PHOENIX group

Quarterly report

February – October 2010

- Successful refinancing of PHOENIX Group in August following termination of trust agreement, standstill agreement and restructuring loan.
- Increase of EUR 505m in equity in August.
- Repayment of the entire loan granted to a related party of EUR 459m including interest.
- Disposals of non-core activities continue. Sale of the investment in KL Holding GmbH for EUR 58.5m in September.
- Reduction in liabilities by around EUR 1b as a result of above measures.
- Proceeds from a bond with a nominal value of EUR 506m.
- First-time utilisation of a syndicated loan agreement for EUR 1.85b already concluded in the second quarter.
- Joint venture founded with Celesio to bundle activities in the Netherlands.
- Agreement on the sale of the 12.5% interest in ANZAG to Alliance Boots on 18 October for a price of EUR 26.00 per share.
- Revenue up 1.5% to EUR 16.1b.
- Gross profit margin increased from 8.63% to 8.72%.
- Profit before tax (adjusted for expenses relating to the financial restructuring) up 13.0% to EUR 260.4m.

	9 months	
	2009 EUR k	**2010** **EUR k**
Revenue	**15,894,491**	**16,134,522**
Gross profit	**1,370,999**	**1,406,978**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**410,730**	**421,190**
Adjusted EBITDA	**441,926**	**450,984**
Earnings before interest and taxes (EBIT)	**345,090**	**353,692**
Financial result	**-133,198**	**-176,233**
Profit before tax	**211,892**	**177,459**
Profit for the period	**139,086**	**99,929**

	31 Jan 2010 EUR k	**31 Oct** **2010** **EUR k**
Equity	**1,112,497**	**1,708,500**
Equity ratio	**13.8%**	**21.8%**
Net financial liabilities	**3,479,822**	**2,443,752**

Quarterly report February – October 2010

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Interim group management report

Business and general environment

Development of the market

The overall economic environment improved in the first nine months of the fiscal year compared to the same period in the prior year. The German Council of Economic Experts is forecasting a rise of 3.7% in GDP for Germany in 2010.

Marginal growth was recorded on the European pharmaceutical markets. Despite the general market recovery, growth on various markets was influenced by healthcare policy.

In the current fiscal year, the pharmaceutical wholesale market in Germany grew at a comparatively strong rate of 4.9% in the period from January to October 2010. As of 1 August 2010 the mandatory discounts offered to public health insurers by manufacturers of pharmaceuticals were increased to 16% and a price moratorium was set until 31 December 2013 for drugs qualifying for refunds. The 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 by switching to a fixed mark-up that is independent of price, combined with a percentage mark-up on the sales price of the pharmaceuticals. The interim solution for 2011 provides for a flat-rate rebate by wholesalers of 0.85% of the manufacturer's price for prescription drugs. We endeavour to use sales measures to compensate for any resulting burdens. The AMNOG also stipulates that pharmacies have to pay an increased rebate of EUR 2.05 per prescription pack from 1 January 2011 onward.

In the UK, year-on-year growth on the pharmaceutical market has increased, contributing to a positive business development at our UK subsidiary. 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 pharmaceutical wholesalers and pharmacy retail. The French market continued to be shaped by intensive competition through discounts, which hindered the business development of our subsidiaries there.

Market development in northern Europe was varied in the first nine months of the fiscal year. While the reference price system introduced in Finland in the prior year curbed market growth and the Danish market was also in slight decline, Sweden recorded marginal market growth.

In eastern European, the Hungarian market in particular experienced pleasing growth in the pharmaceutical trade. In Serbia, where PHOENIX has been present since 2008, we were able to expand our market position substantially once again in the current fiscal year.

Acquisitions, investments and joint ventures

In the first nine months of the fiscal year 2010/2011, acquisitions focused mainly on buying up individual pharmacies in different countries.

On 16 June 2010 we reached an agreement with Celesio AG, limited to the Netherlands, under which Celesio contributes its 100% investment in Lloyds Nederland B.V., consisting of 62 pharmacies, to Brocacef Holding N. V. In return, Celesio AG receives 45% of the shares in Brocacef Holding N. V. With a total of 115 of its own pharmacies and around 40 franchise partner pharmacies, the joint venture will be the second largest on the Dutch pharmacy market and thus achieves a considerably better market position. The acquisition was subject to the approval of the anti-trust authorities, which was granted on 23 November 2010.

In the course of clearing our portfolio of non-core activities, we signed a contract for the sale of our investment of 42.5% in an pharmaceuticals trading company on 15 March 2010. We assume that the sale will take place in December 2010.

We were able to successfully sell our start-up business in the Swedish pharmacy retail business as of 30 April 2010, as planned.

Furthermore, on 18 October 2010 we concluded an agreement concerning the sale of our 12.5% interest in ANZAG for EUR 26 per share. The acquisition is still subject to the approval of the anti-trust authorities. The sale proceeds will be used to reduce our liabilities. We expect that the sale will take place in December 2010.

Financial restructuring

The financial restructuring of the PHOENIX Group, which was already greatly advanced in the second quarter of the fiscal year with significant contracts and transactions, was completed successfully in the third quarter of the fiscal year. It comprises the following major elements:

- First-time utilisation of a syndicated loan agreement for EUR 1.85b already concluded in the second quarter.
- Receipt of the proceeds from the issue of a bond with a nominal value of EUR 506m already placed in the second quarter.
- Independent financing of the Comifar Group in Italy of up to EUR 750m.
- Sale of the investment in KL Holding GmbH.
- Repayment of the loan granted to a related party of EUR 459m including accumulated interest.
- Increase of EUR 505m in equity.

