivalents	0	13,162	13,162
Equity instruments	63,840	0	63,840
Total acquisition costs	**63,840**	**13,162**	**77,002**
Intangible assets	1,269	2,374	3,643
Property, plant and equipment	10,879	3,256	14,135
Finacial assets	491	35	526
Inventories	9,314	1,678	10,992
Current receivables	16,554	2,217	18,771
Other assets	1,171	1,922	3,093
Cash and bank balances	4,948	1,328	6,276
Total assets	**44,626**	**12,810**	**57,436**
Non-current provisions	65	13	78
Non-current liabilities	0	1,887	1,887
Deferred tax liabilities	106	641	747
Current provisions	2,099	326	2,425
Current liabilities	16,978	8,340	25,318
Equity and liabilities	**19,248**	**11,207**	**30,455**
Net assets	25,378	1,603	26,981
Non-controlling interests	0	2	2
Acquired assets, net	**25,378**	**1,601**	**26,979**
Goodwill	**38,462**	**11,561**	**50,023**

Cash outflow due to acquisition

EUR k	Lloyds	Other	Total
Cash and cash equivalents acquired with subsidiary	4,948	1,005	5,953
Cash outflow	0	–10,741	–10,741
Actual cash outflow	**4,948**	**–9,736**	**–4,788**

Lloyds Nederland B.V.
On 1 December 2010, Brocacef Holding N.V. acquired 100% of the voting shares in Lloyds Nederland B.V., which has pharmacies in the Netherlands. It is expected that PHOENIX will decisively strengthen its market position through the acquisition.

The fair value of the issued equity interest was determined using an EBIT multiple.

The goodwill mainly results from the acquired pharmacies' location advantages. EUR 8,959k of the recognised goodwill is expected to be tax deductible.

The goodwill from this business combination was allocated to the Netherlands cash-generating unit.

The fair value of current receivables contains trade receivables with a fair value of EUR 16,208k. The gross amount of the trade receivables past due amounts to EUR 16,504k, of which EUR 296k is expected to be uncollectible.

Based on the available information, the measurement of individual areas of assets and liabilities could not be finalised as of the reporting date.

Other acquisitions
In FY 2010/11 the group acquired further pharmaceutical companies in business combinations that are individually immaterial.

The goodwill arising on those acquisitions was allocated to the cash-generating units Hungary (EUR 2,752k), Switzerland (EUR 915k), United Kingdom (EUR 759k), Estonia (EUR 328k), the Czech Republic (EUR 2,910k), the Netherlands (EUR 1,279k), Slovakia (EUR 2,076k) and Norway (EUR 542k) and is managed in the local functional currencies (HUF, CHF, GBP, EUR, CZK and NOK).

EUR 1,688k of the recognised goodwill from other business combinations is expected to be tax deductible.

Non-controlling interests are recognised at the share of the identifiable net assets in the acquirees.

Acquisitions in FY 2009/10. Carrying amounts before the business combination

EUR k	Plus Pharmacie SA	Pharmanova Bel d.o.o.	Evropa Lek d.o.o.	Pharmacies Norway	Other acquisitions	Total
Intangible assets	204	114	164	0	59	541
Property, plant and equipment	67	305	1,691	331	535	2,929
Financial assets	16,428	8,171	2,272	0	0	26,871
Deferred tax assets	0	0	0	317	0	317
Inventories	2,474	3,360	1,394	585	935	8,748
Current-term receivables	0	0	0	0	1,049	1,049
Other assets	2,336	1,295	926	1,586	0	6,143
Cash and bank balances	1,256	225	16	–33	339	1,803
Assets	**22,765**	**13,470**	**6,463**	**2,786**	**2,917**	**48,401**
Non-current provisions	0	172	2,205	0	0	2,377
Non-current liabilities	0	2,805	0	2,914	0	5,719
Current provisions	200	0	0	1,135	0	1,335
Current liabilities	15,375	7,089	3,294	0	1,814	27,572
Liabilities	**15,575**	**10,066**	**5,499**	**4,049**	**1,814**	**37,003**
Net assets	**7,190**	**3,404**	**964**	**–1,263**	**1,103**	**11,398**

Fair value recognition on acquisition

EUR k	Plus Pharmacie SA	Pharmanova Bel d.o.o.	Evropa Lek d.o.o.	Pharmacies Norway	Other acquisitions	Total
Purchase price	10,880	7,871	2,879	4,246	7,005	32,881
Incidental costs	0	84	0	0	102	186
Total acquisition costs	**10,880**	**7,955**	**2,879**	**4,246**	**7,107**	**33,067**
Intangible assets	3,164	114	85	0	1,284	4,647
Property, plant and equipment	67	305	1,691	331	535	2,929
Financial assets	16,428	7,401	1,683	0	0	25,512
Deferred tax assets	0	0	0	317	0	317
Inventories	2,474	3,372	1,325	585	1,023	8,779
Current receivables	0	0	0	0	1,060	1,060
Other assets	2,336	1,360	810	1,586	0	6,092
Cash and bank balances	1,256	225	16	–33	339	1,803
Assets	**25,725**	**12,777**	**5,610**	**2,786**	**4,241**	**51,139**
Non-current provisions	0	184	2,636	0	0	2,820
Non-current liabilities	0	2,805	0	2,914	0	5,719
Deferred tax liabilities	355	0	0	0	0	355
Current provisions	200	0	0	1,135	0	1,335
Current liabilities	15,375	7,089	3,294	0	2,340	28,098
Liabilities	**15,930**	**10,078**	**5,930**	**4,049**	**2,340**	**38,327**
Net assets	9,795	2,699	–320	–1,263	1,901	12,812
Non-controlling interests	–4,173	0	0	0	–48	–4,221
Net assets acquired	**5,622**	**2,699**	**–320**	**–1,263**	**1,853**	**8,591**
Goodwill	**5,258**	**5,256**	**3,199**	**5,509**	**5,206**	**24,428**

Cash flow on acquisition

EUR k	Plus Pharmacie SA	Pharmanova Bel d.o.o.	Evropa Lek d.o.o.	Apotheken Norwegen	Other business combinations	Total
Net cash acquired with the subsidiary	1,256	225	16	0	339	1,836
Cash paid	–10,880	–7,955	–2,879	–4,246	–6,884	–32,844
Net cash outflow	**–9,624**	**–7,730**	**–2,863**	**–4,246**	**–6,545**	**–31,008**

Plus Pharmacie SA, Ivry sur Seine, France
On 3 February 2009, PHOENIX Pharma SAS acquired an additional 16% of the voting shares of Plus Pharmacie SA. Until 31 January 2008 this company was consolidated at equity with 35%. Since this acquisition was achieved in stages, every stage was regarded separately under IFRS 3 (2004).

Within this acquisition, PHOENIX acquired trademarks and a customer base. Both intangible assets were calculated with fair value of EUR 1,900k and EUR 1,060k respectively and were separate shown from goodwill.

The goodwill comprises the value of expected synergies arising from acquisition.

The goodwill arising on this acquisition was allocated to the cash-generating unit France and is managed in the local functional currency (EUR 5,258k).

As of 31 July 2009 PHOENIX Pharma SAS acquired an additional 10.56% of the shares of Plus Pharmacie SA. The goodwill arising on this acquisition amounts to EUR 2,120k was allocated to the cash-generating unit France.

Pharmanova Bel d.o.o. (now: PHOENIX Veleprodaja Lijekova d.o.o.)
On 4 May 2009, PHOENIX PIB Austria Beteiligungs GmbH acquired 100% of the voting shares of the pharmaceutical wholesaler Pharmanova Bel d.o.o Bijeljina, Bosnia and Herzegovina.

The goodwill comprises the value of expected synergies arising from acquisition.

The goodwill arising on this acquisition was allocated to the cash-generating unit Bosnia and Herzegovina and is managed in the local functional currency (BAM).

Evropa Lek d.o.o.
On 1 February 2009, PHOENIX Pharma d.o.o acquired 100% of the voting shares of the pharmaceutical wholesaler Evropa Lek d.o.o Belgrade, Serbia.

The goodwill comprises the value of expected synergies arising from acquisition.
The goodwill arising on this acquisition was allocated to the cash-generating unit Serbia and is managed in the local functional currency (RSD).

Pharmacies in Norway
On 6 March 2009, Apotek1 Norge AS acquired 100% of the voting shares of pharmacies located in Bergen, Norway.

The goodwill comprises the value of expected synergies arising from acquisition.

All of the goodwill arising on these acquisitions was allocated to the cash-generating unit Norway and is managed in the local functional currency (NOK).

Other acquisitions
In FY 2009/10 the group acquired further pharmaceutical companies in business combinations that are individually immaterial.

The goodwill arising on those acquisitions was allocated to the cash-generating units Hungary (EUR 1,122k), Switzerland (EUR 1,293k), United Kingdom (EUR 484k), Latvia (EUR 971k), Estonia (EUR 501k) and Poland (EUR 835k) and is managed in the local functional currencies (HUF, CHF, GBP, LVL, EEK and PLN).

NOTES TO THE INCOME STATEMENT

1 Revenue

The group's revenue mainly consists of the sale of pharmaceutical and related goods (EUR 21,567,775k in FY 2010/11 and EUR 21,169,453k in FY 2009/10). The smaller portion of revenue is attributable to distribution fees and consignment warehouse fees, the sale of pharmacy IT systems, transportation systems and other services.

2 Other operating income

EUR k	FY 09/10	FY 10/11
Exchange rate gains	8,429	2,702
Net profit from the disposal of fixed assets	8,683	21,242
Income from the release of provisions and accruals	5,788	7,391
Commission income	37,013	29,856
Rental income	8,222	6,430
Income from the reversal of bad debt allowances and payments received for receivables and other assets	16,097	10,532
Marketing and other services	28,002	31,736
Allocation of freight costs	2,374	2,214
Other	35,371	34,909
Other operating income	**149,979**	**147,012**

The net gains from the disposal of fixed assets contain EUR 15,150k (prior year: EUR 0k) from the disposal of shares in an entity.

The others item contains a number of individual items, such as for instance energy cost markups and cross-charged transportation fees.

