

SHS NEWSLETTER

Editorial

It's now in place: SHS announced the first closing of its SHS III Fund at € 40 million. Due to a market situation that remains anything but simple for venture capital as well as collateral damage from the subprime crisis, fundraising for this new fund didn't just happen by itself. What helped SHS, though, was the very good track record enjoyed by its predecessor funds, which can stand up to any comparison with their often over-rated U.S. venture capital counterparts.

SHS III will focus on developing and growing young technology players in the Life Sciences, not on the search for future technologies. So the new fund will therefore be investing only in companies that already have initial sales revenues and customers ("later-stage ventures"). The fund's investment focus is presented in Dr André Zimmermann's article later in this issue.

SHS III
with € 40 mio
first closing

In her article, BVK board member Dörte Höppner explains the chances and risks that VC investments in Germany involve. In the interest of the entire industry, we hope that her positive view will increasingly take hold among German institutional investors.

Furthermore, we want to provide you with information about our portfolio and our team: Our VITA 34 investment was listed on the Prime Standard in 2007, beating the benchmark with its good operating performance. Dr Eberhard Lampeter, the company's founder and CEO, explains how it came about. ProBioGen AG is developing on an outstanding note and has been awarded as being the fastest-growing Life Sciences company. In 2007, our portfolio company CryLas successfully implemented its Buy and Build strategy, among other things establishing direct access to the market for security technology.

Since January 1, 2008, our team has been rounded out by Dr Stephan Rapp. You'll find a thumbnail biography of him in this Newsletter.

We hope you'll enjoy this issue



Reinhilde Spatscheck



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German venture capital funds – An attractive investment opportunity

— By Dörte Höppner, German Private Equity and Venture Capital Association (BVK)

Founders and young companies in Germany continue to have a strong need for capital.

Venture capital firms are now again investing more often in German start-ups, with the number of founders who have been financed this year up from the previous year's level. Whether

The prospects for success of German venture capital funds are often underestimated

this is a sustained trend or merely a short-term straw fire will predominantly hinge upon the ability of venture capital firms to raise sufficient new capital from investors in the coming months. This continues to be a major challenge for German early-stage investors. Yet there has been a further improvement in the situation by comparison with the years before. It would appear as though national and international investors now rate

the attractiveness of German venture capital funds higher than in the years of consolidation through 2005. With the successful closing of what is now its third technology fund, SHS offered up a good example that fundraising isn't impossible for German venture capital firms either. These kinds of success stories are important for the German venture capital industry, and give rise to the hope that the other venture capital funds that are currently in the fundraising stage will be able to follow suit with successful closings in the near future.

German venture capital firms, especially those with a national investment focus, have long been suffering from the aftermath of the demise of the New Economy and from the difficult years of consolidation through 2005. Firms with an international investment focus and an international network of contacts and investors that they had built over the course of the years have been able to interest investors in new funds since 2005; firms with a national focus have faced considerably greater difficulties in their fundraising. One reason for this is persistent timidity on the part of national investors, first and foremost, when it comes to engagements in German private equity and venture capital funds, in particular. Many investors had suffered substantial losses when the New Economy bubble burst, and their frequent lack of experience in dealing with venture capital prompted them to withdraw from this investment form.

Yet German venture capital funds' current prospects for success are being underestimated. The fact is that many firms were forced to suffer serious setbacks following the end of the New Economy, sometimes with disastrous impact on the track records of individual firms. However the industry emerged from this crisis stronger and more experienced, and the prospects for German venture capital firms are today significantly more optimistic, giving rise to hopes for a further easing of the situation.

Often underestimated, venture capital firms have been able to regularly celebrate successful trade sales in recent years, thus improving their track records. Various trade sales to strategic investors as well as IPOs of venture capital-financed companies demonstrate the successful work of the venture capital firms, which in addition to capital contribute entrepreneurial know-how to their portfolio companies. Moreover, they are also proof that young German technology companies are capable of implementing successful ideas and concepts. With the trade sales of **snom** and **Novosis**, as well as the initial public offerings of **LipoNova** and **VITA 34**, it has been possible for SHS, too, to refute the widespread misconception that venture capital funds which invest in Germany are less successful and earn lower returns for their investors than their international competitors.