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 a syndicate of six Italian banks for commitments of EUR 750m until 31 December 2013. This financing package replaces the previous financing in Italy and ends the Italian standstill agreement.

After securing the independent financing of the Comifar Group, the Italian credit facility of EUR 750m included in the syndicated loan agreement for EUR 2.6b was already irrevocably terminated as of 5 July 2010.

On 13 July 2010, PHOENIX PIB Finance BV successfully placed a bond with a nominal value of EUR 506.15m and a term until 2014. The bond bears interest at a fixed coupon rate 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 bond is guaranteed by the same group subsidiaries that guarantee the syndicated loan facility.

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 lenders and the trust agreement were ended accordingly. Funds from the new EUR 2.6b credit facility, the EUR 506m bond, the EUR 505m capital increase and the EUR 435m received from partial repayment of a loan granted to a related party were used to settle all of the previous liabilities governed by the standstill agreement and the agreements related to them were terminated. Furthermore, the previous financing of foreign subsidiaries of the Group was also, to a large extent, replaced in the course of the refinancing measures.

On 23 September 2010, the remainder of the loan granted to a related party was repaid including interest. This means that the related party has now repaid the total amount of EUR 459m including all interest to PHOENIX.

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

The sale of the shares in KL Holding GmbH was arranged by agreement dated 27 July 2010. The shares were transferred to the buyer on 3 September 2010 and we used the purchase price to repay financial liabilities.

Change in management

Mr. Stefan Herfeld was appointed general manager of PHOENIX Verwaltungs GmbH on 3 September 2010.

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.

Results of operations, net assets and financial position

Results of operations

Revenue increased by 1.5% to EUR 16,134.5m in the first nine months of 2010/11 (comparative prior-year period: EUR 15,894.5m). In Germany, the largest market, revenue increased by EUR 96.2m.

Gross profit increased by EUR 36.0m to EUR 1,407.0m. The gross profit margin also improved from 8.63% to 8.72%. The margin-oriented sales policy contributed to this, as did the increase in revenue from services, which generate a higher margin.

Other income of EUR 111.0m changed only marginally on the comparative period for the prior year.

Personnel expenses rose by EUR 8.5m to EUR 688.7m. At 4.27%, the ratio of personnel expenses in relation to total operating performance is on a par with the comparative period for the prior year (4.28%). Personnel expenses for the first nine months of 2010/11 include income of EUR 18.2m relating to a reduction in pension obligations in Norway due to a change in legislation.

An increase of EUR 20.0m to EUR 413.9m was recorded for other expenses. The increase is mainly attributable to the fact that additional specific bad debt allowances were recognised.

The investment result was up EUR 2.8m compared to the same period in the prior year to EUR 4.1m. The dividend from our investment in ZAO Rosta, Russia, is the reason for the increase.

Overall, earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by EUR 10.5m to EUR 421.2m.

Adjusted EBITDA as defined in the bond increased by EUR 9.1m to EUR 451.0m and breaks down as follows:

	9 months	
	2009 EUR k	**2010 EUR k**
EBITDA	410,730	421,190
Interest from customers	16,300	16,697
Costs of financial restructuring	8,814	8,854
Factoring fees	6,082	4,243
Adjusted EBITDA	**441,926**	**450,984**

Amortisation and depreciation increased by EUR 1.9m compared to the first nine months of the prior year to EUR 67.5m.

Earnings before interest and taxes (EBIT) rose by 2.5% to EUR 353.7m accordingly.

Compared to the same period of the prior year, the financial result changed by EUR -43.0m to EUR -176.2m. The change is mainly attributable to higher expenses in connection with the successful premature termination of the standstill agreement and the restructuring loan. As a result, expenses relating to the standstill agreement and the restructuring loan, which were originally deferred over their term until 31 January 2011, have now already been fully recognised through profit or loss for the period up until the third quarter.

Profit before tax is affected by the special expenses in connection with the standstill agreement as well as refinancing. Adjusted for these special effects, profit before tax breaks down as follows:

	9 months	
	2009 EUR k	**2010** **EUR k**
Profit before tax	211,892	177,459
Costs of financial restructuring	18,514	82,951
Profit before tax (adjusted)	**230,406**	**260,410**

Overall, adjusted profit before tax improved by EUR 30.0m to EUR 260.4m.

The tax rate comes to 43.7% in the current reporting period (comparative period: 34.4%). The increase mainly stems from non-deductible interest as a result of the interest limitation rule in Germany as well as a drop in recognisable unused tax losses.

Profit for the period fell by EUR 39.2m to EUR 99.9m. Of this, EUR 94.7m is attributable to the partners of the parent (comparative period: EUR 128.8m) and EUR 5.2m is attributable to non-controlling interests (comparative period: EUR 10.3m).

Net assets

Total assets of the Group decreased by EUR 227.5m compared to 31 January 2010 to EUR 7,831.6m. The reason for the drop in total assets is the repayment of the loan granted to a related party as well as lower trade receivables. By contrast, there was a rise in inventories and in cash and cash equivalents.