3 Personnel expenses

EUR k	FY 09/10	FY 10/11
Wages and salaries	701,092	727,401
Social security contributions	124,910	127,344
Pension, retirement benefit and similar expenses	42,026	17,848
Other personnel costs	62,820	65,316
	930,848	**937,909**

The average headcount measured in full-time equivalents (FTEs) decreased by 55 to a total of 23,206. Other personnel expenses mainly include training expenses and costs for temporary personnel.

The average headcount (FTEs) breaks down as follows by country:

	31 Jan 2010	**31 Jan 2011**
Austria	166	165
Bulgaria	604	596
Croatia	294	288
Czech Republic	1,452	1,395
Denmark	550	537
Estonia	348	350
Finland	382	410
France	1,123	1,057
Germany	3,475	3,447
Hungary	1,676	1,752
Italy	1,862	1,783
Latvia	382	361
Lithuania	524	492
Macedonia	47	55
Netherlands	1,082	1,097
Norway	2,204	2,209
Poland	609	570
Russia	1	1
Serbia	375	442
Slovakia	447	454
Sweden	568	528
Switzerland	708	700
United Kingdom	4,301	4,396
Bosnia-Herzegovina	81	121
	23,261	**23,206**

The average headcount of entities that were consolidated proportionately was 6 (prior year: 19).

The line item “Basic wages and salaries” includes an amount of EUR 4,021k (prior year: EUR 6,354k) for severance payments and similar costs.

Owing to the legislative amendments which affects the calculation of pension obligations, pension obligations decreased by EUR 19,228k through profit or loss in 2010/11 (prior year: EUR 0k).

4 Other operating expenses

EUR k	FY 09/10	**FY 10/11**
Transportation costs	100,349	105,074
Leasing and rental costs	95,926	102,259
Exchange rate losses	2,426	2,977
Expenses from bad debt allowances	31,307	65,361
Other building and equipment costs	51,451	51,142
Marketing and advertising expenses	55,142	55,410
Communication and IT expenses	36,307	39,813
Legal and consulting costs	47,281	45,113
Repair and maintenance costs	28,501	29,535
Net loss on the disposal of assets	2,865	3,447
Other taxes	31,529	9,858
Office supplies	10,389	10,282
Insurance costs	6,873	6,779
ABS/factoring and similar fees	8,355	4,956
Other	56,107	57,097
Other operating expenses	**564,808**	**589,103**

The development of bad debt allowances is presented in Note 14.

In fiscal 2010/11, the auditors of the group received audit fees of EUR 770k (prior year: EUR 1,390k), other attestation fees of EUR 1,261k (prior year: EUR 11k), tax advisory fees of EUR 46k (prior year: EUR 143k) and EUR 1,533k (prior year: EUR 5,935k) for other services.

Other expenses contain costs related to the financial restructuring of the PHOENIX group of EUR 8,554k (prior year: EUR 12,200k).

5 Result from associates and other investments

The result from associates mainly includes the profit from several associates, chiefly non-controlling interests in pharmacies.

The result from other investments mainly represents the income received from ZAO Rosta, Russia.

6 Depreciation of property, plant and equipment and amortisation of intangible assets

EUR k	FY 09/10	**FY 10/11**
Depreciation of property, plant and equipment and amortisation of intangible assets	90,161	89,398
Impairment of pharmacy licenses	1,590	421
Impairment of goodwill	31,888	0
	123,639	**89,819**

The depreciation, amortisation and impairment charge in fiscal 2010/11 contains a reversal of EUR 1,900k (prior year: EUR 0k) of impairment previously charged on intangible assets in France.

7 Financial result

EUR k	FY 09/10	**FY 10/11**
Interest and similar income		
Interest income	48,649	46,325
Exchange rate gains	21,459	64,159
Other financial income	4,619	3,230
Other financial income derivatives	611	22,726
	75,338	**136,440**
Interest and similar expenses		
Interest expenses	–208,676	–200,876
Exchange rate losses	–13,084	–86,231
Other financial expenses	–24,367	–76,905
Other financial expenses derivatives	–10,292	–6,759
	–256,419	**–370,771**
Other financial results	**–290**	**22,200**
Financial result	**–181,371**	**–212,131**

Interest income include interest income from customers in the amount of EUR 23,656k (prior year: EUR 22,057k) and interest from a related-party loan amounting to EUR 14,367k (prior year: EUR 20,653k).

Interest expenses contain the interest portion included in the additions to pension provisions after deducting the expected return on plan assets. In FY 2010/2011, interest expenses for pensions less the expected return on plan assets amounted to EUR 2,363k (prior year: EUR 1,526k). Interest income and expenses relate to financial assets and liabilities that are not carried at fair value through profit or loss, with the exception of the aforementioned interest expenses, an additional EUR 606k for other provisions (prior year: EUR 0k) and interest income from the release of a provision of EUR 1,877k for VAT (prior year: EUR 0k).

Other financial expenses contain non-recurring effects of EUR 16,846k (prior year: EUR 0k) in connection with refinancing. This item also contains expenses of EUR 56,319k (prior year: EUR 19,933k) associated with the financing covered under the standstill agreement. Of this amount, EUR 13,031k pertained to the premature termination of this financing.

The other financial result comprises gains from the disposal of financial assets of EUR 27,741k classified as available for sale (prior year: EUR 0k).

8 Income taxes

The major components of tax expense are summarised in the following table:

EUR k	FY 09/10	**FY 10/11**
Current taxes	89,605	109,588
Deferred tax	–6,688	15,780
	82,917	**125,368**

The current income taxes include refunds for prior periods of EUR 5,623k (prior year: EUR 5,245k) and expenses of EUR 8,320k (prior year: EUR 2,028k).

By using previously unused tax losses, the current income taxes were reduced by EUR 2,934k (prior year: EUR 0k).

In fiscal 2010/11, a deferred tax expense of EUR 3,452k was recognised in other comprehensive income (prior year: EUR 0k). This amount results from changes in the fair value of financial assets classified as available for sale which are recognised in other comprehensive income.

The deferred taxes at year end were calculated using the tax rates applicable for the respective entities in their respective countries.

In the current fiscal year, the tax rate applicable in Hungary decreased from 19% to 10%.

A reconciliation of the expected income tax expense to actual income tax expense using the average tax rate of the group is presented in the table below:

	FY 09/10		**FY 10/11**	
	EUR k	%	EUR k	%
Profit before tax	**241,344**	**100.0**	**271,050**	**100.0**
Expected income tax expense	**67,576**	**28.0**	**75,894**	**28.0**
Impact of changes to tax rates on deferred taxes	–456	–0.2	–1,946	–0.7
Tax effect of non-deductible expenses and tax-exempt income	12,993	5.4	1,756	0.6
Effect of taxes relating to prior years recognised in the fiscal year	–9,111	–3.8	11,303	4.2
Effect of differing national tax rates	–1,895	–0.8	3,650	1.3
Effect of impairments/adjustments to carrying amounts	16,216	6.7	33,366	12.3
Other effects	–2,407	–1.0	1,345	0.5
Income taxes	**82,916**	**34.4**	**125,368**	**46.3**

The deferred tax assets, and the deferred tax liabilities are summarised in the following table:

EUR k	FY 09/10		**FY 10/11**	
	deferred tax assets	deferred tax liabilities	**deferred tax assets**	**deferred tax liabilities**
Intangible assets	5,905	75,440	5,498	76,292
Property, plant and equipment	8,781	46,640	8,279	49,583
Financial assets and other assets*	12,875	37,705	20,864	29,342
Inventories	6,653	3,989	6,088	3,898
Assets classified as held for sale	0	0	0	3,168
Provisions *	26,008	1,929	19,862	815
Liabilities	31,084	6,752	24,299	15,158
Deferred taxes on timing differences*	**91,306**	**172,455**	**84,890**	**178,256**
Deferred taxes on unused tax losses	12,812	0	2,072	0
Netting*	–49,667	–49,667	–52,282	–52,282
Total deferred taxes	**54,451**	**122,788**	**34,680**	**125,974**

*The presentation of netting in FY 09/10 was adjusted to improve comparability of the figures.

Deferred tax assets are recognised on unused tax losses at the amount at which the associated tax benefits are likely to be realised through future taxable profit. The group did not recognise deferred tax assets on unused tax losses and future interest benefits of EUR 346,165k (prior year: EUR 261,255k). The unused tax losses and interest carryforwards will be forfeited as follows:

EUR k	FY 09/10	**FY 10/11**
Within 1 year	64	1,380
After 1 year, but within 2 years	1,201	48
After 2 years, but within 3 years	0	2,988
After 3 years, but within 4 years	0	1,011
After 4 years, but within 5 years	0	1,236
After 5 years	49,461	53,487
Unused tax losses that are not forfeited	210,629	286,015
	261,355	**346,165**

No deferred tax liabilities were recognised on revenue reserves of subsidiaries amounting to EUR 2,084,746k (prior year; EUR 998,541k) because these earnings are intended to be indefinitely reinvested in those operations.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

9 Intangible assets

EUR k	Rights and licenses	Goodwill	Advance payments
Cost			
1 February 2009	**376,900**	**1,163,978**	**725**
Currency translation	12,190	8,620	–7
Changes in the consolidated group	1,280	0	0
Additions	7,568	43,517	863
Disposals	–9,820	–206	–6
Reclassifications non-current assets held for sale	750	0	–499
31 January 2010	**388,868**	**1,215,909**	**1,076**
Currency translation	2,910	5,406	–8
Changes in the consolidated group	–130	0	827
Additions	6,538	53,351	1,397
Disposals	–1,435	–625	–3
Reclassifications disposal group	–1,487	–13,647	0
Reclassifications	1,533	0	–1,845
31 January 2011	**396,797**	**1,260,394**	**1,444**
Accumulated amortisation			
1 February 2009	**52,842**	**33,573**	**21**
Currency translation	2,182	168	–1
Additions	10,038	31,888	0
Disposals	–9,636	0	0
Reclassifications	59	0	0
31 January 2010	**55,485**	**65,629**	**20**
Currency translation	826	0	2
Changes in the consolidated group	–497	0	0
Additions	8,743	0	4
Reversals of impairment losses	–1,900	0	0
Disposals	–1,845	0	0
Reclassifications disposal group	–1,390	–7,174	0
Reclassifications	13	0	0
31 January 2011	**59,435**	**58,455**	**26**
Net carrying amount			
31 January 2010	**333,383**	**1,150,280**	**1,056**
31 January 2011	**337,362**	**1,201,939**	**1,418**

The item "Rights and licenses" mainly contains pharmacy licenses and brand names with indefinite useful lives in the UK totalling EUR 289,158k (31 January 2010: EUR 285,669k). The useful life for such licenses has been assessed as indefinite due to the fact that such licenses are granted for an unlimited time period.