The current situation on stock markets and renewed buying interest on the part of strategic investors hold the promise of further trade sales in the future. Because in the future, a documented, long-term track record will continue to be the key to successfully launching new funds and the most convincing argument in dealing with hesitant investors. German venture capital firms have proven that they are again in a position to accompany businesses over the years as they grow, and to then successfully exit them.

The key to successfully launching new funds is a documented, long-term track record

Dörte Höppner is managing director of the German Private Equity and Venture Capital Association (BVK). The BVK is the organization for those private equity- and venture capital-associations which are active in Germany. Its goal is to inform the public about how private venture capital functions and the benefits it offers.



VITA 34 posts record numbers – SHS a part of it right from the very beginning



SHS could very well be termed the midwife for VITA 34, the leading private-sector umbilical cord blood bank in the German-speaking regions of Europe. SHS was one of the initial shareholders when this company was founded in 1997. In addition to providing financial support, SHS has always stood by the side of this pioneering Leipzig-based company with sound advice, first and foremost in connection with financial matters and questions of business strategy. With Hubertus Leonhardt, SHS also holds a seat on the supervisory board of VITA 34 International AG. To mark the company's 10th anniversary and its first year as a publicly traded corporation, VITA 34 again demonstrated its successful development by posting record numbers in 2007.

Investing in sales and marketing in order to utilize growth opportunities in German-speaking countries

In fiscal 2007, VITA 34 grew its revenues by over 33 percent to €15.4 million. With a net loss of €1.2 million, the company clearly outperformed the predictions at the time of its initial public offering in late March 2007. VITA 34 is currently aggressively investing in the field of sales and marketing in order to optimally utilize

growth opportunities that present themselves in the German-speaking regions of Europe. It is anticipated that revenues will increase to the region of €28 million by 2009, at which time the company should again be in the black.

In Germany, umbilical cord blood is currently being banked only in around two percent of all births; this blood can later be used in providing therapy for various serious illnesses and within the framework of regenerative medicine. Other countries have made considerably greater strides here. In many regions of Asia, cord blood is already being banked in nearly

one out of every six births. Experience shows that increasing information about saving umbilical cord blood significantly increases the willingness to utilize this service.

VITA 34 is now systematically reducing this information deficit through broad-based public relations work, which is being supported by its own sales and marketing staff who contact opinion leaders like physicians and midwives directly. Another important building block in connection with sales is increasing support on the part of health insurance carriers. In February 2008, for example, the company succeeded in winning its fourth public-sector health insurance company as a partner:

The Gruner + Jahr company health-insurance carrier. This augments VITA 34's partnerships with private-sector health insurance companies like DEBEKA. As the market leader, VITA 34 is benefiting especially from the growing acceptance of banking umbilical cord blood.

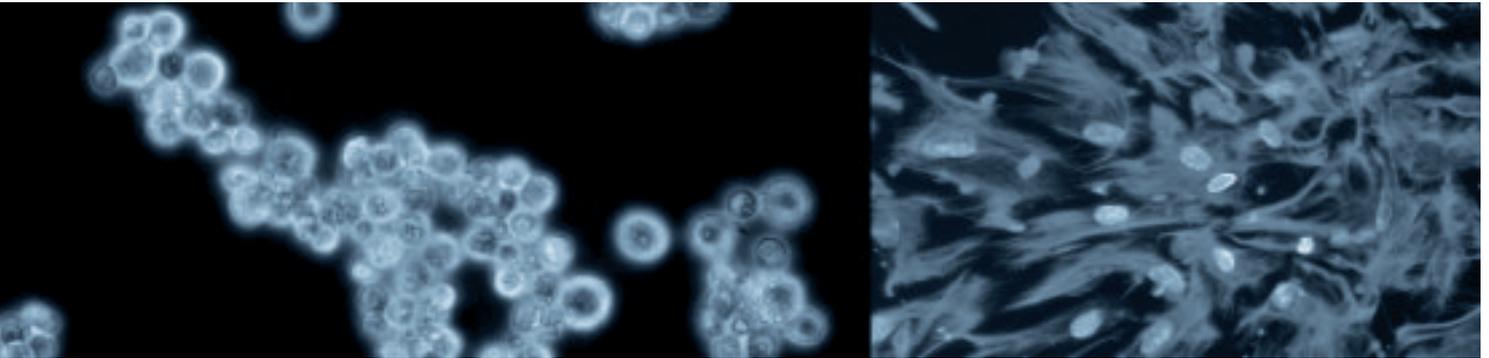
The most recent numbers and developments show that SHS made the right decision in 1997 when it invested in VITA 34.