Intangible assets increased slightly to EUR 1,497.8m (31 January 2010: EUR 1,484.7m). This is mainly attributable to a rise in goodwill on account of exchange rate effects. Intangible assets contain goodwill of EUR 1,166.8m in total (31 January 2010: EUR 1,150.3m) and pharmacy licenses in the UK and Italy totalling EUR 294.6m (31 January 2010: EUR 295.7m).

Property, plant and equipment decreased from EUR 727.8m to EUR 725.6m on account of depreciation and a continuing policy of modest investment.

Other non-current financial assets fell by EUR 136.9m to EUR 67.5m, which is due in particular to the reclassification of investments not related to core business activities to assets classified as held for sale.

Inventories increased by 9.2% to EUR 1,666.5m on account of seasonal fluctuation.

Trade receivables decreased by 4.2% to EUR 2,739.0m. Receivables sold in the course of ABS and factoring programmes and accounted for off the face of the statement of financial position or at the amount of continuing involvement came to EUR 489.1m (31 January 2010: EUR 415.1m).

Other current receivables and financial assets fell from EUR 678.3m as of 31 January 2010 to EUR 274.7m. This stems in particular from the repayment of a loan granted to a related party.

Other current assets declined from EUR 82.8m as of 31 January 2010 to EUR 52.8m, mainly due to the expensing of prepaid expenses in connection with the standstill agreement.

The increase in cash and cash equivalents from EUR 396.8m to EUR 651.6m is mainly attributable to higher bank balances in connection with cash pooling relationships.

The increase in assets classified as held for sale from EUR 12.1m to EUR 68.4m is attributable to the fact that three investments not related to core business were reclassified to this item.

Financial position

Equity increased by EUR 505.4m, mainly as a result of the capital increase performed in August 2010 and the profit for the period.

The cash flow from operating activities came to EUR 96.7m (31 October 2009: EUR 289.2m). In addition to the lower profit for the period because of refinancing expenses, in particular higher overall working capital led to lower cash flow from operating activities.

Cash flow from investing activities amounted to EUR 459.4m. In the comparative period, cash flow from investing activities came to EUR -115.5m as of 31 October. The rise is principally attributable to the repayment of a loan granted to a related party and the sale of the investment in KL Holding GmbH.

Free cash flow thus improved to EUR 556.1m (31 October 2009: EUR 173.7m).

At EUR 1,828.5m, the non-current financial liabilities have increased significantly compared to 31 January 2010 (EUR 238.7m). The increase 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 a nominal volume of EUR 1,225.0m. Non-current financial liabilities also include supplementary contributions of EUR 135.0m (31 January 2010: EUR 135.0m).

Current financial liabilities decreased by EUR 2,371.0m to EUR 1,266.8m. The reason for this is the changed financing structure due to the refinancing carried out in August 2010.

Current financial liabilities include among other things liabilities to banks of EUR 662.1m (31 January 2010: EUR 2,774.4m), liabilities from ABS and factoring agreements of EUR 266.5m (31 January 2010: EUR 344.6m) and other loans amounting to EUR 146.3m (31 January 2010: EUR 167.6m).

Trade payables were kept at the high level of 31 January 2010.

Other liabilities fell from EUR 248.5m as of 31 January 2010 to EUR 239.3m.

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 financial liabilities to EBITDA of around 3.0.

Overall, the PHOENIX Group enjoyed stable business development in the first nine months of the fiscal year 2010/11 and maintained its position as one of the leading pharmaceutical trading companies in Europe.

Subsequent events

On 23 November 2010, the anti-trust authorities approved the contribution by Celesio of 100% of the shares in Lloyds Nederland B. V. to Brocacef Holding N. V.

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.

However, demographic development and progress in the field of medicine mitigate the risk associated with the impact of regulation on the market. PHOENIX continues to counter this market risk through geographical diversification and by spreading itself along the value-added chain.

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 major customers with a higher level of receivables outstanding. Receivables management is developed on an ongoing basis and adjusted to changing conditions.

PHOENIX regularly acquires 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 present a risk to financing. The development of the liabilities and the covenants is monitored regularly as a result.

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

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 Group's exposure to the risk of changes in healthcare policy in the individual markets.

The broad geographic spread also allows PHOENIX to offer logistics services across Europe to pharmaceutical manufacturers as necessary.

In most of the countries where we operate, PHOENIX has a strong market position in wholesale pharmaceuticals. For example, we are the market leader for wholesale pharmaceuticals in a large number of countries. Our market position is particularly strong in eastern Europe. No other competitor can match our coverage there in terms of the number of countries we serve.

In wholesale pharmaceuticals, we have established, partnership-based links to our pharmacy customers. Many of our pharmacy customers take part in partnership programmes. We also offer franchise systems for independent pharmacies in some countries.

The integration of the wholesale pharmaceutical and pharmacy retail business also offers opportunities, resulting in cost-savings in sales channels for drugs.

In the area of logistics, we are focusing on implementing best practice across Europe on a continuous basis. Process optimisation measures that are successful in one country serve as a starting point for improvement measures in other countries.

The new financing structure has created the financial prerequisites for the further growth of our business. This applies both to organic growth and also to acquisitions to a limited extent. With bank financing, a bond and a capital increase, the new financing structure is more diversified and longer term than in the past.

Forecast

For the current fiscal year, we assume that the pharmaceutical markets in Europe will experience marginal growth. Healthcare policy in some countries can be expected to introduce further cost-saving measures in the course of consolidation efforts relating to national budgets.