Goodwill

Goodwill carrying amounts

EUR k		31 Jan 2010	**31 Jan 2011**
Country	**Currency**		
Hungary	HUF	78,482	82,411
Netherlands	EUR	81,155	121,878
Switzerland	CHF	107,748	112,021
Italy	EUR	72,173	72,173
France	EUR	70,602	70,438
United Kingdom	GBP	282,637	286,726
Sweden	SEK	40,639	40,639
Denmark	DKK	44,797	44,797
Norway	NOK	176,113	177,109
Other		195,934	193,747
Total		**1,150,280**	**1,201,939**

Impairment testing of goodwill and intangible assets with indefinite lives

The annual impairment test pursuant to IFRS 36.10 was conducted in 31 January 2011.

The assets to be tested comprise goodwill allocated to the respective cash-generating units as well as trademarks and licenses in the UK. The trademark 'Numark' was acquired in 2005 and is part of Numark Ltd., UK. The licenses are part of L Rowland & Co. (Retail) Ltd., Cheshire, UK, and result from the right to operate an outlet for prescription sales in certain locations in the UK.

Impairment of goodwill

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

The calculations of the recoverable amounts for the cash-generating units are most sensitive to the following assumptions:

- Terminal EBITDA and terminal value growth rate
- Perpetual capital expenditure
- Discount rates

The key assumptions used to determine the recoverable amount for the different cash-generating units are further explained in the significant accounting policies regarding impairment of non-financial assets.

Terminal EBITDA and terminal value growth rate
The terminal EBITDA is obtained by increasing the EBITDA of the last planning period with a terminal growth rate of 1%.

Perpetual capital expenditure
Perpetual capital expenditure (cash flow from investing activities) is computed based on a ratio of capital expenditure to revenue (on average 0.4%). This ratio is derived from average historical data taking into account the specific business models of the cash-generating unit.

Discount rates
Discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rates are derived on the basis of the capital asset pricing model.

The capital asset pricing model is used to determine a theoretically appropriate required rate of return of an asset to consider the asset's non-diversifiable market risk. To derive the cost of equity the sum of risk-free rate and a company-specific risk premium is calculated. The company-specific risk premium is determined by the product of the expected market risk premium (31 January 2011: 5%; 31 January 2010: 5%) and a beta factor, which measures the asset's sensitivity to market risk.

The peer group comprises of the following (comparable) companies:
- Celesio AG
- United Drug plc
- Andreae-Noris Zahn AG

The discount rates are generally adjusted to reflect the market assessment of country-specific risks for which future estimates of cash flows have not been adjusted.

The following table shows the pre-tax discount rates (weighted average cost of capital before tax) for material cash-generating units:

%	31 Jan 2010	**31 Jan 2011**
Discount rate (WACC before tax)		
United Kingdom	9.79	7.24
Netherlands	9.63	7.22
France	9.39	7.06
Switzerland	9.78	7.27
Italy	10.33	7.72
Hungary	11.69	9.09
Denmark	9.79	7.22
Sweden	9.86	7.30
Norway	9.74	7.22
Other	9.70 – 15.97	7.22 – 11.57

The impairment tests result in recognition of an impairment loss for the following cash-generating unit:

EUR k **Impairment of goodwill**	31 Jan 2010	**31 Jan 2011**
Netherlands	19,559	0
Bulgaria	5,155	0
Poland	7,174	0
Total	**31,888**	**0**

There were no impairment losses as of 31 January 2011.

Any impairment losses are allocated to reduce the carrying amounts of goodwill allocated to the respective cash-generating unit. The reductions in carrying amounts are treated as impairment losses and are recognised in the line item "Depreciation of property, plant and equipment and amortisation of intangible assets" in the income statement.

Sensitivity analysis
A decrease of the growth rate by 0.5% would lead to further impairments in a single-digit million EUR amount. This would affect the Croatia cash-generating unit.

An increase of the regular investment amount by 0.1% would lead to further impairments in a single-digit million EUR amount. This would affect the Croatia cash-generating unit.

An increase in the discount rate by 1% would lead to impairments in a two-digit million EUR amount (less than EUR 40m). This would affect the cash-generating units Italy, Croatia and Lithuania.

Impairment of intangible assets with indefinite useful lives
The trademarks 'Numark' and 'Nucare' were tested for impairment as of 31 January 2010 and 2011. The fair value of the trademarks is determined based on a relief from royalty approach using the recent business plans as of the testing date and an appropriate royalty rate. Costs to sell have been deducted in order to derive the fair value less costs to sell. It was not necessary to recognise any impairment losses on the trademarks as of 31 January 2010 and 2011.

The pharmacy licenses of L Rowland & Co. (Retail) Ltd., UK, were tested for impairment as of 31 January 2010 and 2011. The fair value of the licenses is determined based on the directly attributable operating profit with prescription drugs and an EBITDA multiple of 10 (prior year: 10) as well as a growth rate of 2.5% (prior year: 2.5%).

The impairment tests resulted in the recognition of an impairment loss on the licenses in the UK:

EUR k **Impairment of licenses**	31 Jan 2010	**31 Jan 2011**
Pharmacy licenses, United Kingdom	1,590	421

10 Property, plant and equipment

EUR k	Land and buildings	Technical equipment and machinery	Other equipment furniture and fixtures	Advance payments and construction in progress
Cost				
1 February 2009	**676,351**	**172,680**	**392,441**	**12,431**
Currency translation	13,384	1,956	12,144	278
Changes in the consolidated group	63	512	789	1,527
Additions	28,676	11,824	41,523	12,770
Disposals	–13,304	–2,260	–29,178	–4,197
Reclassifications from non-current assets held for sale	–9,810	–19	–672	0
Reclassifications	3,719	3,796	984	–8,750
31 January 2010	**699,079**	**188,489**	**418,031**	**14,059**
Currency translation	14,758	1,694	12,059	430
Changes in the consolidated group	9,472	477	–1,602	–34
Additions	14,826	6,185	47,156	18,259
Disposals	–6,521	–1,551	–20,133	–1,641
Reclassifications from non-current assets held for sale	–9,243	–2,395	–2,201	0
Reclassifications	6,757	5,990	3,222	–15,659
31 January 2011	**729,128**	**198,889**	**456,532**	**15,414**
Accumulated depreciation				
1 February 2009	**169,303**	**115,933**	**247,599**	**94**
Currency translation	4,506	1,467	8,404	10
Additions	27,602	13,486	40,625	0
Disposals	–4,172	–2,668	–26,086	–104
Reclassifications from non-current assets held for sale	–3,486	–5	–617	0
Reclassifications	–368	4,267	–3,958	0
31 January 2010	**193,385**	**132,480**	**265,967**	**0**
Currency translation	5,904	1,412	8,087	0
Changes in the composition of the group	0	–41	–311	0
Additions	26,717	10,148	45,780	0
Impairment losses	345	0	0	0
Disposals	–1,178	–1,273	–15,723	0
Reclassifications from non-current assets held for sale	–2,662	–1,805	–1,884	0
Reclassifications	129	3,444	–3,586	0
31 January 2011	**222,640**	**144,365**	**298,330**	**0**
Net carrying amount				
31 January 2010	**505,694**	**56,009**	**152,064**	**14,059**
31 January 2011	**506,488**	**54,524**	**158,202**	**15,414**

Items of property, plant and equipment with a carrying amount of EUR 28,473k (prior year: EUR 170,251k) have been pledged as collateral for liabilities. The collateral mainly results from charges on land and buildings in Germany (EUR 24,056k).

The carrying amounts of property, plant and equipment generally approximate their fair values at the reporting date.

There are contractual commitments to acquire property, plant and equipment of EUR 1,262k (31 January 2010: EUR 3,339k).

Net carrying amounts for finance leases

The assets held under finance lease agreements are as follows:

EUR k	31 Jan 2010	**31 Jan 2011**
Land and land rights and buildings including buildings on third-party land	27,118	25,989
Technical equipment and machinery	4,136	2,770
Carrying amount	**31,254**	**28,759**

Assets held under finance lease agreements primarily represent buildings held in Italy and France.

The reconciliation of the future minimum lease payments and their present value is disclosed in the following table:

EUR k	31 Jan 2010	**31 Jan 2011**
Minimum lease payments		
due within one year	3,812	12,414
due after one year but not more than five years	11,768	4,610
due in more than five years	7,082	4,417
Interest	–4,844	–613
Present value of minimum lease payments	**17,818**	**20,828**

Operating leases

PHOENIX holds numerous assets under operating lease agreements. Such agreements primarily relate to real estate, technical equipment and company cars. The future minimum lease payments under non-cancellable operating leases are summarised by due date category:

EUR k	31 Jan 2010	**31 Jan 2011**
Minimum lease payments		
due within one year	62,338	85,672
due after one year but not more than five years	156,013	179,963
due in more than five years	116,946	97,358
Total minimum lease payments	**335,297**	**362,993**

The income from sublet properties amounts to EUR 2,639k (prior year: EUR 1,831k).

