

## 2010 Annual Report

(01/01/2010 - 31/12/2010)



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## 1. Historical Data

### 1.1. Establishment of the Company, Shareholder Structure

PHARMOS, a.s., a joint stock company, was founded in April 1991 and since its establishment it has been dealing especially with the wholesale distribution of pharmaceuticals. In 1992, together with its German partner Stumpf AG, it established the subsidiary Pharmos CS, a. s. with a parity representation of both companies. In 1993, Stumpf AG also acquired capital participation also in PHARMOS, a.s. In 1995, the original shareholders of PHARMOS, a. s. established Česká lékárnická, a. s., into which PHARMOS, a.s. shares were transferred, which substantially changed the shareholding structure of PHARMOS.

During its history, PHARMOS, a.s. has gained an important position in the sphere of wholesale distribution of pharmaceuticals to public and hospital pharmacies. The company makes effort to cooperate closely and continuously with customers and create favourable conditions for the development of pharmacies and contribute thus to the further enhancement of the seriousness of the pharmaceutical profession in the CR. Since the moment it came into existence, PHARMOS has been a stable member of a group of companies gathered around Česká lékárnická, a.s.

PHARMOS, a. s. has currently 2 decisive shareholders; Česká lékárnická, a.s., owning 71.7 % of the shares of PHARMOS, a.s., and the German shareholder Phoenix International Beteiligungs GmbH, Mannheim, owning 28 % of the shares (the shares were transferred onto this company by Stumpf AG, the original owner and a member of the Phoenix concern). The remaining 0.43 % of the shares is owned by small Czech shareholders - physical entities.

In 2002, PHARMOS, a.s. increased the registered capital of the company by CZK 37.7 mil. this increase being performed by a sole subscriber, Česká lékárnická, a.s., by means of a monetary deposit of a part of Česká lékárnická, a.s. The deposited part of the company included all the assets and liabilities related to the distribution activity of Česká lékárnická, and the reason for this strategic step was the effort to obtain a majority share in PHARMOS, a.s. for Česká lékárnická, a.s. (in this manner, the share of Česká lékárnická, a.s. increased from 49.2 % to 71.6 %) and also the effort to concentrate all the distribution activity in a single main distribution company, thus creating an efficiently functioning company with a strong capital. In 2004, the registered capital was further increased from retained profit and the share premium, i.e. from CZK 85.7 million to CZK 342.8 million - the ratios among individual shareholders remained unchanged. In 2009, Česká lékárnická, a.s. bought back the shares of individual shareholders and its share was increased from 71.6% to 71.7%.

In 2004, PHARMOS, a.s. sold the shares of THERÁPON 98, a.s. - the entire share held by Česká lékárnická,a.s.

### 1.2. Activities, Operation of Autonomous Outlets

The main activities of PHARMOS, a.s. are dealing with substances and medicines that are subject to the regime of Act No. 167/1998 Coll. As regards the specific items of its assortment, the company is oriented mostly towards delivering pharmaceuticals and medicinal products to public and hospital pharmacies, as well as towards delivering medical supplies and dental supplies. Besides this basic assortment, PHARMOS, a.s. supplies its customers with a complementary assortment represented by parapharmaceuticals, cosmetic products and dietary supplements.

The registered office of the company is at Ostrava-Radvanice, Těšínská 1349/296. The distribution proper of goods to pharmacies was operated from the warehouses in Ostrava, Prostějov, Brno, Hradec Králové, České Budějovice, Brandýsek and Plzeň and from two warehouses for consignment and bonded warehouses (the Jihlava and Pchery localities) in 2010. The operation of the warehouse in Lukášov was terminated in 2009. Towards the end of 2009, the operation of the warehouse in Ústí nad Labem was terminated. The subregion of these two warehouses are now supplied from the warehouses in Hradec Králové and Brandýsek. The warehouse in Plzeň began to carry out distribution as from 2010.



Within the framework of its own warehouses, the company operates a series of consignment warehouses used for distribution both within the framework of the individual distribution companies that are members of the Česká lékárnická, a.s. group and to other distributors on the Czech market. Except for the aforementioned locality in Jihlava, these consignment warehouses are situated in Ostrava, Brno, Hradec Králové, Brandýsek, and Pchery. PHARMOS, a.s. provides some suppliers/manufacturers with a new form of service - a complete package consisting of warehousing services, distribution and supplier's/manufacturer's stock management according to instructions the supplier/manufacturers strictly determines (i.e. in the name of the supplier/manufacturer).

As regards the distribution of the entire assortment, PHARMOS, a.s. is an exclusive supplier for four independent distribution companies with a limited liability, in which Česká lékárnická has at least 50% capital participation (the remaining capital is owned by the individual pharmacists within a given region). The entities in question are regional pharmaceutical distribution entities, in concrete terms Pražská lékárnická, s.r.o., Jihlavská lékárnická, s.r.o., Plzeňská lékárnická s.r.o. and PHARMACY-distribuce léčiv s.r.o. whereas these regional distribution entities already represent an important component part of the distribution strategy of Česká lékárnická, a.s.

### 1.3. History of Profit and Loss

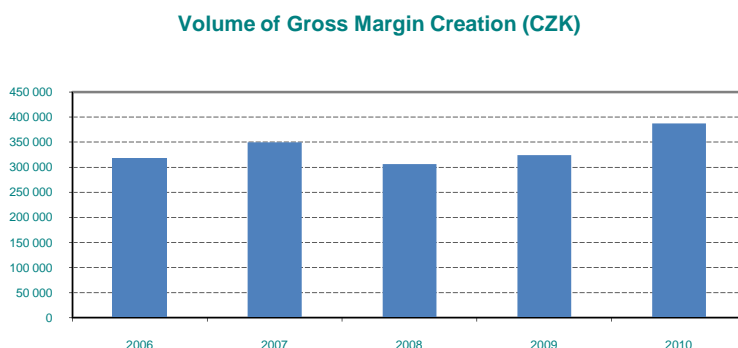
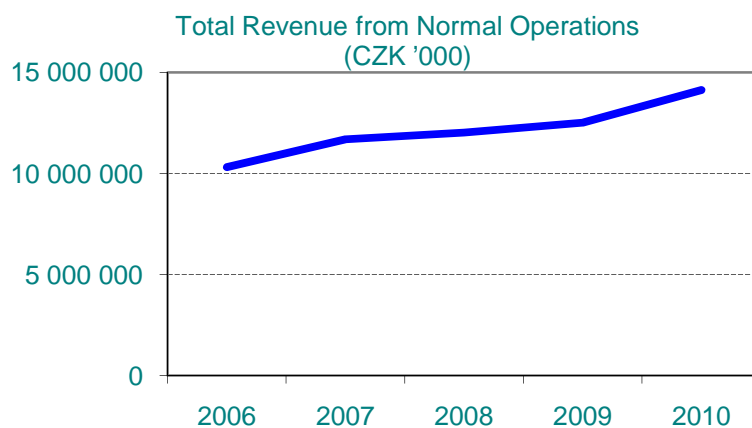
The 2010 economic results can be evaluated positively. This evaluation does not only relate to the evaluation of the economic results achieved but also to the overall market position of the company.

2010 brought a growth of revenues especially thanks to the competitive bidding won in respect of distribution for the association Česká lékárna a.s. (Dr.Max). Thanks to this, the market share was maintained and the gross margin was increased successfully in spite of that in 2010 the government's crisis measures were reflected both in a reduction in the prices of medical goods and in an increase in customers' pressure in respect of reducing the margin. The gross margin in an amount of CZK 387,044 thousand and the profit before tax in an amount of CZK 19,787 thousand were achieved for 2010.

In 2010, however, also the measures to increase the number of staff with the expected increase in revenue in respect of distribution for Česká lékárna a.s. (Dr.Max) taken by the company at the beginning of 2010 began to show an adverse effect. However, before the end of the first half of 2010 it was clear that it had not been necessary to increase the number of staff in that way and thus measures to optimize processes and the number of staff were taken.

Further, measures to reduce the amount of risk in enforcing claims and to care more strongly for claims were taken. Adjusting entries were also created in 2010 as this was made in 2009 which had a share in the reduction in the profit. In spite of that 2010 was marked by the financial crisis in process and the state's effort to reduce medical goods expenditures from the health insurance, PHARMOS a.s. showed the positive profit and managed to maintain and slightly enhance its position in the Czech market.

Indicator	2006	2007	2008	2009	2010
Total revenue from normal operations ( '000) CZK)	10 308 792	11,688 840	12 018 677	12,509 620	14,118 682
Total sale of goods ('000) CZK)	10 149 993	11,530 913	11 864 300	12,381 708	14,009 569
Total export of goods ('000) CZK)	13 547	81 750	111 676	73 528	57 644
Share of supplies for export in total sale of goods (%)	0.13%	0.71%	0.93%	0.59%	0.41%
Revenue from services (CZK '000) CZK)	158 799	157 927	154 377	127 912	109 113
Share in % of revenue from total revenue from normal operations	1.54%	1.35%	1.28%	1.02%	0.77%
Gross margin in absolute figures (CZK)	318 081	349 526	306 103	323 967	387 044
Gross margin (%)	3.13%	2.99%	2.58%	2.62%	2.76%
Business surcharge (%)	3.24%	3.13%	2.65%	2.69%	2.84%