The AMNOG will result in a change in the remuneration structure for the German wholesale pharmaceutical business, with the aim of achieving cost-savings for the German health system from 2011.

Regarding revenue, we expect growth of around 1% to 2% for the fiscal year 2010/11, most of it internally generated. At the level of adjusted EBITDA, we expect to exceed the 2009/10 level in the fiscal year 2010/11. In addition to the development of market growth and the gross profit margin, a continuing source of uncertainty for us is how foreign currencies and market interest rates relevant for us will develop.

For 2010/11 we plan that investments in property, plant and equipment will slightly exceed depreciation; these capital expenditures will be fully financed from operating cash flows.

The current results of operations as of October so far confirm the development anticipated in the planning for 2010/11.

The implementation of the new financing structure marks the achievement of our main target for fiscal 2010/11. Following 18 months characterised by difficulties on the financing side, we can now shift our focus once again to steadily optimising and improving operating business. Further reduction of liabilities remains an important target.

Related party disclosures

The business relationships with related parties are presented in the notes to the interim condensed consolidated financial statements under "Related party disclosures".

PHOENIX group

Interim consolidated financial statements

PHOENIX Pharmahandel GmbH & Co KG, Mannheim
Consolidated income statement for the first nine months of 2010/11

	3rd quarter		Nine months	
	2009	**2010**	2009	**2010**
	EUR k	**EUR k**	EUR k	**EUR k**
Revenue	**5,314,459**	**5,365,974**	**15,894,491**	**16,134,522**
Cost of purchased goods and services	-4,852,121	-4,902,639	-14,523,492	-14,727,544
Gross profit	**462,338**	**463,335**	**1,370,999**	**1,406,978**
Other income	29,399	35,343	110,993	111,026
Personnel expenses	-227,880	-217,589	-680,201	-688,730
Other operating expenses	-127,891	-131,831	-393,891	-413,891
Result from associates	527	142	1,503	1,702
Result from other investments	458	330	1,327	4,105
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**136,951**	**149,730**	**410,730**	**421,190**
Amortisation of intangible assets and depreciation of property, plant and equipment	-22,188	-20,196	-65,640	-67,498
Earnings before interest and taxes (EBIT)	**114,763**	**129,534**	**345,090**	**353,692**
Interest and similar income	21,178	24,718	71,714	82,732
Interest and similar expenses	-67,962	-106,694	-204,620	-274,500
Other financial result	0	15,581	-292	15,535
Financial result	**-46,784**	**-66,395**	**-133,198**	**-176,233**
Profit before tax	**67,979**	**63,139**	**211,892**	**177,459**
Income taxes	-24,086	-28,224	-72,806	-77,530
Profit for the period	**43,893**	**34,915**	**139,086**	**99,929**
Thereof attributable to non-controlling interests	3,208	2,954	10,248	5,216
Thereof attributable to partners of the parent company	**40,685**	**31,961**	**128,838**	**94,713**

PHOENIX Pharmahandel GmbH & Co KG, Mannheim
Statement of comprehensive income for the first nine months of 2010/11

	3rd quarter		Nine months	
	2009	**2010**	2009	**2010**
	EUR k	**EUR k**	EUR k	**EUR k**
Profit for the period	**43,893**	**34,915**	**139,086**	**99,929**
Gains/losses from changes in the fair value of available-for-sale financial assets	15,018	4,727	24,445	-1,028
Reclassification adjustments	0	-17,062	0	-17,062
Currency translation differences	-18,127	-13,337	14,149	13,065
Other comprehensive income, net of taxes	**-3,109**	**-25,672**	**38,594**	**-5,025**
Total comprehensive income	**40,784**	**9,243**	**177,680**	**94,904**
Thereof attributable to non-controlling interests	3,188	2,344	11,381	5,032
Thereof attributable to partners of the parent company	**37,596**	**6,899**	**166,299**	**89,872**

PHOENIX group

PHOENIX Pharmahandel GmbH & Co KG, Mannheim
Consolidated statement of financial position as of 31 October 2010

	31 Jan 2010 EUR k	**31 Oct 2010** **EUR k**
Non-current assets		
Intangible assets	1,484,719	1,497,764
Property, plant and equipment	727,826	725,549
Investments in associates	25,156	23,823
Other financial assets	204,314	67,449
Deferred tax assets	54,451	51,175
	2,496,466	**2,365,760**
Current assets		
Inventories	1,525,542	1,666,494
Trade receivables	2,857,738	2,739,001
Income tax receivables	9,420	12,862
Other receivables and other current financial assets	678,332	274,743
Other assets	82,816	52,768
Cash and cash equivalents	396,716	651,596
	5,550,564	**5,397,464**
Non-current assets classified as held for sale	12,128	68,404
Total assets	**8,059,158**	**7,831,628**

	31 Jan 2010 EUR k	**31 Oct 2010** **EUR k**
Equity		
Issued capital	500,000	1,050,000
Reserves	567,428	619,262
Other comprehensive income	-66,141	-70,982
Non-controlling interests	111,210	110,220
	1,112,497	**1,708,500**
Non-current liabilities		
Financial liabilities	238,721	1,828,515
Provisions for pensions and similar obligations	126,288	111,134
Deferred tax liabilities	122,788	124,033
	487,797	**2,063,682**
Current liabilities		
Financial liabilities	3,637,817	1,266,833
Trade payables	2,461,916	2,455,462
Other provisions	49,055	21,471
Income tax liabilities	61,540	76,346
Other liabilities	248,536	239,334
	6,458,864	**4,059,446**
Total equity and liabilities	**8,059,158**	**7,831,628**