EUR k	31 Jan 2010	**31 Jan 2011**
Lease expense		
Minimum lease payments	66,888	85,995
Contingent rents	7,534	166
Sublease payments received	664	868
Total lease expense	**75,086**	**87,029**

Leases where the group acts as lessor

PHOENIX acts as lessor in several countries of operation. The most significant arrangements in which the group acts as lessor are held by the German subsidiary Transmed Transport GmbH. This entity acts as lessor for transportation vehicles. Minimum lease payments allocable to Transmed Transport GmbH amount to EUR 8,636k as of 31 January 2011 (31 January 2010: EUR 8,384k). Further lessor arrangements exist in Finland, the Czech Republic, the UK, the Netherlands, and at the Luxembourg subgroup. The lease agreements exclusively represent operating leases. The future minimum lease payments are as follows:

EUR k	31 Jan 2010	**31 Jan 2011**
Minimum lease payments		
due within one year	8,478	8,803
due after one year but not more than five years	4,183	6,305
due in more than five years	702	2,068
Total minimum lease payments	**13,363**	**17,176**

11 Investments in associates

The PHOENIX group holds investments in 39 associates. Significant investments in associates are as follows:

	31 Jan 2010		**31 Jan 2011**	
	PHOENIX share %	Net carrying amount EUR k	**PHOENIX share** %	**Net carrying amount** EUR k
Pharmos a.s., Czech Republic	28	5,759	28	6,151
Edam en Volendam, Netherlands	49	3,837	49	3,837
Schermer, Netherlands	49	1,035	49	1,104
Elderveld, Netherlands	40	1,413	40	1,601
De Witte Knoop, Netherlands	40	1,353	40	1,734
Buttercups, UK	49	1,214	49	1,299
Other		10,545		8,015
		25,156		**23,741**

Most of the associates are accounted for using the equity method. The share of the net profit of all associates attributable to the group amounts to EUR 1,506k (in FY 2009/10: EUR 1,506k). The carrying amount of all associates totals EUR 23,741k (in FY 2009/10: EUR 25,156k), thereof EUR 23,538k resulting from associates accounted for using the equity method (FY 2009/10: EUR 24,956k). In total, associates generated revenue of EUR 600,575k (FY 2009/10: EUR 588,275k) and net profit of EUR 4,887k (FY 2009/10: EUR 4,384k). The companies accounted for using the equity method contributed revenue of EUR 574,119k (FY 2009/10: EUR 568,282k) and net profit of EUR 4,666k (FY 2009/10: EUR 4,177k). Total assets of the associates amounted to EUR 256,841k (FY 2009/10: EUR 238,077k) and total liabilities to EUR 191,677k (FY 2009/10: EUR 183,101k). Assets of EUR 244,447k (FY 2009/10: EUR 234,184k) and total liabilities of EUR 172,104k (FY 2009/10: EUR 165,176k) are allocable to the companies accounted for using the equity method.

Most associates have different fiscal years from PHOENIX, typically the calendar year.

The unrecognised share of losses of associates amounted to EUR 5k for the reporting period (FY 2009/10: EUR 336k); while the accumulated losses since the acquisitions of the associates came to EUR 3,282k (FY 2009/10: EUR 3,282k).

12 Other financial assets

The following table presents the composition of non-current other financial assets:

EUR k	31 Jan 2010	**31 Jan 2011**
Available-for-sale financial assets	153,852	43,156
Loans to and receivables from associates	13,071	11,361
Other loans	35,360	14,160
Other non-current financial assets	2,031	1,354
	204,314	**70,031**

In the prior year, financial assets available for sale mainly comprised a 12.5% investment in Andreae-Noris Zahn AG, a 5.81% investment in KL Holding GmbH and a 4.33% investment in another entity. The first two entities were sold in the course of the fiscal year, while the latter was classified as non-current assets held for sale.

13 Inventories

EUR k	31 Jan 2010	**31 Jan 2011**
Raw materials and supplies	11,766	7,616
Finished goods and merchandise	1,495,771	1,550,767
Payments on account	18,005	17,580
	1,525,542	**1,575,963**

During the fiscal year inventories were written down by EUR 10,384k (FY 2009/10: EUR 8,426k). Impairment losses of EUR 7,577k (FY 2009/10: EUR 3,605k) were reversed during the period, mainly due to the unexpected sale of written-down inventories. Inventory with a carrying amount of EUR 77,839k (31 January 2010: EUR 80,743k) was valued at net realisable value as of the reporting date. Inventories with a carrying amount of EUR 0k (31 January 2010: EUR 500,277k) have been pledged as collateral for financial liabilities.

14 Trade receivables and other current financial assets

EUR k	31 Jan 2010	**31 Jan 2011**
Trade receivables	2,857,738	2,596,177
Other receivables and other financial assets		
Held-to-maturity financial assets	60	60
Loans to and receivables from associates	467,945	21,227
Other loans	62,586	48,923
Derivative financial instruments	587	6,720
Other current financial assets	147,154	135,118
	678,332	**212,048**

As of 31 January 2011, trade receivables include receivables sold in the course of factoring and ABS transactions which do not meet the criteria for derecognition set forth in IAS 39. EUR 283,961k of these receivables are recognised at their original carrying amount (prior year: EUR 381,692k); the associated financial liability amounts to EUR 246,575k (prior year: EUR 336,456k) and is recorded as securitised loans (see Note 20). The total amount of receivables sold, which meet the criteria for derecognition in IAS 39 and thus are not shown on the statement of financial position, amounts to EUR 139,346k (prior year: EUR 136,236k). The total carrying amount of trade receivables recognised to the extent of the continuing involvement amounts to EUR 338,227k with a continuing involvement of EUR 15,094k (prior year: EUR 278,936k with a continuing involvement of EUR 7,201k). The corresponding financial liability amounts to EUR 15,984k (prior year: EUR 8,129k) and is also recorded as securitised loans (see Note 20). Retained security of EUR 66,508k (prior year: EUR 45,865) under securitisation and factoring transactions are subject to the same risks as unsold receivables, i.e., default risk and risk of late payment.

In the prior year, loans to associates or related parties contained a loan to a related party including accrued interest of EUR 444,128k. The loan including interest was repaid to PHOENIX in fiscal 2010/11.

Other current financial assets include receivables from bonuses, social security payments and other current receivables.

Trade receivables and other assets with a carrying amount of EUR 25,000k (prior year: EUR 797,521) have been pledged as collateral for liabilities.

The valuation allowances on trade receivables and customer loans, which are included in other loans, have developed as follows:

EUR k	Trade receivables	Other loans
Allowances as of 1 February 2009	62,325	6,164
Additions	27,866	1,570
Utilisation	–6,663	–718
Reversal	–14,722	–1,642
Currency and other changes	944	–102
Allowances as of 31 January 2010	**69,750**	**5,272**
Allowances as of 1 February 2010	69,750	5,272
Additions	59,533	3,148
Utilisation	–8,777	–1,231
Reversal	–7,909	–815
Currency and other changes	712	1,354
Allowances as of 31 January 2011	**113,309**	**7,728**

The increase in allowances is mainly attributable to the fact that a receivable from a key account had to be written off in full in the fiscal year 2010/11. In addition, debtor risks increased owing to changes in conditions prevailing in the pharmacy market.

As of 31 January 2011 and 31 January 2010, the ageing analysis of trade receivables and customer loans that are past due but not impaired is as follows:

EUR k		Thereof								
	Total carrying amount	Neither past due nor impaired	Impaired	Past due but not impaired						
				< 30 days	31-60 days	61-90 days	91-150 days	151-240 days	241-330 days	> 330 days
31 Jan 2010										
Trade receivables	**2,857,738**	2,540,911	96,585	137,720	38,755	9,537	10,543	9,471	5,429	8,786
Other loans	**62,586**	50,768	11,702	72	14	10	20	0	0	0
31 Jan 2011										
Trade receivables	**2,631,323**	2,242,965	195,573	115,325	26,041	9,154	12,053	11,969	6,867	11,376
Other loans	**63,359**	49,647	13,658	51	3	0	0	0	0	0

As of the reporting date, there were no indications that the debtors of the receivables shown as "past due but not impaired" would not meet their payment obligations. From the trade receivables past due > 330 days the main part relates to Croatia where long terms of payment are customary. Trade receivables disclosed in the line item non-current assets held for sale in the statement of financial position are included in the ageing analysis presented. In some cases PHOENIX holds promissory notes, pledged assets of pharmacies, mortgages, land and buildings, inventories, cash and cash equivalents and other personal guarantees as collateral for trade receivables as well as for other loans.

15 Other assets

EUR k	31 Jan 2010	**31 Jan 2011**
Prepayments	31,602	37,073
Tax claims - VAT and other taxes	6,698	7,771
Sundry assets	44,516	27,108
Other assets	**82,816**	**71,952**

The other assets chiefly comprise prepayments.

16 Cash and cash equivalents

EUR k	31 Jan 2010	**31 Jan 2011**
Bank balances	293,768	562,541
Cash on hand	18,648	9,009
Cash equivalents	84,300	3,451
	396,716	**575,001**

The movement in cash and cash equivalents is presented in the accompanying cash flow statement.

17 Equity

Unlimited and limited partners' capital

On 11 August 2010, the limited partners increased their capital in the parent company by contribution in cash of EUR 550,000k to EUR 1,050,000k. A partial sum of EUR 44,500k was contributed by fully consolidated entities and offset against reserves. The unlimited partners' capital is still EUR 0k.

Reserves

The reserves amount to EUR 653,987k as of 31 January 2011 (prior year: EUR 567,428k).

Treasury shares

In the FY 2006/07 PHOENIX International Beteiligungs GmbH acquired the companies Otto Stumpf GmbH, Berlin, Germany, and Otto Stumpf GmbH, Gotha, Germany. These companies together hold 8.1% of the limited partners' capital of PHOENIX Pharmahandel GmbH & Co KG. The acquisition cost of the treasury shares (EUR 298,737k; prior year: EUR 298,737k) is offset against reserves.

Other comprehensive income

Other comprehensive income includes currency translation differences amounting to EUR -82,077k (prior year: EUR -103,261k) and changes relating to the measurement of available-for-sale financial assets (IAS 39). The changes that have been recognised directly in equity are also presented in the statement of changes in total equity.

Non-controlling interests

The net profit/loss for the period attributable to non-controlling interests came to EUR -165k (prior year: EUR 14,336k). In addition, non-controlling interests increased as a result of the Lloyds Nederland B.V. acquisition.

Capital management

The objective of capital management at PHOENIX is to provide a sound financial profile and secure business operations.

Owing to PHOENIX's business model, capital expenditures are relatively low. The focus is on their impact on the consolidated statement of financial position and the consolidated income statement.

The capital structure is monitored based on the equity ratio and net debt. EBITDA and earnings before taxes are also important KPIs for corporate management purposes.