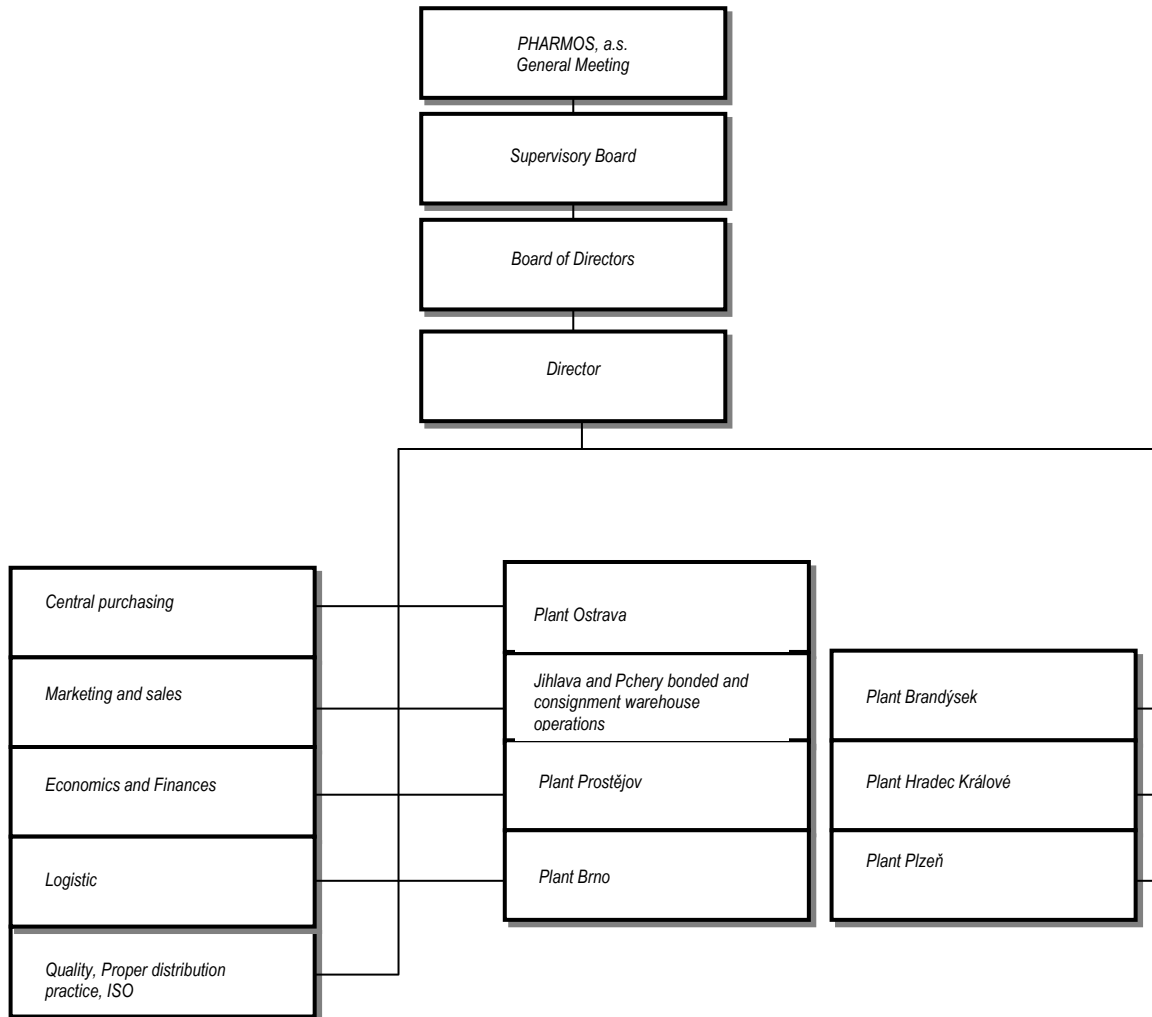


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## 2. Company Organisational Structure and Company Bodies

### 2.1. Company Organisational Structure

The organisational structure of PHARMOS, a.s. did not show any substantial changes in the course of 2010. The diagram provided below represents the situation as of 31/12/2010.



## 2.2. Company Bodies

As of 31 Dec. 2010

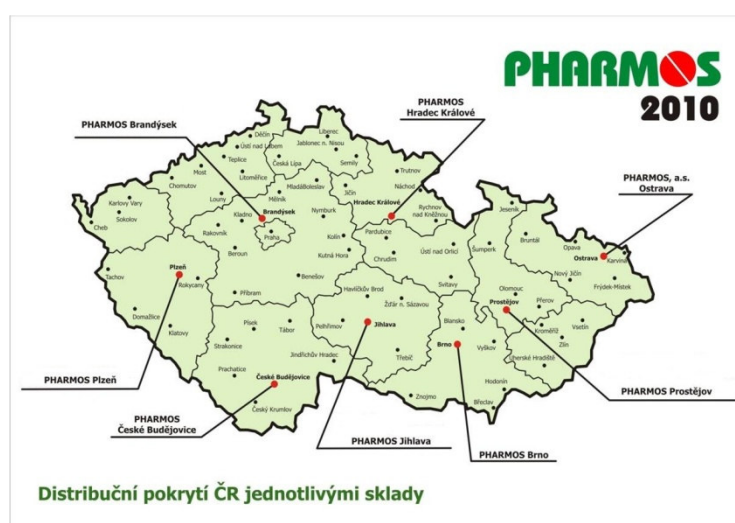
### Supervisory Board:

- Chairman of the Supervisory Board Helmut Kraft – termination on 02/12/2009, recorded in the SL CR on 18/03/2010
- Chairman of the Supervisory Board Marko Thorsten Albert Grunewald – commencement of the office on 05/05/2010
- Member of the Supervisory Board PharmDr. Petr Nalevajka
- Member of the Supervisory Board Mgr. Ilona Mravcová
- Member of the Supervisory Board Mgr. Lea Lesáková
- Member of the Supervisory Board Mgr. Radim Fiala
- Member of the Supervisory Board Christoph Nöll

### Board of Directors:

- Chairman of the Board of Directors PharmDr. Jiří Korta
- Member of the Board of Directors PharmDr. Ivan Šácha
- Member of the Board of Directors Mgr. Jaroslav Němeček
- Member of the Board of Directors Alena Marynčáková

Presentation of the geographic location of the distribution warehouses of the company (PHARMOS, a.s. warehouses and distribution pharmaceutical limited liability companies warehouses).



## 3. Profit and Loss

The 2010 profit was positive as it had always been in the company's history.

The total volume of the realized revenue from goods sold was an amount of CZK 14,009,569 thousand and an increase by 13.15 % was showed compared with the same period of last year. The total realized level of the revenue from normal operations was CZK 14,118,682 thousand and the sale of goods had the most important share in this revenue volume. The decisive part of the revenue from goods was represented by the supplies of pharmaceuticals and other complementary assortment to public and hospital pharmacies. Expressed in absolute figures, the gross margin amounted to CZK 387,044 thousand; in relative figures the margin was 2.76 %. There was an increase by 0.14 % in the relative margin compared with 2009.

In the course of 2010, an increase in the realized revenue for Česká lékárna a.s. (Dr.Max) was also reflected in an increase in the operational and wage cost items. Especially the costs of transport executed by the subsidiary Lektrans s.r.o. and the wage costs of the increased numbers of staff in warehouse positions were increased. After evaluating the increase in transport, measures to reduce the number of staff in the warehouses were taken and measures to optimise processes were taken in the second half of 2010. Further, Lektrans s.r.o. optimized in successive steps the delivery routes so as to achieve a reduction in the costs of the transport of goods in the course of 2011.

In the second half of 2010, new terms and conditions were agreed with the outsourcing company within the costs of IT services and these brought a reduction in the costs of the IT services provided.

As regards financial management, the Company's situation is complicated mostly by the interests expenses which have a significant influence on the financial profit/loss. The interests expenses were CZK 67,643 thousand. (They decreased by CZK

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4,264 thousand compared with 2009.) This decrease was caused by a decrease in interbank rates and negotiating more favourable conditions for drawing liabilities and also by their volume.

The reduced other financial costs were reflected very markedly in the area of the financial profit, by reason of optimization and better work with foreign currency payments and securing instruments for rates of such foreign currencies (forwards).

On the last day of the period under consideration, the company's assets reached a total amount of CZK 4,085,555 thousand and increased by CZK 131,631 thousand compared with the level at the end of the previous fiscal year. On 31/12/2010, the long-term tangible and intangible assets in net values decreased by CZK 15,981 thousand compared with the level on 31/12/2009. However, the company's current assets showed a year-on-year increase by CZK 159,820 thousand. The inventory level had a great influence on the increase in the current assets that were increased in connection with new business transactions.

The company's equity increased by CZK 12,514 thousand and the total amount thereof reached a volume of CZK 591,334 thousand. In 2010, the Company's registered capital was not increased.

## **4. Investment Construction and Development of Activities**

### **4.1. Investment Construction**

In 2010, the company had not performed any investment construction. Only repairs of the existing warehouse complexes were carried out. These applied especially to the complexes in Prostějov and Ostrava.

### **4.2. Plans concerning Investment Construction and Development of Activities**

The Company intends to install new dispatching lines and extend mechanisation on the existing lines with the aim of increasing the dispatching capacities of these plants and assure further savings of labour forces.

The company has also approved the investment construction plan for the next period of 2011 and 2012 in which the construction of a new hall in the warehouse complex in Pchery, the construction of a new warehouse complex in Brno, and the construction of a warehouse in České Budějovice are envisaged.

Other financial means will be invested in the extension of repairs of the existing warehouse complexes. Especially the warehouses in Hradec Králové and Brandýsek will undergo alterations with the aim of extending the existing logistic capacities.

After extensive changes in the HW equipment, the company will continue to change the SW equipment for logistic, commercial and accounting activities. A bidding procedure in respect of a supplier of such SW solution which would ensure the operation of the whole company in all areas of its business activities is in preparation for 2011.

## 5. Selected Data from the Balance Sheet



<b>TEXT (NETT BALANCE) IN CZK '000</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total assets	3.826.678	3.915.180	3.571.284	3.953.924	4.085.555
Stock subscriptions receivable	-	-	-	-	-
Fixed assets	324 711	311 645	273 965	269 674	253 693
Intangible fixed assets	3 377	1 121	834	6,856	5 104
Tangible fixed assets	306 215	307 405	270 012	259 699	245 470
Financial investments	15 119	3 119	3 119	3 119	3 119
Current assets	3.500.013	3.601.343	3.289.650	3.638.491	3.798.311
Inventories	1.081.904	906 785	777 115	1.116.643	1.118.228
Long-term debtors	54 797	66 200	45 414	70 123	32 616
Short-term debtors	2.319.073	2.563.179	2.384.192	2.304.012	2.449.324
Financial assets	44 239	65 179	82 929	147 713	198 143
Other assets - temporary asset accounts	1 954	2 192	7 669	45 759	33 551
Total liabilities	3.826.678	3.915.180	3.571.284	3.953.924	4.085.555
Equity	552 872	565 120	576 858	578 820	591 334
Registered capital	342 800	342 800	342 800	342 800	342 800
Capital funds	-	-	-	-	-
Funds from profit	176 005	176 005	176 005	176 005	176 005
Retained profit or loss from previous years	14 387	32 402	46 314	56 009	58 063
Profit or loss of current year	19 680	13 913	11 739	4 006	14 466
Liabilities	3.273.287	3.349.836	2.991.855	3,346 674	3,480 849
Reserves	6 000	18 638	-	129	1 920
Long-term liabilities	24 376	16 603	12 421	14 080	12 862
Short-term payables	1.380.086	1.360.867	1.343.239	1.933.965	1.766.067
Bank credits and loans	1.862.825	1.953.728	1.636.195	1.398.500	1.700.000
Other liabilities - temporary liability accounts	519	224	2 571	28 430	13 372