— By Dr Eberhard Lampeter, Founder and CEO of VITA 34

Increasing support of health insurance carriers is an important building block for sales



ProBioGen AG – Successful innovations for the biopharmaceutical industry



ProBioGen is a biotechnology company that specializes in vertebrate cell engineering and the production of biopharmaceuticals.

ProBioGen's technologies enable biopharmaceutical companies to develop products that offer better efficacy and greater safety at relatively favorable production costs. In recent years, this company's strong innovative capabilities have culminated in a number of new technology developments that offer significant advantages to international customers from the pharmaceutical and biotechnology industries in developing their drugs.

The German Federal Ministry for Nutrition, Agriculture and Consumer Protection recently awarded the Animal Protection Research Prize for a process that was developed at ProBioGen to reliably predict human immune reactions prior to the use of an active ingredient in humans. The organ model

realistically simulates key immunological functions of the human lymph node, and can provide new insights into the way drugs work, which can then be employed in evaluating such product-related risks as side-effects, for example. The increasing employment of alternative models to replace animal testing in both the pharmaceutical as well as in the chemical and cosmetics industries

will be further heightened in the years to come by a number of new legal regulations. ProBioGen can already offer an innovative, industry-tested approach here today.

The development of new production cell lines numbers among the company's core competencies. A number of proprietary cell lines have already been developed and are increasingly being employed in the biopharmaceutical industry. In December 2007, for example, an exclusive licensing agreement was announced with an international vaccine manufacturer. This

U.S.-based company uses ProBioGen's proprietary AGE1 production platform to develop and produce vaccines for four indications, including influenza. In return, the company enjoys the right to significant up-front and milestone payments, as well as royalties for the prospective products. This licensing agreement will enable ProBioGen to significantly participate in one of the world's largest vaccine markets. Influenza is a highly contagious illness that annually afflicts 10–20% of the world's population and accounts for up to 500,000 deaths a year. In 2004, total revenues for influenza vaccines, which are produced in the major industrialized nations of the world, surpassed the one billion U.S. dollar mark. The annual growth rate is estimated at 10%. Industry estimates anticipate a total market of some US\$ 3.7 billion by 2010.

Given the successes it has achieved thus far, the company is now focusing on the further commercial expansion of its own technologies. With cumulative revenue growth of more than 1,100% over the course of the past five years, ProBioGen has laid a strong foundation for continuing to number among the front-running German biotechnology companies in terms of both commercial operations and technology.

The company's strong innovative capabilities have culminated in a number of new technology developments

The company's core competencies include the development of new production cell lines

ProBioGen AG announces strategic alliance with Boehringer Ingelheim

Within the framework of this alliance, ProBioGen will integrate selected technologies from Boehringer Ingelheim in order to assure a seamless interplay of processes and technologies in connection with the manufacture of testing materials and in connection with medium- to commercial-scale production. This will

afford ProBioGen's customers access to Boehringer Ingelheim's technology platform for the production of pharmaceutical products. Moreover, Boehringer Ingelheim's partners and customers will benefit from ProBioGen's expertise in process development and the manufacture of clinical testing samples.

Access to Boehringer Ingelheim's technology platform through strategic alliance

“The strategic alliance between ProBioGen and Boehringer Ingelheim in the field of production represents a major milestone in our commercialization strategy,” explained ProBioGen Chief Executive Officer Michael Schlenk. “On the

one hand, our customers will obtain access to one of the leading commercial-scale production platforms; at the same time, though, we will be able to further broaden our customer base, and have already begun expanding our production capacities in response to the growing demand.”