EUR k	31 Jan 2010	**31 Jan 2011**
Equity	1,112,497	1,821,750
Total assets	8,059,158	7,560,248
Equity ratio	**13.8%**	**24.1%**

EUR k	31 Jan 2010	**31 Jan 2011**
+ Financial liabilities (non-current)	238,721	1,633,905
less supplementary partner contribution	–135,032	–135,032
less derivative financial instruments (non-current)	–10,506	–488
+ Financial liabilities (current)	3,637,817	862,921
less derivative financial instruments (current)	–17,912	–5,628
less cash and cash equivalents	–396,716	–575,001
less held-to-maturity financial assets	–60	–60
+ Sold in the course of factoring and ABS transactions	407,971	462,479
less receivables from factoring	–34,359	–47,390
loess receivables from ABS programs	–11,506	–19,118
Net debt	**3,678,418**	**2,176,588**

The objective of financial management is to continuously improve the capital structure by reducing the gearing ratio. In the long term, we aim to further strengthen the equity ratio and achieve a ratio of net debt to EBITDA of around 3.0.

Under the loan agreements in Germany and Italy it was undertaken to comply with various financial covenants, all of which were comfortably complied with in the year under review. These include, for instance, the ratio of net debt to EBITDA or the interest cover. Failure to comply with the financial covenants poses a financing risk to the extent that the lenders could demand the immediate repayment of the loans.

The agreement underlying our corporate bond contains restrictions and obligations for PHOENIX as issuer as are customary in the market. Failure to comply with these restrictions and obligations could result in the amount of the bond plus the interest accrued falling due.

Compliance with the agreed covenants is strictly monitored as part of corporate planning and reported to the lenders on a quarterly basis.

18 Pension provisions and similar obligations

For numerous employees, the group establishes provision for retirement benefits either directly or indirectly through contributions to pension funds. Various retirement benefit systems are in place, depending on the legal, economic and tax framework in each country. These are generally based on employees' years of service and salary levels. At PHOENIX, the company pension schemes include both defined contribution plans and defined benefit plans. In defined contribution plans, the group pays contributions to external funds. After paying the contributions, the group has no further benefit obligations. The sum of all pension expenses in connection with defined contribution plans amounted to EUR 41,160k (prior year: EUR 44,197k). This amount includes the contributions the group made to statutory pension insurance funds which fall under the definition of defined contribution plans. In defined benefit plans, the group's obligation is to provide the agreed benefits to current and former employees. The benefit obligations under defined benefit plans are financed by provisions or by funds.

The expenses for retirement benefits recognised in the income statement can be summarised as follows:

EUR k	FY 09/10	**FY 10/11**
Pension cost recognised through profit or loss		
Current service cost	–22,425	–23,651
Interest cost	–21,617	–24,786
Expected return on plan assets	20,091	22,423
Actuarial gains and losses recognised in the reporting period	–2,814	–769
Past service cost	0	19,228
Effect of the limit pursuant to IAS 19.58b)	–3,081	–3,092
Other	491	700
	–29,355	**–9,947**
Actual return on plan assets	33,707	28,508

Of the total expenditure of EUR 9,947k (prior year: EUR 29,355k), EUR 7,584k (prior year: EUR 27,829k) is shown in personnel expenses and EUR 2,363k (prior year: EUR 1,526k) in interest expenses. These interest expenses also contain the expected return on plan assets.

The following table shows the financing status of the plans and the calculation of the net defined benefit liability:

EUR k	31 Jan 2010	31 Jan 2011
Calculation of net defined benefit liability		
Present value of funded obligations	–505,155	–541,392
Plan assets at fair value	385,231	429,437
Defined benefit obligations in excess of plan assets	**–119,924**	**–111,955**
Present value of non-funded obligations	–41,651	–61,206
Past service cost	701	652
Unrecognised actuarial gains and losses	47,451	78,459
Unrecognised asset (limit pursuant to IAS 19.58b))	–13,622	–17,643
Exchange differences	1,097	0
Net defined benefit liability	**–125,948**	**–111,693**

The net liability can be broken down into the defined benefit liability and the defined benefit asset as follows:

EUR k	31 Jan 2010	31 Jan 2011
Defined benefit asset presented on statement of financial position	340	282
Defined benefit liability presented on statement of financial position	–126,288	–111,975
Net defined benefit liability	**–125,948**	**–111,693**

The development of the defined benefit obligation is as follows:

EUR k	31 Jan 2010	31 Jan 2011
Defined benefit obligation as of 1 February	**493,603**	**546,806**
Current service cost	22,425	23,651
Interest cost	21,617	24,786
Employee contributions	3,868	3,047
Actuarial gains and losses	4,409	33,341
Benefits paid	–25,363	–24,434
Past service cost	863	–19,228
Business combinations	2,820	0
Plan curtailments and settlements	–523	–1,778
Other	–971	–2,726
Exchange differences	24,057	19,133
Defined benefit obligation as of 31 January	**546,806**	**602,598**

Changes in the fair value of plan assets are as follows:

EUR k	31 Jan 2010	31 Jan 2011
Fair value of plan assets as of 1 February	**334,407**	**385,231**
Expected return on plan assets	20,091	22,423
Actuarial gains and losses	13,616	6,085
Employer contributions	17,146	21,398
Employee contributions	4,608	2,774
Benefits paid	–19,136	–21,372
Exchange differences	14,787	11,951
Other	–288	947
Fair value of plan assets as of 31 January	**385,231**	**429,437**

The funds' assets originate primarily from Norway (49.0%; year: 48.2%), the Netherlands (35.2%; prior year: 36.6%), Switzerland (10.0%; prior year: 9.3%) and the UK (5.5%; prior year: 5.5%).

The group expects to contribute EUR 25,856k to its defined benefit pension plans in FY 2011/12.

The assets in the funds can be divided into the following categories on a percentage basis:

%	31 Jan 2010	31 Jan 2011
Equity instruments	24.8	25.0
Debt instruments	63.1	58.2
Property	1.8	5.2
Other	10.3	11.6
	100.0	**100.0**

The overall expected rate of return on assets is determined using a uniform method based on long-term actual historical yields, the portfolio structure and the future yields expected in the long term.

The principal assumptions used in determining pension obligations for the group's plans are shown below:

%	FY 09/10	**FY 10/11**
Discount rate		
NOK	4.5	4.0
GBP	5.6	5.6
EUR		
thereof Germany	5.5	5.1
thereof Netherlands	5.0	5.2
thereof Finland	5.0	4.1
thereof Italy	4.5	4.5
thereof France	4.0 – 4.8	4.5
thereof Austria	4.0	5.0
SEK	3.5	3.8
CHF	3.3	2.5
Expected return on plan assets		
NOK	6.0	5.4
GBP	7.0	7.0
EUR		
thereof the Netherlands	5.7	5.7
thereof Finland	4.0	4.5
thereof France	4.0	0.0
CHF	4.0	3.25
Future salary increases	2.7	2.7
Future pension increases	1.1	1.9

The development of the pension obligations and the funds' assets for prior periods is as follows:

EUR k	FY 07/08	FY 08/09	FY 09/10	**FY 10/11**
Defined benefit obligation	–480,939	–493,603	–546,806	–602,598
Plan assets	369,782	334,407	385,231	429,437
(Deficit)/surplus	**–111,157**	**–159,196**	**–161,575**	**–173,161**
Experience adjustments on plan liabilities	1,425	174	298	4,996
Experience adjustments on plan assets	–4,062	–30,695	3	6,987

19 Other provisions

EUR k	Restructuring	Personnel	Other	Total
1 February 2009	**388**	**16,656**	**7,150**	**24,194**
Changes in the consolidated group	0	0	769	769
Currency translation	1	23	52	76
Addition	3,637	3,695	24,925	32,257
Utilisation	–389	–2,821	–1,154	–4,364
Reversal	0	–2,861	–1,016	–3,877
31 January 2010	**3,637**	**14,692**	**30,726**	**49,055**
Changes in the consolidated group	0	0	–15	–15
Currency translation	0	121	26	147
Addition	0	4,079	3,627	7,706
Utilisation	0	–2,869	–15,480	–18,349
Reversal	–194	–483	–5,528	–6,205
Interest rate	0	477	0	477
31 January 2011	**3,443**	**16,017**	**13,356**	**32,816**

The restructuring provision relates to the reorganisation at the French subgroup. Outflows are expected for the next fiscal year.

Personnel-related other provisions mainly represent long service and severance provisions. The expected outflow is within the next year(s) and depends on occurrence of the event. Reimbursements are not expected.

Other provisions mainly include a provision for value added taxes of EUR 7,852k (prior year: EUR 26,104k) and litigation provisions of EUR 3,802k (prior year: EUR 1,314k). The outflow of litigation provisions is expected within the next year depending on the occurrence of events or the end of court proceedings. Reimbursements are not expected.

20 Financial liabilities

At the reporting date financial liabilities were split between non-current and current liabilities as follows:

EUR k	31 Jan 2010	**31 Jan 2011**
Financial liabilities (non-current)		
Liabilities to banks	74,773	1,007,917
Bonds	0	487,793
Loans	1,115	623
Supplementary partner contribution	135,032	135,032
Other financial liabilities	27,801	2,540
	238,721	**1,633,905**

EUR k	31 Jan 2010	**31 Jan 2011**
Financial liabilities (current)		
Liabilities to banks	2,774,430	289,729
Bonds	177,089	0
Loans	167,551	167,464
Liabilities to associates and related parties	41,560	46,010
Liabilities and provisions for customer rebates and bonuses	29,348	28,505
ABS and factoring liabilities	344,585	262,559
Other financial liabilities	103,254	68,654
	3,637,817	**862,921**

On 13 July 2010, PHOENIX PIB Finance B.V. issued a bond with a nominal volume of EUR 506.15m and a nominal interest rate of 9.625%. The bond has a term of four years.

Once all prerequisites had been met, the measures to refinance PHOENIX were successfully implemented in full by 11 August 2010. The standstill agreement with the former lenders and the trust agreement were ended accordingly.

In the course of refinancing, PHOENIX concluded a syndicated loan agreement with a term of 3.5 years. The long-term tranche of this loan agreement with a nominal volume of EUR 1,225m is presented under non-current liabilities to banks. At the end of fiscal 2010/11, a partial amount of EUR 200m was repaid prematurely. In addition, PHOENIX has access to a short-term credit line of EUR 625m, which had not been drawn as of 31 January 2011. The Comifar Group in Italy also concluded a refinancing arrangement for a total volume of EUR 750m in July 2010, of which EUR 308.4m had been drawn as of 31 January 2011. This is reported under current liabilities to banks.

Shares in significant group entities have been pledged as collateral.

The current liabilities to banks and short-term bonds existing as of 31 January 2010 and subject to the standstill agreement were repaid as part of the refinancing measures in August 2010.