## 6. Selected Data from the Profit and Loss Statement



<b>TEXT (CZK '000) CZK)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales of goods purchase for resale	10,149,993	11,530,913	11,864,300	12,381,708	14,009,569
Cost of goods sold	9,831,912	11,181,387	11,558,197	12,057,741	13,622,525
Gross margin	318,081	349,526	306,103	323,967	387,044
Sale of own products and services	158,799	157,927	154,377	127,912	109,113
Consumption of material and energy	26,675	25,029	22,008	21,734	19,981
Services	144,226	141,652	145,529	146,114	179,644
Added value	305,979	340,772	292,943	284,031	296,532
Wages and salaries	114,096	117,605	115,611	109,940	116,476
Social and health insurance	39,514	39,071	38,575	32,171	37,814
Social benefits	6,985	8,039	7,978	6,943	7,894
Taxes and charges	-605	1,522	4,722	2,407	3,469
Depreciation of intangible and tangible fixed assets	20,111	27,749	25,169	21,655	23,778
Sales of fixed assets and materials	71	487	63,571	2,182	5,792
Net book value of sold fixed assets and materials	22	195	20,409	1,203	3,451
Change in the reserves and adjusting entries in the area of operations and complex retained expenses	3,528	24,734	4,658	-13,495	13,777
Other operating income	9,386	11,641	36,153	7,688	7,656
Other operating expenses	26,425	28,719	42,633	43,521	22,789
Profit / loss from operations	105,360	105,266	132,912	89,556	80,532
Sales from sold securities and shares	-	-	1,845	5,295	2,088
Securities and shares sold	-	-	1,845	5,295	2,579
Change in the reserves and adjusting entries in the area of finance	6,000	-	-	-	-
Income interests	4,811	4,899	3,223	3,700	1,541
Interest expenses	62,245	77,444	90,523	71,907	67,643
Other financial income	17,797	18,575	13,934	14,534	14,912
Other financial expenses	21,782	33,536	34,623	21,559	9,064
Profit or loss from financial operations	-67,419	-87,506	-107,989	-75,080	-60,745
Income tax on ordinary activities - due	13,486	11,620	17,367	8,811	6,955
Income tax on ordinary activities - deferred	4,775	-7,773	-4,183	1,659	-1,634
Profit or loss from ordinary activities	19,680	13,913	11,739	4,006	14,466
Extraordinary income	-	-	-	-	-
Extraordinary expenses	-	-	-	-	-
Income tax on extraordinary activities - due	-	-	-	-	-
Extraordinary profit or loss	-	-	-	-	-
Profit or loss of current year	19,680	13,913	11,739	4,006	14,466
Profit or loss before taxation	37,941	17,760	24,923	14,476	19,787

## 7. Selected Data from the Cash Flow Statement



No.	Text (V TIS. Kč)	2006	2007	2008	2009	2010
P.	Balance of funds and monetary equivalents at the beg. of the accounting period	35,160	44,239	65,179	82,929	147,713
Z.	Book profit/loss from ordinary activity before taxation	37,941	17,760	24,923	14,476	19,71
A.1.	Adjustments for non-monetary operations	87,024	124,736	67,807	75,236	101,316
A.1.1.	Depreciation of fixed assets (+) except for net book value of fixed assets sold	27,165	27,750	25,169	21,655	23,778
A.1.2.	Variation in adjustments and reserves, and variat. in temp. asset and liab. acc. (+/-)	2,474	24,734	-1,840	-13,495	13,777
A.1.3.	Profit (loss) from the sale of fixed assets (-/+)	-49	-293	-42,822	-979	-2,341
A.1.4.	Revenue from dividend and share of profit (-)	-	-	-	-152	-
A.1.5.	Settled expense interests (+) and settled income interests (-)	57,434	72,545	87,300	68,207	66,102
A*	Net cash flow from oper. act. before tax., changes in work. cap. and extraord. items	124,965	142,496	92,730	89,712	121,103
A.2.	Change in the need of working capital	-3,266	-11,604	-29,990	75,236	13,019
A.2.1.	Variation in operating activity receivables (+/-)	158,887	-269,416	177,640	29,472	-103,773
A.2.2.	Variation in operating activity short-term liabilities (+/-)	-177,188	81,140	-337,158	383,647	118,545
A.2.3.	Variation in stock (+/-)	15,035	176,672	129,528	-337,883	-1,753
A**	Net cash flow from operating activity before taxation and extraordinary items	121,699	130,892	62,740	164,948	134,122
A.3.	Expenditure on interests paid except for capitalized interests (-)	-62,245	-77,444	-90,523	-71,907	-67,643
A.4.	Interests received (+)	4,811	4,899	3,223	3,700	1,541
A.5.	Tax paid on income from ordin. act. and for additional tax assess. for previous years	-11,548	-12,371	-13,023	-13,680	-10,599
A.6.	Receipts and expenditures related to extraordinary accounting cases	-	-	-	-	-
A.7.	Dividends and share of profits received (+)	-	-	-	152	-
A***	Net cash flow from operating activity	52,717	45,976	-37,583	83,213	57,421
B.1.	Expenditures related to acquisition of fixed assets	-12,168	-14,879	-7,898	-18,567	-11,248
B.2.	Income from sale of fixed assets	71	488	63,231	2,182	5,792
B.3.	Loans and credits for related persons	-	-	-	-	-
B***	Net cash flow related to investment activity	-12,097	-14,391	55,333	-16,385	-5,456
C.1.	Variation in long-term or short-term liabilities	-21,957	-9,000	-	-	416
C.2.	Impact of variation in equity on funds	-9,584	-1,645	-	-2,044	-1,951
C.2.1.	Increase in funds and monet. equiv. due to increased reg. capital, reserve fund (+)	-	-	-	-	-
C.2.2.	Payment of share in equity to associates (-)	-9,584	-	-	-	-
C.2.3.	Monet. don. and allocat. into equity and other ass.s' and shareholders' deposits (+)	-	-	-	-	-
C.2.4.	Settlement of loss by partners (+)	-	-	-	-	-
C.2.5.	Direct payments to the debit of funds (-)	-	-	-	-	-
C.2.6.	Dividends paid including paid withholding tax (-)	-	-1,645	-	-2,044	-1,951
C***	Net cash flow related to financial activity	-31,541	-10,645	-	-2,044	-1,535
F.	Net increase/decrease in the balance of funds	9,079	20,940	17,750	64,784	50,430
R.	Balance of funds and monetary equivalents at the end of the accounting period	44,239	65,179	82,929	147,713	198,143

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## 8. Company Supervisory Board Report

### **Company Supervisory Board Report concerning Annual Financial Statements 2010**

The Supervisory Board of PHARMOS, a.s. has been duly informed about the development of the company's business activities and has performed all tasks that it has both according to Czech law and in accordance with the company's Articles of Association.

The audit of the annual financial statements and the Annual Report as on 31/12/2010 was carried out by the company's auditor AUDIT PROFESIONAL, spol. s r.o. The Supervisory Board has reviewed the financial statements and approves the findings contained in the Auditor's Report as on 31/12/2010.

The Supervisory Board thanks to all members of the Board of Directors and to all workers of PHARMOS, a.s. who participated in the company's activities.

Supervisory Board

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## 9. Independent Auditors' Report concerning the Annual Report



### **INDEPENDENT AUDITOR'S REPORT intended for shareholders of PHARMOS, a.s.**

We audited the enclosed Financial Statement of PHARMOS, a.s., consisting of the Balance Sheet as of 31 Dec.2010, the Profit and Loss Statement for the year ending 31 Dec. 2010, the Summary of Changes in Equity for the year ending 31 Dec. 2010 and the Cash Flow Statement for the year ending 31 Dec.2010 and the Enclosure to this Financial Statement, including descriptions of important accounting methods used and other supporting information. The PHARMOS, a.s. data are presented in the Annex to this Financial Statement.

#### **Responsibility of the accounting unit statutory body for Financial Statement**

The statutory body of PHARMOS, a.s., is responsible for compilation of the Financial Statement, giving a true and honest image in compliance with Czech bookkeeping standards and for such an internal control system it considers necessary for the compilation of the Financial Statement so that it cannot contain any significant irregularities caused by a fraud or mistake.

#### **Auditor's responsibilities**

Our responsibility is to give our opinion of the Financial Statement pursuant to our audit. We carried out the audit in compliance with the Act on auditors, international auditor standards and related application clauses of the Chamber of Auditors of the Czech Republic. In compliance with these standards, we are bound to follow ethic requirements and plan and carry out auditing so as to obtain adequate assurance that the Financial Statement does not contain any significant inaccuracies.

The audit includes the implementation of auditor procedures to obtain the probative information on amounts and data published in the Financial Statement. The selection of procedures depends on auditor's consideration, covering also evaluation of risks of significant incorrectness of the data presented in the Financial Statement caused by a fraud or mistake. When evaluating these risks, the auditor passes judgement on the internal control system relevant for compilation of the Financial Statement, giving a true and honest picture. The objective of this judgement is to propose suitable auditor procedures, not to give an opinion of the efficiency of internal control system of the accounting unit. The audit also includes the examination of suitability of accounting methods used, adequacy of bookkeeping estimates carried out by the management and the examination of the entire presentation of the Financial Statement.

We are convinced that the probatory information we obtained provides adequate and suitable background for giving our opinion.

#### **Auditor's verdict**

In our opinion, the Financial Statement gives a true and honest picture of PHARMOS, a.s. assets and liabilities as of 31.12.2010 and costs, revenues and its income from operations and cash flows in the year ending 31 Dec. 2010 in compliance with Czech accounting standards.

### **Report on the Annual Report**

We also audited the conformity of the Annual Report of **PHARMOS, a.s.** as of 31 December 2010 with the above mentioned Financial Statements included in the Annual Report. The statutory body of **PHARMOS, a.s.** is responsible for the correctness of the Annual Report. Our task is to issue an auditor's opinion on the compliance of the operating results with the Financial Statements based on the audit carried out.

We carried out the audit in compliance with the International Auditor Standards and related application clauses of the Chamber of Auditors of the Czech Republic. Pursuant to these standards, the auditor is required to plan and carry out an audit so as to obtain adequate assurance that the information found in the Annual Report, describing the facts that are also the subject of the image in the Financial Statements, is in compliance with the appropriate Financial Statements in all relevant aspects. We are convinced that the audit we carried out provides adequate data for the auditor's opinion.

In our opinion, the information given in the Annual Report of PHARMOS, a.s. as of 31 December 2010 is in compliance with the aforesaid Financial Statements in all relevant aspects.

### **Report on relations between interconnected persons**

We have also examined the objective accuracy of the data submitted in the Report on Relations among interconnected persons of PHARMOS, a.s. in the year ending 31 December 2010. The statutory body of PHARMOS, a.s. is responsible for correctness of the Report on Relation. Our task is to issue an approach to the Report on Relations on the basis of the screening carried out.