PHOENIX group

PHOENIX Pharmahandel GmbH & Co KG, Mannheim
Statement of changes in equity for the first nine months of 2010/11

Statement of changes in equity	Issued capital EUR k	Reserves EUR k	Currency translation differences EUR k	IAS 39 Available-for-sale assets EUR k	**Equity attributable to partners EUR k**	**Non-controlling interests EUR k**	**Total equity EUR k**
1 February 2009	**500,000**	**423,822**	**-135,381**	**5,931**	**794,372**	**98,993**	**893,365**
Profit for the period	0	128,838	0	0	128,838	10,248	139,086
Other comprehensive income	0	0	13,508	23,953	37,461	1,133	38,594
Total comprehensive income, net of tax	**0**	**128,838**	**13,508**	**23,953**	**166,299**	**11,381**	**177,680**
Capital increase	0	0	0	0	0	998	998
IFRIC 14 pension liability adjustment	0	-679	0	0	-679	0	-679
Dividends	0	0	0	0	0	-1,477	-1,477
Other changes	0	2,890	0	0	2,890	-2,430	460
31 October 2009	**500,000**	**554,871**	**-121,873**	**29,884**	**962,882**	**107,465**	**1,070,347**
1 February 2010	**500,000**	**567,428**	**-103,261**	**37,120**	**1,001,287**	**111,210**	**1,112,497**
Profit for the period	0	94,713	0	0	94,713	5,216	99,929
Other comprehensive income	0	0	12,828	-17,669	-4,841	-184	-5,025
Total comprehensive income, net of tax	**0**	**94,713**	**12,828**	**-17,669**	**89,872**	**5,032**	**94,904**
Changes in consolidation scope	0	1,764	0	0	1,764	-4,174	-2,410
Capital increase	550,000	-44,550			505,450		505,450
Dividends	0	0	0	0	0	-1,808	-1,808
Other changes	0	-93	0	0	-93	-40	-133
31 October 2010	**1,050,000**	**619,262**	**-90,433**	**19,451**	**1,598,280**	**110,220**	**1,708,500**

PHOENIX group

PHOENIX Pharmahandel GmbH & Co KG, Mannheim
Consolidated statement of cash flows for the first nine months of 2010/11

	31 Okt 2009 EUR k	31 Okt 2010 EUR k
Profit for the period	**139.086**	**99.929**
+/- Write-downs/write-ups of non-current assets	65.640	67.498
-/+ Gain/loss from the disposal of non-current assets	-7.629	-1.311
+/- Increase/decrease in non-current provisions	1.613	-17.031
+/- Other non-cash expenses/income	15.937	-9.178
- Interest income	-35.836	-37.656
+ Interest expense	157.159	145.640
- Tax income	-4.706	-794
+ Tax expense	77.512	78.324
- Interest paid	-144.270	-129.745
+ Interest received	22.583	34.902
Interest paid	**-121.687**	**-94.843**
- Income taxes paid	-49.980	-75.660
+ Dividends received	1.464	8.307
Net interest and taxes paid and dividends received	**-170.203**	**-162.196**
EARNINGS BEFORE CHANGE IN WORKING CAPITAL	**238.573**	**163.225**
-/+ Increase/decrease in inventories	28.592	-141.380
-/+ Increase/decrease in trade receivables	217.513	127.240
-/+ Increase/decrease in other receivables and other assets	-116.947	-2.284
+/- Increase/decrease in trade payables	-128.721	-26.651
+/- Increase/decrease in current provisions	8.620	-15.101
+/- Increase/decrease in other payables and other liabilities	41.547	-8.346
Changes in working capital	**50.604**	**-66.522**
CASH FLOW FROM OPERATING ACTIVITIES	**289.177**	**96.703**
- Cash paid for the purchase of consolidated companies and business units	-69.360	-10.419
+ Cash received from the purchase of consolidated companies and business units	3.495	968
Cash paid for the purchase of consolidated companies and business units	**-65.865**	**-9.451**
+ Cash received from the sale of consolidated companies and business units	1.650	2.147
- Cash paid for the sale of consolidated companies and business units	0	-65
Cash received from the sale of consolidated companies and business units	**1.650**	**2.082**
+ Cash received from disposals of intangible assets	634	0
+ Cash received from disposals of property, plant and equipment	5.764	2.970
+ Cash received from disposals of financial assets	4.428	64.659
Cash received from disposals of non-current assets	**10.826**	**67.629**
- Cash paid for investments in intangible assets	-11.655	-4.220
- Cash paid for investments in property, plant and equipment	-50.611	-56.432
- Cash paid for investments in financial assets	-1.374	-488
Cash paid for investments in non-current assets	**-63.640**	**-61.140**
+ Cash received from the repayment of loans from related parties	0	458.495
+ Cash received from securities and financial assets	1.548	1.731
CASH FLOW FROM INVESTING ACTIVITIES	**-115.481**	**459.346**
CASH FLOW AVAILABLE FOR FINANCING ACTIVITIES	**173.696**	**556.049**
+ Capital increase	0	505.450
- Payments to non-controlling interests (dividends)	-1.542	-1.871
+/- Increase/decrease in ABS/factoring liabilities	-284.754	-78.351
+ Cash received from the issue of bonds and loans	107.198	1.959.012
- Cash repayments of bonds and loans	-121.469	-2.688.010
CASH FLOW FROM FINANCING ACTIVITIES	**-300.567**	**-303.770**
CHANGE IN CASH AND CASH EQUIVALENTS	**-126.871**	**252.279**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**398.728**	**396.716**
Exchange rate effect on cash and cash equivalents	9.218	2.601
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**281.075**	**651.596**