The decrease in ABS/factoring liabilities is mainly affected by more ABS/factoring programmes being classified as off-balance-sheet transactions compared to prior year. Liabilities from factoring transactions declined from EUR 91,115k to EUR 85,240k and liabilities from asset-backed-securities transactions to EUR 177,319k (prior year: EUR 253,470k). Please also refer to Note 14.

Other financial liabilities (non-current) include the finance lease liability of EUR 1,325k (prior year: EUR 7,245k). Also long-term derivative financial instruments amounting to EUR 488k (prior year: EUR 10,506k) are included.

Other financial liabilities (current) mainly include the short-term financial lease liabilities amounting to EUR 19,503k (prior year: EUR 17,083k) and short-term derivative financial instruments amounting to EUR 5,628k (prior year: EUR 17,912k).

21 Trade payables

Trade payables are non-interest bearing and are normally settled on usual business terms.

22 Other liabilities

EUR k	31 Jan 2010	**31 Jan 2011**
VAT and other tax liabilities	53,983	65,627
Wages and salaries	57,200	62,552
Personnel-related provisions	44,797	46,686
Liabilities relating to social security/similar charges	15,326	15,927
Payments on account received	4,065	4,853
Other liabilities	73,165	55,909
Other liabilities	**248,536**	**251,554**

Other liabilities mainly include outstanding invoices for rental costs and energy.

23 Non-current assets held for sale

Non-current assets of EUR 104,903k (prior year: EUR 12,128k) and liabilities of EUR 52,234k (prior year: EUR 0k) are classified as held for sale. They stem from companies in Poland, Germany, Croatia, Netherlands, France, the Czech Republic and Slovakia.

The increase mainly results from the classification of assets and liabilities of PHOENIX Pharma Polska as held for sale in connection with a decision made by management in November 2010 to sell PHOENIX Pharma Polska. The sale is expected to be concluded in the course of fiscal 2011/12.

The major classes of assets and liabilities classified as held for sale as of 31 January 2011 are as follows:

EUR k	
Non-current assets	33,645
Current assets	71,258
Non-current liabilities	59
Current liabilities	52,175

Exchange differences of EUR -1,944k are recorded directly in equity; these relate to assets classified as held for sale.

The accumulated net profit resulting from the change in fair value relating to investments classified as held for sale and recognised in other comprehensive income as of 31 January 2011 came to EUR 4,603k.

OTHER NOTES

Commitments

Commitments amount to EUR 474,170k (31 January 2010: EUR 473,142k) and generally concern rent and lease agreements. The amounts are due as follows:

EUR k	31 Jan 2010	**31 Jan 2011**
Within 1 year	137,875	161,915
1 - 5 years	196,412	194,566
More than 5 years	138,855	116,156
	473,142	**472,637**

Contingent liabilities

EUR k	31 Jan 2010	**31 Jan 2011**
Guarantees	134,416	115,805
Obligations in respect of bills of exchange	2,173	0
Liabilities from warranty agreements	150	0
	136,739	**115,805**

Guarantees are potential future obligations to third parties, the existence of which depends on the occurrence of at least one uncertain future event outside the control of the PHOENIX group. The guarantees mainly relate to retail customers and suppliers and were primarily issued by subsidiaries of the subgroups in the UK and Austria. The guarantees include obligations for which the probability of outflow is remote.

Additional disclosure on financial instruments

The items in the statement of financial position for financial instruments are assigned to classes and categories. The carrying amounts for each category and class and the fair values for each class are presented in the following table for FY 2010/11:

EUR k	Category in accordance with IAS 39						
Fiscal year 2010/11	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Financial assets held for trading	Outside the scope of IFRS 7	Carrying amount	**Fair value**
Assets							
Bonds and other securities (held-to-maturity)	0	0	60	0	0	60	**60**
Available-for-sale financial assets	0	43,156	0	0	0	43,156	**43,156**
Trade receivables	2,596,177	0	0	0	0	2,596,177	**2,596,177**
Loans to and receivables from associates	32,588	0	0	0	0	32,588	**32,588**
Other loans	62,423	0	0	0	660	63,083	**62,953**
Derivative financial assets without hedge accounting	0	0	0	6,720	0	6,720	**6,720**
Other financial assets	136,182	245	0	0	45	136,472	**136,472**
Cash and cash equivalents	575,001	0	0	0	0	575,001	**575,001**
Non-current assets held for sale	40,661	7,806	0	0	56,436	104,903	**104,903**

The carrying amounts for each category and class and the fair values for each class are presented in the following table for FY 2009/10:

EUR k	Category in accordance with IAS 39						
Fiscal year 2009/10	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Financial assets held for trading	Outside the scope of IFRS 7	Carrying amount	**Fair value**
Assets Bonds and other securities held-to-maturity	0	0	60	0	0	60	**60**
Available-for-sale financial assets	0	153,852	0	0	0	153,852	**153,852**
Trade receivables	2,857,738	0	0	0	0	2,857,738	**2,857,738**
Loans to and receivables from associates or related parties	481,016	0	0	0	0	481,016	**481,016**
Other loans	97,946	0	0	0	0	97,946	**98,064**
Derivative financial assets without hedge accounting	0	0	0	587	0	587	**587**
Other financial assets	147,903	1,282	0	0	0	149,185	**149,185**
Cash and cash equivalents	396,716	0	0	0	0	396,716	**396,716**

Due to the short-term maturities of cash and cash equivalents, trade receivables and other current financial assets their carrying amounts generally approximate the fair values at the reporting date.

The fair value of loans to and receivables from associates or related companies, other loans and receivables from associates or related companies, held-to-maturity financial assets and other non-current financial assets due after more than one year correspond to the net present value of the payments related to the assets based on the current interest rate parameters and curves.

The fair values of available-for-sale financial assets are derived from quoted market prices in active markets, if available. If quoted market prices in an active market do not exist, the fair value is determined using valuation models which are based on generally accepted valuation principles. The line also includes investments in equity securities for which no listed price on an active market exists and whose fair values cannot be reliably determined. These assets are measured at cost.

Derivative financial instruments, both held-for-trading and hedging instruments are measured at fair value. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market prices. For financial instruments where there is no active market, fair value is determined using valuation techniques. For these items, the fair values always correspond to the carrying amount.

The carrying amounts for each category and class of financial liabilities and the fair values for each class are presented in the following table for FY 2010/11:

EUR k	Category in accordance with IAS 39						
Fiscal year 2010/11	Other financial liabilities	Financial liabilities held-for-trading	Fair value option	No category according to IAS 39.9	Outside the scope of IFRS 7	Carrying amount	**Fair value**
Financial liabilities Liabilities to banks	1,297,646	0	0	0	0	1,297,646	**1,341,225**
Bonds	487,793	0	0	0	0	487,793	**560,088**
Loans	168,087	0	0	0	0	168,087	**168,087**
Trade payables	2,576,711	0	0	0	0	2,576,711	**2,576,711**
Liabilities to associates and related parties	46,010	0	0	0	0	46,010	**46,010**
Supplementary contributions	135,032	0	0	0	0	135,032	**135,032**
Liabilities and provisions for customer rebates and bonuses	28,505	0	0	0	0	28,505	**28,505**
ABS and factoring liabilities	262,559	0	0	0	0	262,559	**262,559**
Other financial liabilities	44,249	0	0	20,829	0	65,078	**65,078**
Derivative financial liabilities without hedge accounting	0	6,116	0	0	0	6,116	**6,116**
Liabilities directly associated with assets classified as held for sale	45,806	0	0	0	6,428	52,234	**52,234**

The carrying amounts for each category and class of financial liabilities and the fair values for each class are presented in the following table for FY 2009/10:

EUR k	Category in accordance with IAS 39						
Fiscal year 2009/10	Other financial liabilities	Financial liabilities held-for-trading	Fair value option	No category according to IAS 39.9	Outside the scope of IFRS 7	Carrying amount	**Fair value**
Financial liabilities							
Liabilities to banks	2.849.203	0	0	0	0	2.849.203	**2.849.203**
Bonds	177.089	0	0	0	0	177.089	**177.089**
Loans	168.666	0	0	0	0	168.666	**168.666**
Trade payables	2.461.916	0	0	0	0	2.461.916	**2.461.916**
Liabilities to associates and related parties	41.560	0	0	0	0	41.560	**41.560**
Supplementary contributions	135.032	0	0	0	0	135.032	**135.032**
Liabilities and provisions for customer rebates and bonuses	29.348	0	0	0	0	29.348	**29.348**
ABS and factoring liabilities	344.585	0	0	0	0	344.585	**344.585**
Other financial liabilities	78.309	0	0	24.328	0	102.637	**102.637**
Derivative financial liabilities without hedge accounting	0	28.418	0	0	0	28.418	**28.418**

Due to the short-term maturities of trade payables and other current financial liabilities their carrying amounts generally approximate the fair values at the reporting date.

Fair value hierarchy of financial instruments

PHOENIX applies the following fair value hierarchy to define and present its financial instruments measured at fair value:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Valuation techniques in which all the relevant inputs are not based in observable market data.

EUR k **Fiscal year 2010/11**	Financial instruments measured at fair value Level 1	 Level 2	 Level 3	 Total
Available-for-sale financial assets	211	0	30,965	31,176
Derivative financial assets without hedge accounting	0	6,720	0	6,720
Derivative financial liabilities without hedge accounting	0	6,116	0	6,116
Non-current assets classified as held for sale	7,806	0	0	7,806

EUR k **Fiscal year 2009/10**	Financial instruments measured at fair value Level 1	 Level 2	 Level 3	 Total
Available-for-sale financial assets	44,035	0	80,555	124,590
Derivative financial assets without hedge accounting	0	587	0	587
Derivative financial liabilities without hedge accounting	0	28,418	0	28,418

The fair value for available-for-sale assets measured at cost of EUR 11,980k (prior year: EUR 29,262k) has not been disclosed because the fair value cannot be measured reliably. The reason is that the necessary market parameters cannot be evaluated reliably and no active market exists.

The following table shows the reconciliation of the fair value based on level 3.