We carried out our screening in compliance with the Auditor Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires us to plan and carry out a screening aimed at getting adequate certainty that the Report on Relations does not have relevant objective inaccuracies. The screening is mostly limited to inquiring the company's staff and analytical procedures and selectively execution of objective accuracy of the data. That is why the screening provides a lower degree of certainty that the audit. We did not audit the Report on Relations and that is why we do not state the auditor's verdict.

Based on our screening, we did not discover any facts that would make us think that the Report on Relations among interconnected persons of PHARMOS.a.s., in the year ending 31 December 2010, has any relevant objective inaccuracies.

Ostrava, 30 May 2011

For **AUDIT PROFESIONAL, spol. s r.o.**

Čujkovova 1736/30, 700 30 Ostrava-Zábřeh

**Certificate KAČR No. 64**

**Ing. Miluše Vašíčková, auditor**

certificate KA ČR No. 1294

*and company executive head*

Signed *Vašíčková*

**L.S. AUDIT PROFESIONAL**

**KA CR No. 064**

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## 10. Information about Data Ascertained after 31/12/2010

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## 11. Anticipated Development of Company

In 2011, the market development will mainly be influenced by the state's interventions in the area of pharmaceuticals price regulation and payment regulation. We expect a slight growth of the overall financial market, with the stagnation of the public pharmacy market. Therefore, attention will continue to be paid to an increase in revenues to pharmacies, hospitals and medial shops in the whole territory of the Czech Republic; greater attention will be paid to regions of the Southern and Western Bohemia and the Vysočina area where the market share of PHARMOS, a.s. is below 20 %.

In 2011, two significant competitive biddings will also take place which will influence significantly the volume of the realized revenues to public pharmacies in the next years. These are biddings in respect to a contractual distributor for the company DrMax and for the purchasing association Družstvo lékáren.

There will also be the focus on the logistic area, especially on the operations in Bohemia and in the Vysočina area. In 2009, we closed within the rationalizing measures the warehouses in Ústí nad Labem and Lukášov and established a new warehouse in Plzeň. We also moved to the new warehouse premises in České Budějovice. At the turn of 2010 and 2011, the warehouse of the affiliate distribution company Jihlavská lékárnická was virtualized. This was the last warehouse of the distribution regional companies with Česká lékárnická's interest in the estate. Since January 2011 distribution within the ČL group has therefore been carried out from the warehouses of Pharmos only. All these changes had been reflected in the new regionalization of pharmacies that took place continuously in 2009 and was completed in January 2011. These activities were highly demanding both in the commercial and logistic respects; however, we can expect an increase in labour productivity and a reduction in all cost types. In the following period, we are going to lay stress primarily on improvement of quality of logistic service provided.

## 12. Activities in Research, Development and the Environment Protection

PHARMOS, a.s. pursues no activities in research or development. This also applies to the area of environment protection, where our long-term effort is to pursue our business to ensure that we do not harm the environment.

In our capital construction and redevelopment projects, we make sure that these projects have no negative impact on the environment.

PHARMOS, a.s. runs no outlets or organizational constituents outside the Czech Republic. All operating premises are situated in the Czech Republic and all activities are carried out in the Czech Republic.

In Ostrava on 27 May 2011

PharmDr. Ivan Šácha  
Member of the Board of Directors

Alena Marynčáková  
Member of the Board of Directors

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## Financial Statements 2010

Minimum binding account of information  
Decree 500/2002 Coll.

**BALANCE SHEET**

**unabbreviated**

As of 31.12.2010

(rounded to CZK '000)

ID No.

19010290

Trade company of the accounting unit  
PHARMOS, a.s

Registered office of accounting unit  
Těšínská 1349/296

Ostrava - Radvanice  
716 00

Identification	ASSETS	Current fiscal year			Previous fiscal
		Gross	Correction	Net	Net
a	b	1	2	3	4
	<b>TOTAL ASSETS</b>	4 448 247	-362 692	4 085 555	3 953 924
<b>B.</b>	<b>Fixed assets</b>	<b>514 004</b>	<b>-260 311</b>	<b>253 693</b>	<b>269 674</b>
B. I.	Intangible fixed assets	51 071	-45 967	5 104	6 856
3.	Software	24 529	-19 425	5 104	625
4.	Valuable rights	26 542	-26 542		
7.	Outstanding long-term intangible assets				6 231
B. II.	Tangible fixed assets	459 712	-214 242	245 470	259 699
B. II. 1.	Lands	14 847		14 847	14 328
2.	Structures	205 059	-56 577	148 482	156 502
3.	Machinery, tools & equipment, vehicles and fixtures	133 215	-94 183	39 032	32 646
7.	Tangible fixed assets not-in-use	588		588	6 340
8.	Prepayments for tangible fixed assets	200		200	508
9.	Difference in valuation of acquired assets (+/-)	105 803	-63 482	42 321	49 375
B. III.	Long-term investments	3 221	-102	3 119	3 119
3.	Other long-term securities and shares	221	-102	119	119
6.	Acquired long-term investments	3 000		3 000	3 000
<b>C.</b>	<b>Current assets</b>	<b>3 900 692</b>	<b>-102 381</b>	<b>3 798 311</b>	<b>3 638 491</b>
C. I.	Inventories	1 118 695	-467	1 118 228	1 116 643
C. I. 1.	Material	135		135	
5.	Merchandise	1 118 560	-467	1 118 093	1 114 848
6.	Prepayments for inventories				1 795
C. II.	Long-term debtors	32 616		32 616	70 123
C. II. 1.	Receivables from trade relations	31 366		31 366	45 724
2.	Receivables from subsidiaries and controlled	1 250		1 250	24 399
8.	Deferred tax assets				
C. III.	Short-term debtors	2 551 238	-101 914	2 449 324	2 304 012
C. III. 1.	Receivables from trade relations	1 993 015	-101 914	1 891 101	1 777 900
2.	Receivables from subsidiaries and controlled	475 146		475 146	460 270
6.	Taxes receivable	3 812		3 812	2 253
7.	Short-term prepayments	2 434		2 434	3 780
8.	Estimated receivables	68 462		68 462	58 930
9.	Other receivables	8 369		8 369	879
C. IV.	Short-term investment	198 143		198 143	147 713
C. IV. 1.	Cash	951		951	10 911
2.	Bank accounts	192 407		192 407	129 438
3.	Short-term securities and shares	4 785		4 785	7 364
<b>D.</b>	<b>Accruals and deferrals</b>	<b>33 551</b>		<b>33 551</b>	<b>45 759</b>
D. I. 1.	Deferred expenses	349		349	637
3.	Accrued income	33 202		33 202	45 122



Identification	LIABILITIES	Current fiscal year	Prior fiscal year
a	b	5	6
	<b>TOTAL LIABILITIES</b>	4 085 555	3 953 924
<b>A.</b>	<b>Equity</b>	<b>591 334</b>	<b>578 820</b>
A. I.	Registered capital	342 800	342 800
A. I. 1.	Registered capital	342 800	342 800
A. III.	Reserve fund, indivisible fund and other funds from profit	176 005	176 005
A. III. 1.	Statutory reserve fund /indivisible fund	140 000	140 000
2.	Statutory and other funds	36 005	36 005
A. IV.	Retained profit or loss from prior years	58 063	56 009
A. IV. 1.	Retained profit of prior years	58 063	56 009
<b>A. V.</b>	<b>Profit/loss of current year</b>	<b>14 466</b>	<b>4 006</b>
<b>B.</b>	<b>Liabilities</b>	<b>3 480 849</b>	<b>3 346 674</b>
B. I.	Reserves	1 920	129
4.	Reserves according to the relevant legal regulations	1 920	129
B. II.	Long-term payables	12 862	14 080
9.	Other creditors	416	
10.	Deferred tax liability	12 446	14 080
B. III.	Short-term payables	1 766 067	1 933 965
B. III. 1.	Payables from trade relations	1 689 301	1 864 790
2.	Liabilities - controlled or controlling entity	25 480	42 509
4.	Payables to partners and consortium members	20	21
5.	Account payable to employees	6 950	7 346
6.	Payables from social security and health insurance	4 095	3 517
7.	Taxes payable and subsidies	18 397	671
8.	Short-term advance payments received	727	734
10.	Anticipated liabilities	20 747	14 206
11.	Other creditors	350	171
B. IV.	Bank loans and borrowings	1 700 000	1 398 500
2.	Short-term bank loans	1 700 000	1 398 500
<b>C.</b>	<b>Accruals and deferrals</b>	<b>13 372</b>	<b>28 430</b>
C. I. 1.	Accrued expenses	9 107	24 165
2.	Accrued income	4 265	4 265
Compiled on: 05.05.2011		Approved on: 05/05/2011	
Legal form of the accounting unit: joint stock company		Signature of the statutory body of the accounting unit	
		Subject of enterprise: Purchase of goods for sale and resale	
Incorporated in the Company Register kept by the Regional Court in Ostrava, Section B, File 188			

Minimum binding account  
Decree 500/2002 Coll.

**PROFIT AND LOSS STATEMENT**

**unabbreviated**

As of 31.12.2010

(rounded to CZK '000)

ID No.