PHOENIX Pharmahandel GmbH & Co KG, Mannheim
Notes to the interim condensed consolidated financial statements as of 31 October 2010

The company

PHOENIX Pharmahandel GmbH & Co KG, Mannheim, ("PHOENIX" or the "Group") is a European pharmaceuticals trading group. PHOENIX operates pharmaceutical wholesale branches in 23 European countries. PHOENIX also runs its own pharmacy chains in several countries. The registered offices of the company are in Mannheim.

Basis of preparation

The interim condensed consolidated financial statements of PHOENIX as of 31 October 2010 are prepared on the basis of IAS 34 "Interim Financial Reporting", observing all International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, and mandatory as of 31 October 2010, as well as all mandatory interpretations of the International Financial Reporting Standards Interpretation Committee (IFRIC).

The interim condensed consolidated financial statements as of 31 October 2010 of PHOENIX were released for publication by the management of PHOENIX Pharmahandel GmbH & Co KG on 10 December 2010.

Significant accounting policies

The accounting methods used to prepare the interim condensed consolidated financial statements are essentially consistent with those used in the consolidated financial statements as of 31 January 2010. Any differences are explained below. The standards and interpretations mandatory for the first time since 1 February had the following impact on the interim consolidated financial statements:

IFRS 3 "Business Combinations" (2008) and IAS 27 "Consolidated and Separate Financial Statements" (2008)

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, shares without a controlling influence can either be measured at fair value (full goodwill method) or pro rata at fair value of the net asset identified. In the case of step acquisitions, the shares held are 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) did not lead to any significant effects in the first nine months compared to the previous version of the standard.
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 in other comprehensive income 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. There were no transactions of this type in the first nine months.

Improvements to IFRSs (April 2009)

The Improvements to International Financial Reporting Standards issued by the IASB in 2009 led to small changes in IFRSs. The change to IAS 7 “Statements of Cash Flows”, according to which only cash outflows recognised as assets in the statement of financial position can be classified as investing activities, affects the presentation of cash outflows in connection with conditional purchase price elements in the course of business combinations.

Other changes to the following standards resulting from the improvements to IFRSs do not affect the accounting policies or the financial position and performance of the Group: IFRS 2 “Share-based Payment”, IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, IFRS 8 “Operating Segments”, IAS 1 “Presentation of Financial Statements”, IAS 17 “Leases”, IAS 36 “Impairment of Assets”, IAS 38 “Intangible Assets”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRIC 9 “Reassessment of Embedded Derivatives”, IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”.

None of the following IASB pronouncements or changes to the pronouncements mandatory for fiscal years beginning on or after 1 February 2010 had a significant effect on the financial position and performance of the Group:

- IFRS 2 “Share-based Payment”
- IAS 32 “Financial Instruments: Presentation”
- IAS 39 “Financial Instruments: Recognition and Measurement” – Eligible Hedged Items
- 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”

Business combinations in the first nine months of 2010/11

The business combinations carried out in the first nine months of 2010/11 are explained below. Purchase accounting is performed in accordance with the purchase method pursuant to IFRS 3 “Business Combinations”.

In fiscal 2010/11, the accumulated profit for the period of the companies acquired came to EUR 129k. Assuming that the acquisition date coincides with the beginning

PHOENIX group

of the reporting period for all business combinations, accumulated revenue for the period came to EUR 20,726k. Assuming that the acquisition date coincides with the beginning of the reporting period for all business combinations, the accumulated loss for the period came to EUR -382k.

Taken individually, the business combinations performed in the first nine months of 2010/11 were immaterial and mainly related to individual pharmacies in the regions of northern, western and eastern Europe.

The table below shows a summary of their carrying amounts and fair values:

PHOENIX group

Carrying amount before acquisition

	Total
	EUR k
Intangible assets	16
Property, plant and equipment	3,154
Non-current receivables	0
Financial assets	35
Deferred tax assets	0
Inventories	1,575
Current receivables	2,069
Other assets	1,854
Cash and bank balances	1,004
Assets	**9,706**
Non-current provisions	13
Non-current liabilities	1,887
Deferred tax liabilities	4
Current provisions	318
Current liabilities	7,787
Equity and liabilities	**10,009**
Net assets	**-302**

Fair value recognised on acquisition

	Total
	EUR k
Purchase price	8,315
Equity instruments	0
Total acquisition costs	**8,315**
Intangible assets	16
Property, plant and equipment	3,154
Non-current receivables	0
Financial assets	35
Deferred tax assets	0
Inventories	1,575
Current receivables	2,069
Other assets	1,854
Cash and bank balances	1,004
Assets	**9,707**
Non-current provisions	13
Non-current liabilities	1,887
Deferred tax liabilities	4
Current provisions	318
Current liabilities	7,787
Equity and liabilities	**10,009**
Net assets	-302
Non-controlling interests	3
Net assets acquired	**-305**
Goodwill	**8,620**