EUR k **Fiscal year 2010/11**	Available-for-sale financial assets
1 February 2009	**65,325**
Total of the accumulated gains and losses previously carried in other comprehensive income	15,230
31 January 2010	**80,555**
Total of the accumulated gains and losses previously carried in other comprehensive income	8,473
Acquisition	405
Sale of shares	–58,468
thereof recognised in the income statement	17,062
31 January 2011	**30,965**

Net gains or losses on each category of financial instruments

EUR k	FY 09/10	FY 10/11
Loans and receivables	–13,238	–67,867
Available-for-sale financial assets	35,771	55,467
thereof recognised directly in equity	31,933	5,745
thereof recognised in income	3,838	49,722
Financial liabilities at amortised cost	14,949	–24,584
Financial assets held for trading	–13,881	17,447
	23,601	**–19,537**

The presentation of net gains or losses does not include interest income and expenses on the respective financial instruments.

Net gains of available-for-sale financial assets are mainly attributable to the changes in the fair value of the investments in KL Holding GmbH and Andreae-Noris Zahn AG. EUR 27,741k was reclassified from equity to the other financial result in the fiscal year (prior year: EUR 0k).

Interest from financial instruments is recognised in interest income and expenses. Foreign exchange effects and fair value changes of derivatives are recognised in other financial result from derivatives. Impairment losses of the period:

EUR k	FY 09/10	FY 10/11
Trade receivables	26,584	61,524
Loans to and receivables from associates	245	41
Other loans	2,810	9,168
Other financial assets	490	62
	30,129	**70,795**

The following table contains nominal and market values of the derivative financial instruments:

EUR k	31 Jan 2010		**31 Jan 2011**	
	Nominal amount	Market value	Nominal amount	Market value
Assets Derivatives held for trading				
Foreign currency contracts	180,206	587	410,864	6,721
Interest rate swaps	17,051	0	0	0
Liabilities Derivatives held for trading				
Foreign currency contracts	247,570	1,387	472,848	5,628
Interest rate swaps	255,316	27,032	2,477	488

In the prior year, currency and interest rate risks were hedged, including through a USD private placement using cross-currency swaps. In fiscal 2010/11, both the USD private placement and the cross-currency swap were repaid early as part of the refinancing programme.

Financial risk management and derivative financial instruments

Objectives and principles of the financial risk management

Due to its multinational business activities, PHOENIX is exposed to financial risks. In particular this includes market risk (changes in foreign exchange rates, interest rates) and credit risk. In addition, liquidity risks may arise due to the operating business, due to the financial risks named above and because of unexpected fluctuations in the financial markets.

These risks are monitored by the risk management system within the PHOENIX group which consists of fully documented and comprehensive planning, approval and reporting structures and an early warning system. group treasury is responsible for implementing the binding internal guidelines and requirements, approved by the management board specifying how financial risks are to be controlled, and for ongoing risk management. The group treasury informs the management board on an ongoing basis about the current risk exposure and the market development on the global financial markets. The internal audit examines this system regularly for adequacy, operability and efficiency. Findings of these examinations are reported to the management of the parent company.

Derivatives are used by PHOENIX in specific cases to hedge against interest rate and currency risks. Only selected banks with high credit ratings are accepted counterparties for our derivative contracts. Their use and valuation is closely monitored on a timely basis. Although the derivatives are contracted for hedging purposes, they are classified as held-for-trading under IAS 39.

Only a small number of persons is authorised to trade with derivatives. The trading, back office and reporting functions are separate and independent from each other. This control is employed strictly according to binding internal guidelines that utilise a two-person principle. The conclusion or disposal of derivatives is only allowed in accordance with the internal treasury guidelines of PHOENIX. Under the refinancing programme, PHOENIX has undertaken to comply with covenants. These were complied with in the fiscal year 2010/11.

Market risk

Currency risk

Currency risk arises through fluctuations of the exchange rate of foreign currencies and their impact on the items of the statement of financial position which are not denominated in the functional currency. The currency risks for PHOENIX originate primarily from internal refinancing activities and investments in foreign entities. As the group companies largely settle their operating business in their respective functional currency, the operative (transactional) currency risks are small.

Currency risks arise in the course of intragroup financing whenever loans are extended to group entities in currencies other than the euro. These currency risks are hedged by concluding forward exchange contracts with banks.

In the calculation of the currency exposure for the sensitivity analysis those items of the statement of financial position were considered which are not in the functional currency of the respective reporting company. Those items of the statement of financial position have been accumulated for the whole group. Also the internal loans which are not in the functional currency of the reporting unit have been considered and the amounts aggregated. After that, the currency effects for a 10% increase (decrease) of the EUR against the respective currency have been measured. In the next step, the market value changes of derivative financial instruments (currency swap transactions and forwards), which were entered to hedge these exposures, were calculated under the assumption of a 10% increase (decrease) of the spot exchange rates as of the closing date.

Finally, the hypothetical effect on profit of the sensitivity analysis was calculated by netting the effects of the assumed 10% increase (decrease) in the value of the EUR against all other currencies per 31 January 2011 for both the underlying and derivative financial instruments. The material results of the sensitivity analysis are as follows:

If the SEK depreciates (appreciates) by 10% against the EUR other comprehensive income would be EUR 12,265k lower (higher). This effect resulted from an internally issued hybrid loan.

If the GBP depreciates (appreciates) by 10% against the EUR profit before taxes would be EUR 55k (prior year: EUR 3,522k) higher (lower). This is primarily due to internal loans as described above.

If the EUR depreciates (appreciates) by 10% against the RSD profit before taxes would be EUR 5,323k (prior year: EUR 2,581k) higher (lower). This is primarily due to trade payables and internal loans received from financing entities.

If the EUR depreciates (appreciates) by 10% against the HRK profit before taxes would be EUR 4,555k (prior year: EUR 4,142k) higher (lower). This is primarily due to trade payables.

Interest rate risk

Interest rate risks exist as a result of potential changes in the market interest rate and may lead to a change in fair value in the case of fixed interest-bearing financial instruments and to fluctuations in interest payments in the case of variable interest-bearing financial instruments. PHOENIX generally does not hedge the variable interest-bearing financial instruments.

Having completed the refinancing programme PHOENIX no longer had the items it had hedged in the past; the related interest rate swaps were terminated. The interest option for which an interest rate cap was agreed to hedge against interest rate risks, particularly the risk of increasing reference interest rates, expired in the fiscal year. There is only a cross-currency swap in place, which serves to hedge an internal loan. As of the reporting date, the nominal volume amounts to EUR 2,477k; it decreases proportionately as the loan is repaid.

For financial instruments with fixed interest that are measured at amortised cost, changes in market interest rates have no impact on the earnings and equity. With regard to variable interest-bearing financial instruments, changes in market risk rates impact the earnings and are thus considered in the sensitivity analysis.

The interest sensitivity analysis presented below shows the hypothetical effects which a change in the market interest rate at the reporting date would have had on the pre-tax result. It assumes that the exposure at the reporting date is representative of the year as a whole.

The fixed-interest period under PHOENIX's financial debt is primarily of a short-term nature. Therefore, a positive (negative) parallel shift of the EUR market interest rate curve by 100 basis points as of the reporting date would lead to a negative (positive) impact of EUR 12,245k (prior year: EUR 23,107k) on the profit before tax.

A positive (negative) parallel shift of 100 basis points for the EUR interest rate curves, assuming other interest rate curves and exchange rates remain constant, would not have any material effects on the interest derivatives and foreign exchange derivatives in the portfolio as of the reporting date.

These measurement effects would have had a direct effect on profit before tax in the corresponding amount.

Other price risks

As of 31 January 2011, an investment in publically listed entity was disclosed as held for sale. A 10% increase (decrease) in the share price of this entity would have led to a EUR 781k increase (decrease) in other comprehensive income. In the prior year, a 10% increase (decrease) in the share price would have raised (reduced) other comprehensive income by EUR 586k.

Credit risk

From the group's perspective, credit risk describes the risk that a party to a financial instrument will fail to meet its contractual obligations and thus cause a financial loss for the group. Credit risk comprises both the direct default risk and the risk that the creditworthiness of the counterparty will deteriorate, as well as the concentration of risks. The group is exposed to credit risk from its operating activities, from certain financial transactions and from the granting of financial guarantees for bank loans for pharmacy customers, mainly in Austria and the UK.

The maximum exposure of financial assets to credit risk is equal to the carrying amount of each class of financial assets.

The level of credit risk from operating activities is monitored and kept in check by an accounts receivable management system. Due to the structure of our customers, the risk of default is assessed to be rather low in the group. This is because our customers, the pharmacies, generally have a good credit rating. Despite some bigger customers, our customer basis is widely diversified with small amounts of receivables allocable to each individual. In the course of liberalisation of the pharmacy markets in Europe, however, pharmacy chains and new sales channels are increasingly emerging, creating a large number of major customers with a higher level of receivables outstanding. In addition, the group holds in some cases promissory notes from customers, pledged assets of pharmacies, mortgages and other personal guarantees as collateral for loans to pharmacies.

As PHOENIX only enters into derivatives with banks with a high rating, there is no risk of possible defaults of any derivatives with a positive market value. Also, as PHOENIX spreads the derivative contracts over a wide range of banks, there is no concentration of risks of default with a single bank. Additionally, PHOENIX monitors very closely the financial news and markets and has therefore an early warning system of possible difficulties of a bank.

Liquidity risks

Liquidity risk describes the risk that a company cannot fulfil its financial obligations when they become due. To monitor the group's liquidity, PHOENIX has implemented a daily rolling liquidity planning system. Additionally, there are regular telephone conferences to discuss special liquidity issues and developments. Subsidiaries are integrated in the group's central financing system.

The following table shows the contractually agreed undiscounted interest payments and repayments of non-derivative financial liabilities and derivative financial assets and liabilities as of 31 January 2011.

EUR k	Cash flows 2011/12	Cash flows 2012/13	Cash flows 2013/14-2015/16	Cash flows 2016/17-2020/21	Cash flows > 2021/22
Liabilities to banks	386,427	53,766	1,103,022	565	56
Bonds	48,717	48,717	579,226	0	0
Loans	172,697	0	0	0	0
Trade payables	2,622,109	0	0	0	0
Liabilities to associates and related parties/ supplementary contribution	47,965	8,102	151,237	0	0
Liabilities and provisions for customer rebates and bonuses	28,505	0	0	0	0
ABS and factoring liabilities	265,718	0	0	0	0
Other financial liabilities	51,718	0	0	0	0
Finance lease liabilities	11,582	1,947	3,384	4,637	0
Financial guarantee contracts	106,297	0	0	0	0
Derivative financial instruments without hedge accounting	5,628	488	0	0	0

The table presented includes financial liabilities under the liabilities item of the statement of financial position in conjunction with assets held for sale.