19010290

Trade name

PHARMOS, a.s

accounting unit

Těšínská 1349/296

Ostrava - Radvanice

716 00

Identification	TEXT	Figures posted during fiscal year	
		current	previous
a	b	1	2
I.	Sales of goods purchase for resale	14 009 569	12 381 708
A.	Cost of goods sold	13 622 525	12 057 741
<b>+</b>	<b>Gross margin</b>	<b>387 044</b>	<b>323 967</b>
II.	Production	109 113	127 912
II. 1.	Sale of own products and services	109 113	127 912
B.	Purchased consumables and	199 625	167 848
B. 1.	Consumption of material and energy	19 981	21 734
B. 2.	Services	179 644	146 114
<b>+</b>	<b>Added value</b>	<b>296 532</b>	<b>284 031</b>
C.	Staff costs	162 184	149 054
C. 1.	Wages and salaries	116 476	109 940
C. 3.	Social and health insurance	37 814	32 171
C. 4.	Social benefits	7 894	6 943
D.	Taxes and charges	3 469	2 407
E.	Depreciations of tangible and intangible fixed assets	23 778	21 655
III.	Sale of fixed assets and materials	5 792	2 182
III. 1.	Sale of fixed assets	5 792	2 182
F.	Net book value of sold fixed assets and materials	3 451	1 203
F. 1.	Net book value of sold fixed assets	3 451	1 203
G.	Change in reserves and adjusting entries in the area of operations and complex retained expenses accrued (+/-)	13 777	-13 495
IV.	Other operating income	7 656	7 688
H.	Other operating expenses	22 789	43 521
<b>*</b>	<b>Profit / loss from operations</b>	<b>80 532</b>	<b>89 556</b>
VI.	Sales from sold securities and shares	2 088	5 295
J.	Securities and shares sold	2 579	5 295
VIII.	Revenues from short-term financial assets	0	152
X.	Interest receivable	1 541	3 700
N.	Interest expenses	67 643	71 907
XI.	Other financial income	14 912	14 534
O.	Other financial expenses	9 064	21 559
<b>*</b>	<b>Financial profit and loss</b>	<b>-60 745</b>	<b>-75 080</b>
Q.	Income tax on ordinary activities	5 321	10 470
Q. 1.	- due	6 955	8 811
Q. 2.	- deferred	-1 634	1 659
<b>**</b>	<b>Profit and loss from ordinary activities</b>	<b>14 466</b>	<b>4 006</b>
<b>***</b>	<b>Profit and loss of current year (+/-)</b>	<b>14 466</b>	<b>4 006</b>
<b>****</b>	<b>Profit and loss before tax</b>	<b>19 787</b>	<b>14 476</b>

Compiled on: 05/05/2011

Podpisový záznam statutárního orgánu účetní jednotky

18

Legal form of accounting unit Joint-stock company

Předmět podnikání: koupě zboží za účelem jeho dalšího

**PHARMOS, a.s., with the registered office at Těšínská 1349/296 716 00 Ostrava-Radvanice, ID No.: 19010290**

Incorporated in the Company Register kept by the Regional Court in Ostrava, Section B, File 188  
Incorporated in the Company Register kept by the Regional Court in Ostrava, Section B, File 188  
Tel.: +420 597575211, Fax: +420 597575251, E-mail: info@pharmos.cz

The notes are compiled in compliance with the Ministry of Finance Decree No. 500/2002 Coll. as amended by which means some provisions of Act No. 563/1991 Coll., On accounting, subsequently amended are implemented, for the accounting entities that are entrepreneurs subject to double-entry accounting. The data in the Notes are based on the bookkeeping papers of the accounting unit (accounting documents, books and other papers) and on other data available to the accounting unit. The values are expressed in thousands of CZK, unless stated otherwise.

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- 
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## General data

### 1. Description of accounting unit

Trade name: **PHARMOS, a.s.**

Registered office: Těšínská 1349/296, 71600 Ostrava-Radvanice, Postcode: 716 00

Legal form: joint stock company

ID No.: 19010290

VAT No.: CZ19010290

Subject of enterprise:

- Handling of substances and preparations subject to the mode of Act No. 167/1998 Coll. to the following extent: preparations containing narcotics listed in Annex No. 2 Act No. 167/1998, preparations containing narcotics listed in Annex No. 5 Act No. 167/1998 and preparations containing narcotics listed in Annex No. 6 Act No. 167/1998 and others – pursuant to decision of the Ministry of Health of the Czech Republic No. 44/2002 of 04.07.2002
- Production, sale and services not indicated in Annexes 1 to 3 of the Trade Act
- Activity of auditors, bookkeeping, tax records keeping

Establishment of company:

The company was established by incorporation in the Company Register kept by the Regional Court in Ostrava, Section B, Insert 188 on the 30th April 1991.

Start of operation of the accounting unit: 30/04/1991

BALANCE SHEET DAY 31.12.2010

FINANCIAL STATEMENT COMPILATION DAY 05.05.2011

INFORMATION CONCERNING IMPLEMENTED OR FORESEEN TRANSFORMATION OF THE COMPANY

The accounting unit does not plan any transformation of the company.

INFORMATION CONCERNING CHANGES IN FISCAL YEAR

The accounting unit does not plan to shift to a marketing year

Incorporated registered capital:

Total volume: CZK 342 800 000 (100% paid-up)

Incorporated on 10.9.2004 on the basis of a decision adopted by the Shareholders' Meeting in March 2004

Shares:

- 275 registered shares at a nominal value of CZK 1 000 000
- 5710 bearer shares at a nominal value of CZK 5 000
- 13 registered shares with a nominal value of CZK 50 000
- 386 registered shares with a nominal value of CZK 100 000

*On 16.6.2010, the shareholder – Česká lékárnická, a.s., filed a proposal with the District Court in Ostrava for redemption of 2x shares of PHARMOS, a.s. in the nominal value of CZK 1.1 million as the shares were lost or destroyed.*

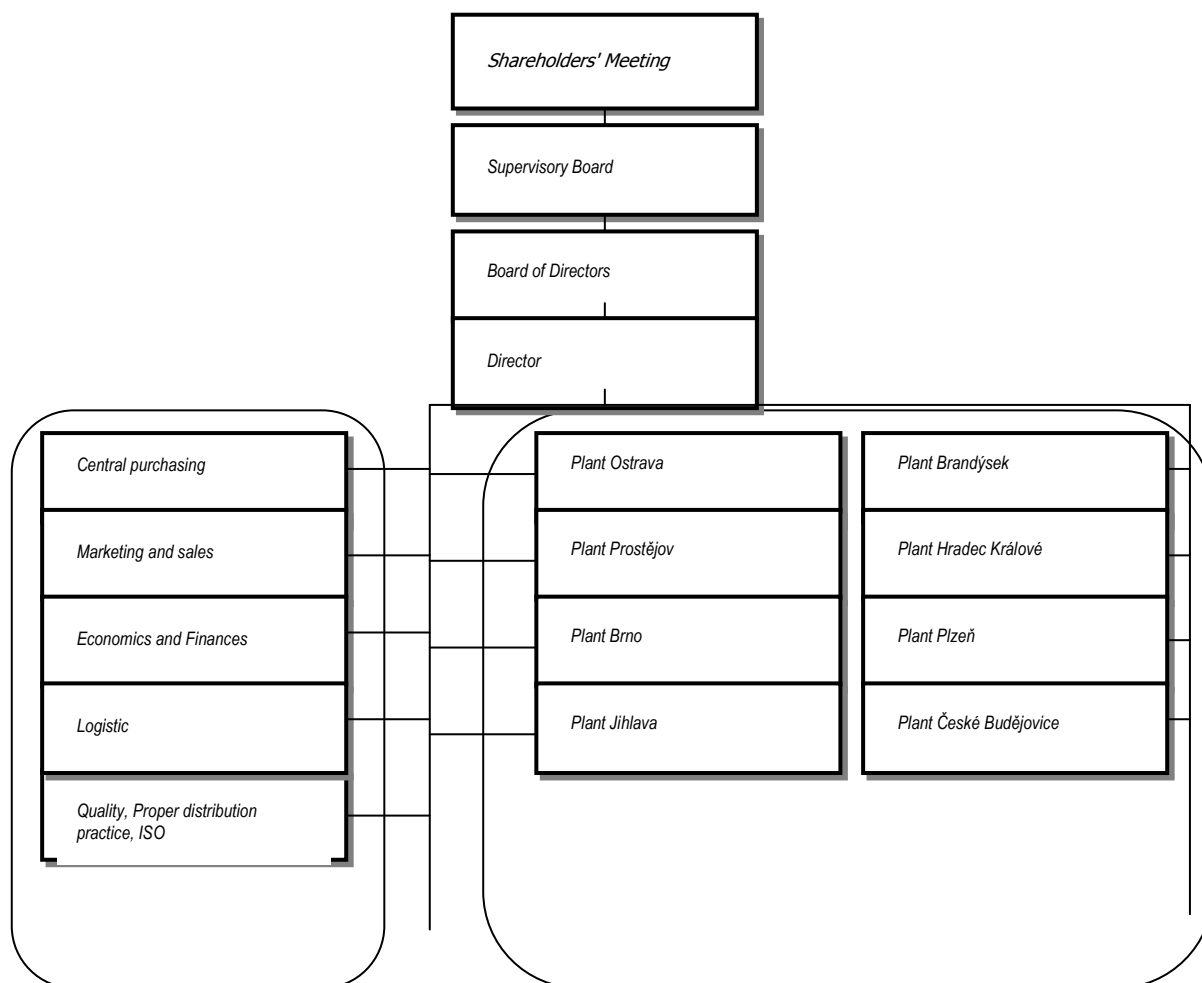
Persons holding shares in the registered capital of the accounting unit exceeding 20%:

Name of individual or trade name of corporation	Residence, registered office	As of 31 Dec. 2009		As of 31 Dec. 2010	
		i.e. %	share	i.e. %	share
PHOENIX International Beteiligungs GmbH	Mannheim, FRG	28.00	96 000	28.00	96 000
Česká lékárnická, a.s.	Těšínská 1349/296, 71600 Ostrava-Radvanice, ČR	71.67	245 685	71.67	245 685

Organizational structure of accounting unit and any significant changes thereof during the previous fiscal year:

There were no significant changes to the organizational structure as compared to the situation during the previous year.

Fig. 2 Organisational structure of PHARMOS, a.s.



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**Members of statutory and supervisory bodies as of the balance sheet date:**

Title	Last name	Name	Degree	Note
Chairman of the Board	Korta	Jiří	PharmDr.	
Member of the Board	Šácha	Ivan	PharmDr.	
Member of the Board	Marynčáková	Alena		
Member of the Board	Němeček	Jaroslav	Mgr.	
Chairman of the Supervisory Board	Grünewald	Marko Thorsten Albert		Date of membership 5.5.2010, entry in D CR 10.11.2010
Member of the Supervisory Board	Nalevajka	Petr	PharmDr.	
Member of the Supervisory Board	Mravcová	Ilona	Mgr.	
Member of the Supervisory Board	Lesáková	Lea	Mgr.	
Member of the Supervisory Board	Fiala	Radim	Mgr.	
Member of the Supervisory Board	Nöll	Christoph		

**Entries made in the dossier of the Commercial Register (D CR)**

Mr. Helmut Kraft – supervisory board member deleted - membership termination date 2.12.2009 - entry in D CR 18.03.2010

**2. Property or contractual interests of the accounting unit in other companies**

**Property participation higher than 20% - none**

**3. Company employees, staff costs**

Item	Employees total		Of this: members of management	
	2009	2010	2009	2010
Average headcount	603	604	69	60
Wages and salaries	109 940	116 476	22 223	22 438
Social security expenses	32 171	37 814	7 116	7 434
Social benefits	6 943	7 894	90	82
Cost of staff, total	149 054	162 184	29 429	29 954

<b>Remuneration to members of statutory and supervisory bodies</b>	<b>2009</b>	<b>2010</b>
Remuneration to members of statutory bodies	235	450
Remuneration to members of supervisory bodies	95	130
Total	330	580

#### **4. Compensations and benefits**

**Except for remunerations indicated in par. 3, no former or current members of the statutory, management and supervisory bodies were awarded any compensations or benefits during the course of the fiscal year. According to the Statutes, members of the Board of Directors are employees of PHARMOS, a.s.**

## **Applied accounting methods, general accounting principles and methods of evaluation**

*The presented Financial Statement was processed in accordance with Act 563/1991 Coll., concerning accountancy, and Notice by the Czech Ministry of Finance No. 500/2002 Coll., implementing some provisions of Act 563/1991 Coll., concerning accountancy, as amended by subsequent regulations, for accounting units with double-entry bookkeeping, and the applicable Czech Accounting Standards.*

### **1. Method of asset evaluation**

#### **1.1. Stock**

Accounting of stock

- implemented by stock records - method A

Release of stock from warehouse is accounted:

- FIFO method

Evaluation of stock

- Evaluation of stock created at own costs:
  - not applied during the year
- Evaluation of purchased stock:
  - in actual acquisition prices, including:
    - price of acquisition
    - secondary acquisition costs:
    - transport expenses
    - customs

#### **1.2. Evaluation of tangible and intangible fixed assets**

Tangible and intangible fixed assets are evaluated on the basis of the acquisition prices, i.e. prices for which such assets were acquired (price of acquisition) and expenses related to the acquisition (secondary acquisition costs).