Cash outflow owing to business combination	Total
	EUR k
Cash and cash equivalents purchased with the subsidiary	968
Cash paid	-10,419
Actual cash outflow	**-9,451**

On 16 June 2010, PHOENIX reached an agreement with Celesio AG, limited to the Netherlands, under which Celesio contributes its 100% interest in Lloyds Nederland B.V., consisting of 62 pharmacies, to Brocacef Holding N. V. In return, Celesio AG receives 45% of the shares in Brocacef Holding N. V. With a total of 115 of its own pharmacies and around 40 franchise partner pharmacies, the joint venture will be the second largest on the Dutch pharmacy market and thus achieves a considerably better market position. The Dutch anti-trust authorities approved the transaction on 23 November 2010 and the acquisition will take effect as of 1 December 2010. When preparing this nine-monthly financial report no further information was available on the fair value of the consideration transferred and the assets acquired and liabilities assumed.

Other income and expenses

Other income is largely unchanged compared to the first nine months of the prior year.

The increase in other expenses is mainly attributable to the higher expenses in connection with specific bad debt allowances compared to the prior-year period.

Other expenses contain expenses in connection with ABS and factoring programmes of EUR 4,243k (comparative period: EUR 6,082k).

Expenses of EUR 8,854k (comparative period: EUR 8,814k) were recognised under other expenses in connection with the financial restructuring of the PHOENIX Group.

Personnel expenses

In late June 2010 a law was enacted in Norway that has an impact on assumptions made in calculating pension obligations. The effect of this change in law on pension obligations was initially not considered significant with regard to net assets and results of operations. An actuarial report was commissioned in order to verify this assessment. Based on the report from November 2010, pension obligations were reduced through profit or loss by EUR 18,157k, and this amount was recognised as income in the third quarter of 2010/11.

Financial result

	Nine months	
	2009	**2010**
	EUR k	**EUR k**
Interest and similar income		
Interest income	35,836	37,656
Exchange gains	30,663	10,077
Other financial income	3,061	2,705
Other financial income derivatives	2,154	32,294
	71,714	**82,732**
Interest and similar expenses		
Interest expenses	-157,159	-145,640
Exchange losses	-895	-44,053
Other financial expenses	-13,300	-79,082
Other financial expenses derivatives	-33,266	-5,725
	-204,620	**-274,500**
Other financial result	**-292**	**15,535**
Financial result	**-133,198**	**-176,233**

Interest income contains interest from customers of EUR 16,697k (comparative period: EUR 16,300k) as well as interest from a related party of EUR 14,367k (comparative period: EUR 14,372k).

Other financial expenses contain non-recurring effects of EUR 16,846k (comparative period: EUR 0k) in connection with refinancing. This item also contains expenses of EUR 57,251k (comparative period: EUR 9,700k) associated with the financing covered under the standstill agreement. Of this, a total of EUR 37,448k pertained to the premature termination of this financing.

Other financial income and financial expenses from derivatives include changes in the fair value of financial instruments that were used to hedge interest rate and currency risks, but do not meet the criteria for hedge accounting.

The other financial result comprises gains from the disposal of a financial asset classified as “available for sale” of EUR 17,062k (comparative period: EUR 0k).

Other assets and other liabilities

	31 Jan 2010 EUR k	**31 Oct 2010 EUR k**
Prepayments	31,602	14,726
Tax claims - VAT and other taxes	6,698	12,144
Sundry assets	44,516	25,898
Other assets	**82,816**	**52,768**

	31 Jan 2010 EUR k	**31 Oct 2010 EUR k**
VAT and other tax liabilities	53,983	41,909
Wages and salaries	57,200	55,487
Personnel-related provisions	44,797	46,677
Liabilities relating to social security/similar charges	15,326	20,898
Prepayments received on account	4,065	4,316
Sundry liabilities	73,165	70,047
Other liabilities	**248,536**	**239,334**

Other financial assets and other liabilities

The table below shows the non-current financial assets:

	31 Jan 2010 EUR k	**31 Oct 2010** **EUR k**
Available-for-sale financial assets	153,852	34,700
Loans to and receivables from associates	13,071	11,106
Other loans	35,360	20,237
Other non-current financial assets	2,031	1,406
	204,314	**67,449**

For details of the decrease in "available-for-sale financial assets" we refer to the comments in the section "Non-current assets held for sale".

The table below shows the current financial assets:

	31 Jan 2010 EUR k	**31 Oct 2010** **EUR k**
Trade receivables	2,857,738	2,739,001
Other financial assets		
Held-to-maturity financial assets	60	60
Loans to and receivables from associates or related parties	467,945	22,152
Other loans	62,586	52,713
Derivative financial instruments	587	15,291
Other current financial assets	147,154	184,527
	678,332	**274,743**

As of 31 October 2010, 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. These receivables are recognised at their original carrying amount of EUR 294,223k (31 January 2010: EUR 381,692k); the associated financial liabilities come to EUR 266,501k (31 January 2010: EUR 336,456k) and are treated as securitised loans. Receivables sold in the course of factoring and ABS transactions and which meet the criteria for derecognition under IAS 39 and are therefore not included in the statement of financial position amount to EUR 142,191k (31 January 2010: EUR 136,236k).