The contractually agreed undiscounted payments at 31 January 2010 are presented in the following table:

EUR k	Cash flows 2010/11	Cash flows 2011/12	Cash flows 2012/13-2014/15	Cash flows 2015/16-2019/20	Cash flows > 2020/21
Liabilities to banks	2,849,642	28,855	28,391	17,429	673
Bonds	198,558	0	0	0	0
Loans	187,994	8,403	159,498	0	0
Trade payables	2,473,609	0	0	0	0
Other liabilities	524,830	16,200	243	465	517
Derivative financial instruments without hedge accounting	16,991	11,616	4,649	174	0

For liquidity analysis the items "payables to associates or related companies", "liability and provisions for customer rebates or bonuses" and "ABS/factoring liabilities" were included in "other liabilities" in the prior year. In addition, the "supplementary contribution" item is included in the "loans" item.

Liabilities with early termination rights have been classified according to first call date. For floating rate interest payments, the current floating interest rate is taken as a basis. Payments in foreign currency are translated using the exchange rate at year end.

Notes to the statement of cash flows

Cash and cash equivalents amounted to EUR 578,713k at the end of the reporting period (prior year: EUR 396,716k) and comprised cash of EUR 571,550k (prior year: EUR 312,416k) as well as cash equivalents of EUR 3,451k (prior year: EUR 84,300k). Restricted cash at the end of the period amounts to EUR 36,138k (prior year: EUR 34,888k) and corresponds to security deposits for revolving credit lines (e.g., ABS and factoring). In addition, bank balances of EUR 150,109k (prior year: EUR 0k) were pledged as collateral under the syndicated facilities agreement. Cash and cash equivalents of EUR 4,682k (prior year: EUR 158,428k) at the end of the period are restricted to ownership of the foreign subsidiaries, since local covenants or other agreements do not allow the subgroups to transfer those amounts directly or indirectly via other subsidiaries to the parent company.

In addition, cash and cash equivalents of EUR 130,422k held by a foreign subsidiary at the end of the prior year were subject to a general restriction.

As of year-end 2010/11, a partial amount of EUR 3,712k (prior year: EUR 0k) of the cash and cash equivalents was allocated to a disposal group and disclosed under non-current assets held for sale.

Payments made for acquisitions of consolidated companies and business units of EUR 16,693k (prior year: EUR 73,022k) correspond with the payments of the purchase price less any cash and cash equivalents acquired of EUR 5,953k (prior year: EUR 3,899k). Cash received from the sale of consolidated companies and business units corresponds to the gains on sale received of EUR 11,234k (prior year: EUR 10,654k) less cash and cash equivalents disposed of EUR 65k (prior year: EUR 0k).

Related party disclosures

General

Pursuant to IAS 24, persons or entities which have control over the group have to be disclosed. Members of the Merckle family and entities controlled by them are considered as related parties.

Financing transactions

Within the group's funds management, in FY 2008/09 an unsecured loan in the amount of EUR 415,000k was granted to a related party. This loan expires on 31 January 2011 and originally accrued interest at the 3-month EURIBOR plus a 1.00% mark-up. The interest rate was adjusted to the interest rate of the German restructuring loan. In fiscal 2010/11, the loan and interest accrued up to that point were repaid in full to PHOENIX in connection with the refinancing programme (carrying amount as of 31 January 2010: EUR 444,128k). The resulting interest income in the fiscal year 2010/11 amounted to EUR 14,367k (prior year: EUR 20,563k).

By agreement dated 27 June 2010, a partner granted a short-term loan of EUR 96,613k. The loan was subject to interest at the 1-month EURIBOR plus a 4.5% mark-up and could be terminated at any time, but not before successful refinancing. The loan including interest of EUR 570k was repaid on 17 August 2010.

Loan receivables of EUR 16,472k (prior year: EUR 17,664k) are due from associates as of 31 January 2011 in connection with financing transactions. The resulting interest income in the fiscal year 2010/11 amounted to EUR 786k (prior year: EUR 773k).

In addition, individual loans were extended to another related party. In this context, the group had open items of EUR 357k in total as of 31 January 2011 (prior year: EUR 487k). Two smaller loans of EUR 80k were repaid in fiscal 2010/11.

The group also had an interest of EUR 205k in the profits of a related party in fiscal 2010/11. The profit had not yet been paid out as of 31 January 2011.

Financial liabilities of EUR 18k were due to the unlimited partner as of 31 January 2011 (prior year: EUR 12k). PHOENIX has liabilities due to the former unlimited partner amounting to EUR 1,044k (prior year: EUR 1,029k).

From another related party the group received loans in an amount of EUR 5,942k as of 31 January 2011 (prior year: EUR 9,210k).

In connection with the bond issued, related parties subscribed bond certificates with a nominal volume of EUR 49,000k (prior year: EUR 0k).

Purchases and sales of investments

The shares in KL Holding GmbH were sold to a related party on 3 September 2010 at a price of EUR 58,468k. This resulted in a gain on disposal of EUR 17,062k.

On 28 January 2011, PHOENIX acquired from a related party 100% of the shares in an entity that had previously been consolidated as a special purpose entity.

Goods purchases and sales
As part of their ordinary business transactions, the group purchases goods from certain pharmaceutical companies controlled by related parties. These purchases amounted of EUR 181,731k (prior year: EUR 465,123k) during the fiscal year 2010/11. In the course of these transactions, the group had outstanding liabilities balances of EUR 10,610k as of 31 January 2011 (prior year: EUR 49,290k). A major pharmaceuticals company ceased to be a related party by 10 August 2010.

In fiscal 2010/11, PHOENIX sold pharmaceuticals amounting to EUR 95,995k to related parties (prior year: EUR 22,587k). This resulted in outstanding receivables of EUR 21,851k as of 31 January 2011 (prior year: EUR 3,553k), which were impaired by EUR 3,012k (prior year: EUR 0k).

For the most part, the outstanding balances are not secured nor have guarantees been issued on them. The receivables were settled by payment or by netting them against accounts payable.

Leases

The group has rented sales warehouse space (distribution centres) in Germany from various limited partners. In the fiscal year 2010/11 the fixed leases amounted to EUR 10,469k (prior year: EUR 10,680k) and the investment-related leases came to EUR 1,937k (prior year: EUR 1,937k). Outstanding balance from these transactions came to EUR 14,835k as of 31 January 2011 (prior year: EUR 14,458k).

In addition, the group leases warehouse space from other related parties. The annual lease payments amounted to EUR 1,112k in fiscal 2010/2011 (prior year: EUR 938k).

In the fiscal year 2010/2011, office and warehouse space was leased in Vienna under a lease agreement with a related party. As of August 2010, it no longer qualified as a related party. The lease payments incurred up to that point came to EUR 327k (prior year: EUR 562k). In another case, the group entered as lessor into a lease agreement with a related party in the Netherlands. The income from this lease agreement in the fiscal year 2010/11 amounted to EUR 126k (prior year: EUR 740k). The lease ended on 31 March 2010. As in the prior year, the corresponding property is classified as held for sale.

Other services

The group performs administrative services for limited partners (IT, accounting or consulting services), for which the group received compensation of EUR 491k in the fiscal year 2010/11 (prior year: EUR 500k). The outstanding receivables in the fiscal year 2010/11 amounted to EUR 54k (prior year: EUR 56k).

The group rendered services of EUR 645k to other related parties in the fiscal year 2010/11. This resulted in outstanding receivables of EUR 12k as of 31 January 2011.

In fiscal 2010/11, the group purchased other services from other related parties amounting to EUR 596k. As of 31 January 2011, there were still outstanding liabilities of EUR 54k.

Other

In August 2010 the partners in PHOENIX Pharmahandel GmbH & Co. KG increased their limited partner contributions by a total of EUR 550,000k; an amount of EUR 44,500k thereof is attributable to treasury shares. Group equity increased by EUR 505,500k as a result.

Terms and conditions

Unless terms and conditions of related party transactions have been commented on specifically above, they were made on an arm's length basis. Outstanding balances at year end are unsecured and settlement occurs in cash.

Remuneration of the members of management board

The total expense for remuneration of the management board in the reporting period was EUR 6,167k (prior year: EUR 7,784k) and is classified as short-term employee benefits.

The current service cost in connection with pension awards granted to members of the management board in the reporting period was EUR 249k (prior year: EUR 221k).

Former members of the management board received remuneration of EUR 1,066k in the fiscal year under review (prior year: EUR 976k). Pension provision of EUR 6,106k have been recognised.

Remuneration of the advisory board

The advisory board remuneration amounted to EUR 100k in the fiscal year under review (prior year: EUR 0k).

Mannheim, 31 March 2011

The management board of the unlimited partner
PHOENIX Verwaltungs GmbH

AUDIT OPINION

We have audited the consolidated financial statements prepared by PHOENIX Pharmahandel GmbH & Co KG, Mannheim, comprising the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 February 2010 to 31 January 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 31 March 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Schmidt	Rometsch
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Foreign shareholdings and domestic subsidiaries

Bosnia-Herzegovina
PHOENIX Veleprodaja lijekova d.o.o.
Stefana Dečanskog bb
Bijeljina
Bosnia and Hercegovina
www.PHOENIX.ba

Bulgaria
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Denmark
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Domestic subsidiaries

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PHOENIX Pharma-Einkauf GmbH
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Health Logistics GmbH
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76646 Bruchsal
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Financial calendar 2011/2012

28st June 2011	Quarterly Report February to April 2011
29st September 2011	Quarterly Report February to July 2011
21st December 2011	Quarterly Report February to October 2011

Imprint
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Concept and realisation
Group Communications PHOENIX group
ServiceDesign Werbeagentur GmbH, Heidelberg
corps. Corporate Publishing Services GmbH, Düsseldorf
Metzgerdruck GmbH, Obrigheim

Photographs
PHOENIX group
Tamro Oy
Brocacef Holding NV
Benno Riffel

Translation of the German version.
The German version is binding.

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The text of the annual report applies equally to both women and men. Any exclusive use of the female or male form encompasses both forms.

PHOENIX group

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