As regards tangible and intangible fixed assets acquired on the basis of a non-monetary deposit of Česká lékárnická a.s. in PHARMOS, a.s., the successor (i.e. PHARMOS, a.s.) continues in depreciation, in light of taxes, begun by the initial owner, in compliance with § 30 par. 10 the Act On income taxes, i.e. the depreciated value of this property at the depositor is the entry price for the assessment of property in the bookkeeping.

As of 1 Jan. 2002, as a result of implementation of a non-monetary investment of Česká lékárnická, a.s., PHARMOS, a.s. registers a rectifying item to the acquired assets by total of CZK 105 803 thousand whereas this item represents the difference in the appraisal of the non-monetary investment at the depositor taken over to the acquirer's bookkeeping (i.e. PHARMOS, a.s.) and by the appraisal compiled by 2 independent experts appointed by a court for the appraisal of the non-monetary deposit of Česká lékárnická, a.s. The net book value of this valuation difference toward the acquired assets is CZK 42 231 thousand on the date of the Financial Statement.

### 1.3. Evaluation of securities and ownership interests

During the fiscal year concerned, the company owned the securities and ownership interests evaluated by acquisition prices.

### 1.4. Evaluation of livestock increments

The company does not have any assets of this category.

## 2. Determination of reproduction acquisition price

During the current or previous fiscal year, the company did not make use of reproduction acquisition prices.

## 3. Changes in evaluation, depreciations and accounting proceedings

There was a change in the financial derivative accounting method (swap, forward transactions) in the period monitored. The real appraisal of these financial derivatives was carried to account on the 31 Dec. 2010.

## 4. Adjustments to assets

Adjustment	Method of determining	Source of information concerning the determining of adjustment amount
Adjustment to financial investments	% of the value of financial investment (deposit)	Registration of securities and deposits
Adjustment to stock	Stock expiring within 3 months: 100% of the stock value. Stock expiring within 6 months: 50% of the stock value.	Stock records
Adjustment to receivables	Lawful rectifying items are created in compliance with the provision of Act on reserves, the accounting items up to 100% value are created for the claims that are more than 180 days after their maturity.	Accounts receivable ledger, book inventory and recording of legal proceedings

Adjustments to:	Balance as of 1 Jan		Additions		Payments		Balance as of 31. 12.	
	2009	2010	2009	2010	2009	2010	2009	2010
Tangible and intangible fixed assets	-	-	-	-	-	-	-	-
Stock	1 944	299	-	168	1 645	-	299	467
Financial investments	102	102	-	-	-	-	102	102
Receivables	102 075	90 096	16 404	15 358	28 383	3 540	90 096	101 914

## 5. Depreciations

*The depreciation plan concerning intangible fixed assets was prepared by the accounting unit in its internal directives where it started from anticipated depreciation of the assets filed corresponding to ordinary conditions of their utilization; the accounting and tax depreciations are not equal.*

The depreciation plan concerning intangible fixed assets was defined during the period concerned with respect to the period during which such assets were used. The accounting and tax depreciations are not equal.



In the depreciation of tangible and intangible fixed assets, there were no changes in 2010 reported compared to the previous years. Depreciation plans are compiled separately for each individual property. The accounting depreciations are defined as an even percentage during the entire service life of such tangible and intangible fixed assets. Tax depreciations of tangible fixed assets are determined according to the pertinent provisions of the Income Tax Act, as linear (i.e. equal) and accelerated depreciations.

#### Depreciation system of petty intangible and tangible fixed assets

Petty tangible fixed assets are reported at a separate analytical account 022028 - Petty tangible fixed assets. Tangible fixed assets can be classified as petty on condition that they do not fulfil the conditions for being classified as tangible fixed assets and the acquisition price exceeds the amount of CZK 5,000 VAT excluding, and the service life will be longer than 1 year.

Petty tangible assets falling outside the conditions above are reported as company's expenses at account 501 - Consumption of material. These assets are not indicated in the foot of the balance sheet or inventoried.

Petty intangible fixed assets are reported at a separate analytical account 013018 - Petty intangible fixed assets. Intangible fixed assets can be classified as petty on condition that they do not fulfil the conditions for being classified as fixed assets and this concerns intangible assets with the acquisition price exceeding the amount of CZK 10,000 excl. VAT. As of 1 January 2003, petty intangible assets and petty tangible assets are depreciated over a period of 24 months.

Petty intangible assets falling outside the conditions above are reported as company's expenses at account 518 - Other services. *These assets are not indicated in the foot of the balance sheet or inventoried.*

Adjustments to acquired assets are depreciated evenly during a period of 15 years.

#### 6. Conversion of foreign currency to Czech currency

In the conversion of foreign currencies to the Czech currency, the company makes use of:

- Current daily exchange rate announced by the Czech National Bank (daily exchange rates are valid for the entire following business day). As of the balancing day, the claims, pecuniary means and liabilities were re-calculated in the books using the Czech National Bank exchange rate valid on the 31st Dec. 2010.

#### 7. Determination of deferred tax

In accordance with the Czech Accounting Standard 3 (hereinafter the CAS), the accounting unit reported deferred tax from previous accounting and tax differences:

Item	Fiscal year	
	2009	2010
RESIDUAL VALUE (ACCOUNTING) > RESIDUAL VALUE (TAX)	-22 036	-22 358
Outstanding default interest - receivable	-6 463	-2 855
ZC to RI towards acquired assets	-49 375	-42 321
Total taxable	-77 874	-67 534
<b>Deferred tax liability (2011-19%)</b>	<b>-14 796</b>	<b>-12 832</b>
RESIDUAL VALUE (ACCOUNTING) < RESIDUAL VALUE (TAX)	-	-
Adjustments to securities	-	-
RI to stock	299	467
ZC to RI towards acquired assets	-	-
Accounting adjustments to receivables	3 125	1 011
Accounting reserves	129	151
Outstanding property transfer tax	83	174
Outstanding penalties	133	228
Unapplied tax loss	-	-
Total deductibles	3 769	2 031
<b>Deferred tax liability (2011-19%)</b>	<b>716</b>	<b>386</b>
Deferred tax, total (+ receivables /	-14 080	-12 446

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## 8. Cash flow

The accounting unit calculates the cash-flow by the indirect method. For the purpose of definition of cash-flow, the following was considered as finances and equivalents: money in the treasury and in banks, valuables, short-term securities, and shares.

## 9. Information on deviations from methods according to Par. 7 Sect. 5 of the Act on Accounting

In 2010, the accounting unit did not show deviations from the methods as per Par. 7, Sect. 5 of the Act on Accounting.

## 10. Information on alterations in accounting methods between periods

There were no changes in accounting methods between the individual accounting periods

## Additional data to Balance Sheet and Profit and Loss Statement

### 1. Data critical for the assessment of the property and financial situation of the company

#### 1.1. Back income tax for previous fiscal years

We do not register any retrospective assessments related to income tax for the previous accounting periods.

#### 1.2. Long-term bank loans

*The company does not file any long-term bank loan at present.*

#### 1.3. Breakdown of subsidies accepted for investment and operating purposes

In March 2010, the Ministry of Labour and Social Affairs decided on provision of a grant for implementation of the "Comprehensive development programme for key employees of PHARMOS, a.s." project in the amount of CZK 7 729 thousand. The date of completion of the project is fixed to 14.03.2012 at the latest. In 2010, the company consumed part of the grant in the amount of CZK 1 768 thousand. In 2011, we expect the withdrawal in the amount of CZK 4 200 thousand.

#### 1.4. Short-term investment

*As of the Financial Statement date, the company posts Short-term investments in the amount of CZK 4 785 thousand. CZK) These are the shares of Česká lékárnická, a.s., purchased from the original share owners under the Moje lékárna (My Pharmacy) project. The aim of the project is to further increase the company's sales. The shares purchased under the Moje lékárna (My Pharmacy) project will be offered to pharmacists on a reciprocal basis for an increase in the volume of sales - in accordance with a resolution of the Shareholders' Meeting of Česká lékárnická, a.s.*

*Due to distribution of risk related to bank interest rate development, the company signed a DOUBLE RATE CORRIDOR SWAP contract, which is a combination of interest swap and digital interest option, with UniCreditBank Czerch Republic, a.s. In the course of the year, the claim and liability relations resulting from this contract were billed on off-balance sheet accounts. At the date of the Financial Statement, the company charged the real appraisal of swap amounting to CZK 1 774 thousand on account of 373 (Receivables and liabilities from fixed term operations). The contract expiration date is fixed to 1.08.2011.*

### 2. Important events following the Financial Statement date

There were no significant changes in the period prior to compilation of the notes to the Financial Statement.