The carrying amount of trade receivables recognised at the amount of the obligation arising from continuing involvement came to EUR 346,921k, with the continuing involvement accounting for EUR 11,658k (31 January 2010: EUR 278,936k with a continuing involvement of EUR 7,201k). The corresponding financial liabilities come to EUR 12,733k (31 January 2010: EUR 8,129k) and are also recognised as securitised loans.

Other financial assets include receivables from ABS and factoring programmes of EUR 70,887k (31 January 2010: EUR 45,865k).

As of the end of the reporting period, financial liabilities break down as non-current and current liabilities as follows:

	31 Jan 2010 EUR k	**31 Oct 2010 EUR k**
Financial liabilities (non-current)		
Liabilities to banks	74,773	1,200,713
Bonds	0	487,981
Loans	1,115	900
Supplementary partner contribution	135,032	135,032
Other financial liabilities	27,801	3,889
	238,721	**1,828,515**

	31 Jan 2010 EUR k	**31 Oct 2010 EUR k**
Financial liabilities (current)		
Liabilities to banks	2,774,430	662,080
Bonds	177,089	0
Loans	167,551	146,290
Liabilities to associates and related parties	41,560	40,004
Liabilities and provisions for customer rebates and bonuses	29,348	33,314
ABS and factoring liabilities and payables	344,585	266,501
Other financial liabilities	103,254	118,644
	3,637,817	**1,266,833**

On 16 July 2010, PHOENIX PIB Finance B.V. issued a bond with a nominal volume of EUR 506,150k. The bond has a term of four years.

In the course of the refinancing performed in August 2010, PHOENIX concluded a syndicated credit agreement with a term of 3.5 years. The long-term tranche of this credit facility with a nominal volume of EUR 1,225,000k is presented under non-current liabilities to banks. In addition, PHOENIX has access to a short-term credit line of EUR 625,000k, which had not been drawn as of 31 October 2010.

The Comifar Group in Italy also concluded a refinancing arrangement for a total volume of EUR 750,000k in July 2010, of which EUR 369,601k had been drawn as of 31 October 2010. This is reported under current liabilities to banks.

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 new credit agreements impose certain financial covenants on the company.

Shares in significant group entities have been pledged as collateral.

Other financial liabilities (non-current) contain non-current derivative financial instruments of EUR 633k (31 January 2010: EUR 10,506k).

Liabilities to associates and related parties include current loan liabilities to partners of EUR 30,680k (31 January 2010: EUR 30,341k).

Other financial liabilities (current) comprise current derivative financial instruments of EUR 3,453k (31 January 2010: EUR 17,912k).

Non-current assets held for sale

In the course of grooming the investment portfolio to include only core activities, PHOENIX signed an agreement on the sale of an associate on 15 March 2010.

In the second quarter of 2010/11, management decided to sell the shareholding in Andreae-Noris Zahn AG (ANZAG) as well as the investment held in another entity. The investments were previously recognised as non-current assets under “other financial assets”. The accumulated net profit resulting from the change in fair value relating to these investments and recognised in other comprehensive income as of 31 October 2010 came to EUR 14,647k. These investments were disclosed as non-current assets held for sale as of 31 October 2010. The investment in ANZAG was sold to the UK-based Alliance Boots group on 18 October 2010. A purchase price of EUR 26.00 per share was agreed. Execution of the sale is still subject to approval from the anti-trust authorities. The sale of the investment in another entity is expected to be performed before the end of the first six months of 2011/12.

Commitments and contingent liabilities

Commitments fell by EUR 23,001k compared to 31 January 2010 to EUR 450,141k. This was mainly influenced by the sale of a start-up company in Sweden.

PHOENIX recorded contingent liabilities for warranties of EUR 102,922k as of 31 October 2010 (31 January 2010: EUR 134,416k). In addition, there were guarantee agreements of EUR 350k (31 January 2010: EUR 150k).

Related party disclosures

The business relationships with related parties presented in the consolidated financial statements as of 31 January 2010 remained essentially unchanged in the first nine months of 2010/11 except for the transactions presented below.

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 4.5% 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.

The loan of EUR 415,000k granted to a related party was repaid to PHOENIX with all interest due. Interest amounted to EUR 14,367k in the first nine months of 2010/11 (comparative period: EUR 14,372k).

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

Following the acquisition of the Ratiopharm group by Teva Pharmaceutical Industries Ltd. on 10 August 2010, Ratiopharm is no longer a related party.

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 44,550k thereof is attributable to treasury shares. Group equity increased by EUR 505,450k as a result.

Notes to the statement of cash flows

	31 Jan 2010 EUR k	**31 Oct 2010 EUR k**
Restricted cash		
Cash and cash equivalents at the end of the period	**396,716**	**651,596**
Thereof restricted		
due to security deposits	34,888	6,697
due to restrictions on disposal of foreign subsidiaries	158,428	7,505
pursuant to German standstill agreement	130,422	0

Restricted cash as of the end of the period corresponds to the collateral pledged for the revolving credit lines (e.g., ABS and factoring). There were also cash and cash equivalents subject to restrictions on disposal on the part of foreign subsidiaries at the end of the period because local interpretations or other arrangements do not permit subgroups to transfer these amounts directly or indirectly to the parent via other subsidiaries.

As of 31 January 2010 a portion of EUR 1,986k of cash and cash equivalents was allocated to the disposal group.

Mannheim, 10 December 2010

Management of the unlimited partner
PHOENIX Verwaltungs GmbH