“ProBioGen's complementary services in connection with process development and the manufacture of clinical testing materials represent a valuable supplement to Boehringer Ingelheim's worldwide strategic production network. The provision of compatible process formats and the close interplay with Boehringer Ingelheim will integrate cutting-edge time-to-clinic process development operations at ProBioGen with a seamless technology transfer to Boehringer Ingelheim's commercial production operations,” noted Prof. Dr. Dr. h.c. Rolf G. Werner, Corporate Senior Vice President Biopharmaceuticals Corporate Division, Boehringer Ingelheim GmbH.

ProBioGen: A valuable supplement to Boehringer Ingelheim's worldwide strategic production network



ProBioGen AG wins award as the fastest-growing Life Sciences company

In Deloitte's annual Technology Fast 50 rankings of the fastest-growing technology companies in Germany, ProBioGen AG posted convincing cumulative growth of some 1,100 %.

ProBioGen AG thus numbers among the fastest-growing Life Sciences companies and holds 13th place in the rankings of top players in the German technology sector. The rankings are based upon cumulative percentage revenue growth rates over the past five fiscal years.

CryLaS GmbH: Growth in Life Sciences and new markets in security technology

CryLas was created in 2004 through the spin-off of the laser development operation at an SHS portfolio company.

With its small, stable and highly accurate solid-state lasers for medical technology and diagnostics, the company's sales revenues have grown from K€100 in 2004 to a profitable €3.5 million in 2007. And in 2007, CryLaS has now concluded two further steps that will secure and accelerate its growth:

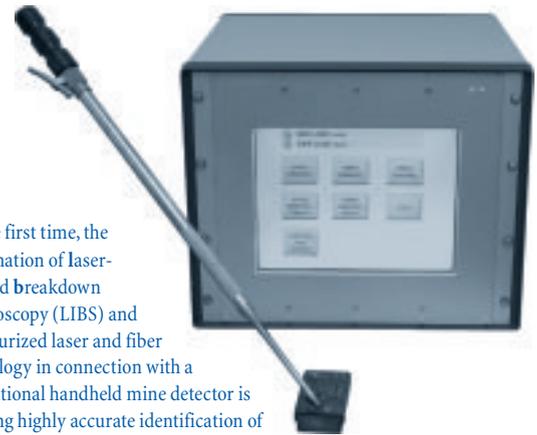
First, it acquired New Laser Generation GmbH (NLG) through a merger. NLG specializes in highly accurate compact UV lasers that are employed in measurement systems, for example. This enabled CryLas to further round out its product portfolio.

Special expertise in the field of laser spectroscopy through the acquisition of Secopta

Second, CryLas has concluded the acquisition of a majority interest in Secopta GmbH. A spin-off from the Clausthal-Zellerfeld Technical University, Secopta possesses special expertise in the field of laser spectroscopy. Up until now, Secopta systems have primarily been employed in connection with security technology,

with the focus on detecting land mines and explosives. In collaboration with the Bundeswehr Research Institute for Materials, Explosives, Fuels and Lubricants (WIWEB), Secopta has developed an "intelligent handheld mine detector" that has since been successfully employed in a field trial. Security systems such as personnel screening portals for detecting TATP explosives, for example, are being developed together with industry partners.

Since our world is not necessarily becoming more peaceful, the need for these kinds of systems is seeing strong growth.



For the first time, the combination of laser-induced breakdown spectroscopy (LIBS) and miniaturized laser and fiber technology in connection with a conventional handheld mine detector is enabling highly accurate identification of buried objects under realtime conditions.

The data are analyzed using neural networks, which produces a flexible, expandable database. In the future, it will be possible to significantly improve the safety and speed of the demining process through the use of this system.

SHS News:

Dr Stephan Rapp augments SHS team

We are very pleased that our team has been strengthened since the beginning of the year by our new staff member Stefan Rapp.

A financial analyst who holds a doctorate in biochemistry, he most recently headed up Business Development at the Bavarian Red Cross as the general manager of its blood donation service. In this position, his achievements included the establishment of new lines of business, such as molecular diagnostics, GMP stem cell processing and biobanks. As an investment manager at SHS, Stephan Rapp will be supporting the development of young Life Sciences and Healthcare companies.