### 3. Additional information concerning tangible and intangible fixed assets

### 3.1. Main categories of tangible fixed assets (DHM)

Category	Acquisition price		Allowances		Net book value		Increase (acquisition price)	Decrease (net book price, depreciations)
	2009	2010	2009	2010	2009	2010	2010	2010
Lands	14 328	14 847	-	-	14 328	14 847	846	327
Buildings, halls, structures	209 134	205 059	52 632	56 577	156 502	148 482	1 453	9 473
Machinery, tools & equipment, vehicles and fixtures	<b>122 649</b>	<b>133 215</b>	<b>90 003</b>	<b>94 183</b>	<b>32 646</b>	<b>39 032</b>	<b>15 357</b>	<b>8 971</b>
-Machinery, devices, equipment,	77 072	85 073	47 132	51 221	29 940	33 852	10 412	6 500
-Motor Vehicles	5 050	5 731	3 905	2 292	1 145	3 439	2 756	462
-Inventory	6 971	6 971	6 018	6 177	953	794	-	159
<b>-Alternative intangible fixed assets (incl. other intangible fixed assets)</b>	33 556	35 440	32 948	34 493	608	947	2 189	1 850
<b>Tangible fixed assets in progress</b>	6 340	588	-	-	6 340	588	11 923	17 675
<b>Adjustments to assets</b>	105 803	105 803	56 428	63 482	49 375	42 321	-	-

Prepayments for tangible fixed assets as of 31/12/2010 were CZK 200 thousand CZK)

### 3.2. Intangible fixed assets (DNM)

Category	Acquisition price		Allowances		Net book value		Increase (acquisition price)	Decrease (net book price, depreciations)
	2009	2010	2009	2010	2009	2010	2010	2010
Software	17 309	23 210	16 687	18 106	622	5 104	5 900	1419
Valuable rights	26 542	26 542	26 542	26 542	-	-	-	-
Other DNM (incl. other DNM)	1 319	1 319	1 317	1 319	2	-	-	2
<b>Tangible fixed assets in progress</b>	6 231	-	-	-	6 231	-	1 072	7 303

Prepayments for tangible fixed assets as of 31/12/2010 were CZK 200 thousand.

### 3.3. Fixed assets – other informations

In 2010, real estate – the rest of the area at Lukášov and the building in Ostrava Hrušov were sold. An important investment in the field of software and hardware (hard disk arrays, data centre equipment, etc.).

### 3.4. Tangible fixed assets acquired in the form of financial lease

It is a financial leasing with subsequent purchase of the thing leased in summary according to individual groups of assets, the data is presented VAT excluded, except for passenger cars.

Summary of financial lease		Total value	First instalment (prepayment)	Total instalments	Instalments paid	Instalments to be paid	
						within 1 year	within 1 year
Previous fiscal year - 2009	Passenger vehicles, utility vehicles, stock equipment	3 218	603	2 615	1 092	496	1 027
Previous fiscal year - 2010	Passenger vehicles, utility vehicles, stock equipment	3 218	603	2 615	1 588	1 027	0

### 3.5. Tangible fixed assets acquired in the form of operative lease

Operative leasing is not used

### 3.6. Total amount of off-balance assets

The accounting unit reports the following assets on accounts of balance sheet:

Goods in consignment stock: 359 910 thousand CZK

Goods received to consignment sale: 15 690 thousand CZK

### 3.7. Breakdown of tangible fixed assets subject to right of lien

#### Previous fiscal year - 2009

Property	Book value	Security	Purpose	Duration	Liability
Warehouse complex Ostrava-Radvanice (building and land)	47 mill CZK	Entry of right of lien to Certificate of Ownership registered by the Real Estate Registry.	021000- Buildings, halls, structures 031000 - Lands	During the period of the credit contract according to the credit and security agreement	Based on credit contracts entered into with financial institutions.
Warehouse complex Prostějov (building and land)	14 mill CZK				
Warehouse complex Hradec Králové (building and land)	19 mill CZK				
Warehouse complex Brno (building and land)	63 mill CZK				

#### Current year - 2010

Property	Book value	Security	Purpose	Duration	Liability
Warehouse complex Ostrava-Radvanice (building and land)	47 mill CZK	Entry of right of lien to Certificate of Ownership registered by the Real Estate Registry.	021000- Buildings, halls, structures 031000 - Lands	During the period of the credit contract according to the credit and security agreement	Based on credit contracts entered into with financial institutions.
Warehouse complex Prostějov (building and land)	14 mill CZK				
Warehouse complex Hradec Králové (building and land)	19 mill CZK				
Warehouse complex Brno (building and land)	63 mill CZK				
Warehouse complex Brandýsek (building and land)	54 mill CZK				

### 3.8. Summary of assets with significant differences between market and book values

Assets	Book value	Market value
Terminated lease contracts (before 31 Dec 2009 incl. previous years)	26	2 220
Terminated lease contracts (up to 31.12.2010 incl. previous years)	24	1 619

### 3.9. Long-term investments - securities and ownership interests

Summary of securities and ownership interests in and outside the Czech Republic (subsidiaries and associates).

#### Previous fiscal year - 2009

Trade name	Registered office	Acquisition price	Share %	Adjustment	Dividends	Profit/loss of current year
AGB Praha a.s.	Prague, ČR	102		102	-	-
Lekis s.r.o.	Ostrava, ČR	119	17.7 %	-	-	6,114

#### Current year - 2010

Trade name	Registered office	Acquisition price	Share %	Adjustment	Dividends	Profit/loss of current year
AGB Praha a.s.	Prague, ČR	102		102	-	-
Lekis s.r.o.	Ostrava, ČR	119	17.7 %	-	-	568

## 4. Equity

### 4.1. Increase or decrease in equity

	As of 31 Dec. 2009	As of 31 Dec. 2010
Registered capital	342 800	342 800
Changes in registered capital	-	-
Statutory reserve fund	140 000	140 000
Capital funds - share premium	-	-
Statutory and other funds	36 005	36 005
Retained profit of prior years	56 009	58 063
Accumulated loss from previous years	-	-
Profit or loss of current year	4 006	14 466
Equity capital, total	578 820	591 334

Pursuant to a decision of the Shareholders' Meeting, the profit generated in 2009 was divided as follows:

Allocation for dividends (gross dividend)	1 371
Allocation to royalties for statutory and supervisory bodies	580
Allocation to reserve fund	-
Allocation to statutory and other funds	-
Transfer to retained profit from previous years	2 054
Allocation to increase in registered capital	-
Profit / loss for 2009, total	4 005

Proposal for the distribution of profit generated during current year:

A proposal for the distribution of profit generated during current year will be presented by the Board of Directors for approval at Shareholders' Meeting.

### 4.2. Registered capital

#### Previous fiscal year - 2009

Types of shares	Number of shares	Nominal value	Outstanding shares	Maturity period
Registered shares	275	CZK 1 000 000	-	-
Registered shares	13	CZK 50 000	-	-
Bearer shares	5710	CZK 5 000	-	-
Registered shares	386	CZK 100 000	-	-

#### Current year - 2010

Types of shares	Number of shares	Nominal value	Outstanding shares	Maturity period
Registered shares	275	CZK 1 000 000	-	-
Registered shares	13	CZK 50 000	-	-
Bearer shares	5710	CZK 5 000	-	-
Registered shares	386	CZK 100 000	-	-

## 5. Receivables and liabilities

### 5.1. Overdue receivables

Number of shares	As of 31 Dec. 2009		As of 31 Dec. 2010	
	Trade debtors	Other	Trade debtors	Other
<b>Less than 30</b>	277 581	-	229 251	-
31 – 60	67 674	-	55 273	-
61 – 90	20 603	-	27 679	-
91 – 180	12 814	-	18 263	-

181 and more | 78 164 - | 83 424 -

Rectifying items were created to claims after maturity amounting to CZK 101 914 thousand ) The claims under insolvency proceedings are duly filed, the other problem claims are exacted by court or solved in cooperation with our law office.

## 5.2. Overdue liabilities

Number of shares	As of 31 Dec. 2009		As of 31 Dec. 2010	
	Trade debtors	Other	Trade debtors	Other
Less than 30	158 702	-	-10 750	-
31 – 60	44 685	-	-2 439	-
61 – 90	3 680	-	208	-
91 – 180	2 807	-	513	-
181 and more	-843	-	-1 273	-

The declared negative amounts are caused by accepted credit notes that were credited in January 2011.

## 5.3. Receivables and liabilities with regard to group members

Debtor	Receivables towards enterprises in consolidated aggregate			
	As of 31 Dec. 2009		As of 31 Dec. 2010	
	Total	Overdue	Total	Overdue
Plzeňská lékárnická, s.r.o. (ID:25238213)	102 365	64 520	78 382	41 739
Česká lékárnická, a.s. (ID: 63080877)	-	-	-	-
Plzeňská lékárnická, s.r.o. (ID: 25633741)	118 672	26 859	139 088	27 743
Jihlavská lékárnická, s.r.o. (ID: 25534459)	68 353	31 181	61 009	19 141
Lekis s.r.o. (ID: 25356089)	-	-	125	-
PHARMACY-distribuce léčiv s.r.o.(ID: 65139577)	122 861	34 767	171 622	62 282
THERÁPON 98, a.s. (ID: 25399195)	42	-	7	-
GALMED a.s. (ID:47672145)	7 663	1 799	8 026	-
Lektrans s.r.o. (ID:27779271)	1	-	69	-
Pharmos, a.s. Sk. (ID:35974559)	11 464	10 023	3 144	-
Sanovia, a.s. (ID: 28570481)	2 040	1 353	1 171	1 171
Lektrans Bohemia s.r.o. (ID: 28616600)	-	-	3	-

On the date 31.12.2010, we file the following loans provided:

Lekis, s.r.o. CZK 2 000 thousand  
 PHARMOS, a.s. Sk. CZK 10 500 thousand

These loans are in the maturity period.

Creditor	Liabilities towards enterprises in consolidated aggregate			
	As of 31 Dec. 2009		As of 31 Dec. 2010	
	Total	Overdue	Total	Overdue
Plzeňská lékárnická, s.r.o. (ID:25238213)	1	1	1 438	-
Česká lékárnická a.s. (IC: 63080877)	1 319	695	1 502	962
Plzeňská lékárnická, s.r.o. (ID No: 25633741)	-	-	1 455	-
Jihlavská lékárnická, s.r.o. (ID No: 25534459)	-	-	5 684	-
Lekis s.r.o. (ID No: 25356089)	502	-	274	-
PHARMACY-distribuce léčiv s.r.o.(IČ: 65139577)	-	-	650	-
THERÁPON 98, a.s. (ID No: 25399195)	6	-	5	-
GALMED a.s. (IČ:47672145)	85	421	4 075	605
Lektrans s.r.o. (IČ:27779271)	2 368	-	5 266	-
Pharmos, a.s. Sk. (ID No: 35974559)	23 295	21 044	920	-
Sanovia, a.s. (ID No: 28570481)	-	-	208	-
Lektrans Bohemia s.r.o. (ID No: 28616600)	-	-	2 775	-

On the date 31.12.2010, we file the following loans accepted:

THERÁPON 98, a.s. CZK 1 000 thousand  
 Česká lékárnická, a.s. CZK 229 thousand

These loans are in the maturity period.

## 5.4. Receivables and liabilities based on application of right of lien and security

The significant part of the receivables is put away in favour of bank institutions to cover the credits accepted.

## 5.5. Receivables and liabilities not included in books and off-balance liabilities

(guarantees assumed for another enterprise on the basis of a bank loan, letter of credit or law of exchange, unless an accounting reserve has been created)

Provided guarantees	Subject
Bank guarantee (aval)	Lektrans s.r.o.