Stephan Rapp is an ideal complement to the SHS team. He enjoys years of experience in developing and building innovative companies and projects. As a biochemist and financial analyst, he brings to the table both natural sciences expertise and commercial know-how.

Prior to his position at the Bavarian Red Cross, Stephan Rapp had been Manager Clinical Operations EU at Genetics Institute – the biotech division of Wyeth, as well as project manager for clinical research at Fujisawa and a scientist at the Heidelberg Biochemical Center and the German Cancer Research Center.

— at left: Dr Stephan Rapp



SHS Fund III

investment focus

The first closing of SHS Fund III also marked the starting shot for the firm's investment phase. We would therefore like to take this opportunity to briefly outline the Fund's investment profile.

SHS Fund III investment profile

Sector:

Life Sciences/Healthcare and related fields:
Medtech, diagnostics, applied technologies, biotech/
pharma – excluding classical drug development

Region:

The German-speaking regions of Europe (D-A-CH)

Entrepreneurial phase:

Early expansion: companies whose technology/product development phase has been concluded, that are generating revenues or are working with pilot customers

Financing volume:

€ 1–3 million (first round)



SHS Fund III deal pipeline

Given the very good deal flow that SHS can access thanks to the network it has built over the years, the Fund today already has a pipeline of attractive investment opportunities. Although the companies come from differing industries and are pursuing different business models, they all have one thing in common – they are recording initial revenues and need capital in order to expand into national and international markets.

— *By Dr André Zimmermann*

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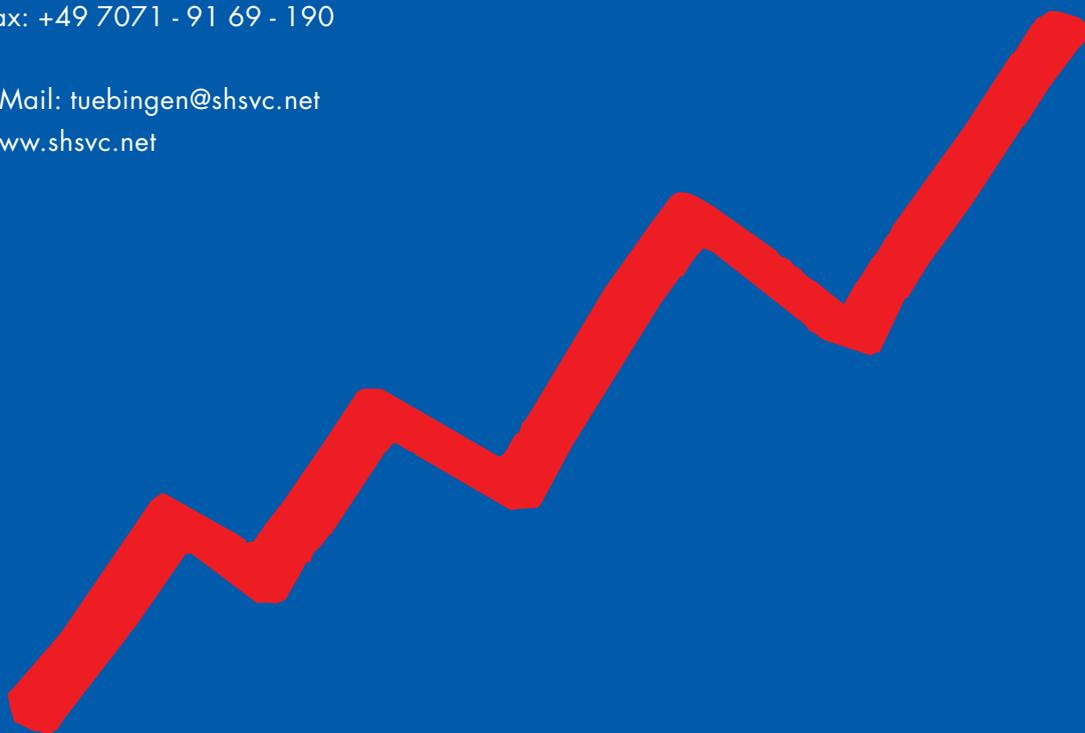
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