Accepted guarantees	Subject
Bank guarantees - receivables	PHARMACY-distribuce léčiv, s.r.o.
Bank guarantees - real estate	THERÁPON 98, a.s.
Bank guarantees - receivables	Plzeňská lékárnická, s.r.o.

Accepted collaterals	CO	RER
Accepted mortgage right to real estate - PharmDr. Petriláková	1446	Mariánské Hory
Accepted mortgage right to real estate - RNDr. Berek Bohuslav	3991	Poruba - sever
Accepted mortgage right to real estate - PharmDr. Bobková	11982	Ústí nad Labem
Accepted lien on real estate – Mgr. Tamara Tichá	4803	Kuřim
Accepted lien on real estate – Lékárna „U parku“, spol.	8426	Rakovník
Accepted lien on real estate – RNDr. Lukešová Jiřina	1846	Uherský Ostroh
Accepted lien on real estate – Zitko Miroslav Mgr.	1142	Žatec
Accepted lien on real estate – Zitková Greta PharmDr.	3961	Žatec
Accepted mortgage right to real estate - PharmDr. Bobková	8320	Teplice
Accepted lien on real estate – Oleg Mykolajovyč Čaban	219	Háj u Loučné pod Klínovcem
Accepted lien on real estate – Markéta + Martina Milsimerová	4293	Žatec
Accepted lien on real estate – Group of pharmacy owners	14972	Strašnice
Accepted lien on real estate – MUDr. Runczik + Dagmar Stinga	2423	Smržovka
Accepted lien on real estate - Lékárna u Sv. Vojtěcha s.r.o.	1021	Opava - město
Accepted lien on currency bonds – Lékárna u Rubínu, a.s.		

## 5.6. Accruing of important groups of other receivables

Interest-bearing loans to customers represent an important group of receivables (trade debtors).

Of the total volume granted in 2010, the most important part is represented by loans for the financing of receivables (a form of an interest-bearing timetable for repayment) and short-term bridging loans for a period of approximately 3-5 months. The remaining part is represented by the financial interest-bearing loans for assistance in the solution of business plans concerning the development of pharmacies. Each appropriate contract is drawn up in the form of a notarial record and is provided with security instruments (bill of exchange, lien on real estate, deed of transfer of receivables, etc.).

	2009				2010			
	Total	Overdue	Payable within 1 year	Payable later than 1 year	Total	Overdue	Payable within 1 year	Payable later than 1 year
Total	127 925	47 873	36 928	43 124	143 081	52 178	49 068	41 835
of this: Financial loans	43 588	29 647	9 826	4 115	35 668	28 216	5 826	1 626
Interest-bearing timetables	84 337	18 226	27 102	39 009	107 413	23 962	43 242	40 209

On the balancing date, repayment schedules for interest-bearing receivables, financial and short-term loans after maturity amounting to CZK 52 178 thousand are filed.

### OTHER LIABILITIES

We register an amount of CZK 10 295 thousand on the account 325 - Other liabilities, of which CZK 7 200 thousand represents accepted interest-running loans from individuals. These liabilities have not exceeded the maturity period.

### RECEIVABLES WITH TERM OF PAYMENT OVER FIVE YEARS

The company files a claim payable in 2016 in the amount of CZK 92 thousand by reason of the Acknowledgement of a debt and agreement on settlement of mutual rights and duties (schedule of payments).

### LIABILITIES WITH TERM OF PAYMENT OVER FIVE YEARS

None registered

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## 5.7. Receivables and liabilities in foreign currency

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### RECEIVABLES IN FOREIGN CURRENCY

	EUR			USD		
	Total in currency	ČNB exchange rate	Total in CZK	Total in currency	ČNB exchange rate	Total in CZK
Amount of receivables in currency <b>on 31</b>	606 608	26 465	16 053 871	82 440	18 368	1 514 258
Amount of receivables in currency <b>on 31</b>	185 043	25 06	4 637 178	47 260	18 751	886 172

### LIABILITIES IN FOREIGN CURRENCY

	EUR			DKK		
	Total in currency	ČNB exchange rate	Total in CZK	Total in currency	ČNB exchange rate	Total in CZK
Amount of receivables in currency <b>on 31</b>	5 565 430	26 465	147 289 102	65 484	3 556	232 861
Amount of receivables in currency <b>on 31</b>	7 065 016	25 06	177 049 301	0	-	0

In order to secure contingent losses related to exchange rate, the company fixes the EUR exchange rate by means of forward transactions. PHARMOS, a.s. carries out the fixation in the case that the EUR/CZK rate of exchange is the same or lower than the one used when the goods were purchased. This option is given by the set due dates within the range of 60 – 120 days. On the date 31 Dec. 2010, the company settled the future yields connected with the already concluded forward transactions in the invoices payable in the first quarter 2011 in the amount of CZK 4 244 thous.

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## 5.8 Relations towards national institutions

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*In 2006, PHARMOS, a.s. was imposed a fine by the Economic Competition Protection Office in Brno in the amount of CZK 18 638 000 for termination of deliveries to three teaching hospitals and for cutting the maturity dates for deliveries of pharmaceuticals. The company settled the fine and lodged an appeal against the decision. This judgement was acknowledged by the Regional Court in Brno in 2009 and by the Supreme Administrative Court in 2010 as well. PHARMOS, a.s. spent all procedural means and therefore, a constitutional complaint against the judgement of the Supreme Administrative Court of 31 March 2010 was lodged with the ČR Constitution Court of on 16.7.2010. The result of the proceedings will not decrease or endanger the future operating results and assets of the company.*

### AMOUNTS PAYABLE ON SOCIAL INSURANCE

- We have no overdue liabilities

### AMOUNTS PAYABLE ON PUBLIC HEALTH INSURANCE

- We have no overdue liabilities



## TAX ARREARS TOWARDS REVENUE AUTHORITIES

- We have no tax arrears

## Important potential loss for which no reserve has been created in the company's books

Description of uncertain circumstances	Affecting factors	Estimated financial impact
None known	-	-

On 13 March 2007, Pharmos, a.s. was delivered a payment demand from Braddock Finance & Capital Ltd., Stoper House, Weber Street 15, London SE1 0RE, represented by Mgr. Marek Vojáček, attorney, with registered office at Týn 1049/3, 110 00 Prague 1 in the amount of CZK 100,000,000, including interests on late payments accruing by 5.5% until the date of payment. Pharmos, a.s. filed an objection against this payment demand on 13 March 2007. In 2009, the legal action was rejected by the District Court in full. Braddock Finance lodged an appeal with the Regional Court in Ostrava. No other act was made from the date of service of the appeal (20.10.2009) until the date of drawing up the Financial Statement. The legal action has not been terminated so far.

## 6. Reserves

Description of reserve	Previous fiscal year - 2009			Current year - 2010		
	Additions	Withdrawal	Balance	Additions	Withdrawal	Balance
<b>Lawful reserves (accrued taxes)</b>						
<b>Non-tax reserves</b>						
-Reserve for unpaid social and health insurance - unpaid rewards	129	-	129	151	129	151
- Other reserves	-	-	-	1 769	-	1 769

The other reserves consist of the reserve for real estate transfer tax amounting to CZK 99 thousand (Ostrava Hrušov and Lukášov real estate sales) and by the reserve for the anticipated loss on sales of shares within the Moje lékárna project amounting to CZK 1 595 thousand.

## 7. Revenues from ordinary activities

	Previous fiscal year - 2009			Current year - 2010		
	in sum	Thereof inland	Thereof EU	Total	Thereof inland	Thereof EU
Revenues from ordinary activities	12 509 620	12 422 386	87 234	14 118 682	14 036 858	81 824
Therein revenues from sale of goods	12 381 708	12 308 180	73 528	14 009 569	13 951 925	57 644
Revenues from sale of services	127 912	114 206	13 706	109 113	84 933	24 180
Negotiation interests	16 235	16 235	-	12 673	12 673	-
Exchange rate differences	13 040	2 687	10 353	11 341	10 670	671
Other revenues	4 276	2 065	2 211	7 975	5 523	2 452
Total	12 543 171	12 443 373	99 798	14 150 671	14 065 724	84 947

## 8. Expenses incurred during fiscal year on research and development

The Company made no expenses on research and development in 2010.

## 9. Changes in reporting values in financial statements owing to legislative changes

No changes were effected to the form of reporting.

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**10. Information on total expenditures on remuneration for auditing company**

Year	Mandatory audit	Other verification services	Tax consulting	Other non-auditing services
2009	690	-	-	-
2010	725	-	-	-

Compiled on: 05/05/2011	Signature of the person responsible for compilation:	Signature of a statutory representative:
Approved on: 05/05/2011		

Report of Changes in Equity								Trade name
Binding account of information acc. to the ČR Ministry of Finance Regulation No 500/2002 Coll.						PHARMOS, a. s.		Registered office
As of 31/12/2010 (rounded to CZK '000)						Těšínská 1349/296, Ostrava - Radvanice		716 00
ID No. 190 102 90								
01	Registered capital	Other capital funds	Changes in registered capital	Reserve fund	Other funds	Profit and loss PY	Profit and loss CY	Total Equity
02	03	04	05	06	07	08		
<b>Opening balance, as of 1 January 2009</b>	<b>342 800</b>			<b>140 000</b>	<b>36 005</b>	<b>46 314</b>	<b>11 739</b>	<b>576 858</b>
Subscription of registered capital increase								0
Share premium for registered capital increase								0
Gains or losses from evaluation of assets								0
Allocation to reserve fund from profit								0
Allocation for dividend payment							-1 714	-1 714
Allocation for royalty payment							-330	-330
Allocation to retained profit from previous years						9 695	-9 695	0
Profit/loss of current year							4 006	4 006
Difference from rounding								0
<b>Closing balance, as of 31 December</b>	<b>342 800</b>	<b>0</b>	<b>0</b>	<b>140 000</b>	<b>36 005</b>	<b>56 009</b>	<b>4 006</b>	<b>578 820</b>
<b>Opening balance, as of 1 January 2010</b>	<b>342 800</b>	<b>0</b>	<b>0</b>	<b>140 000</b>	<b>36 005</b>	<b>56 009</b>	<b>4 006</b>	<b>578 820</b>
Subscription of registered capital increase								0
Share premium for registered capital increase								0
Gains or losses from evaluation of assets								0
Allocation to reserve fund from profit								0
Allocation for dividend payment							-1 371	-1 371
Allocation for royalty payment							-580	-580
Allocation to retained profit from previous years						2 054	-2 054	0
Profit/loss of current year							14 466	14 466
Difference from rounding							-1	-1
<b>Closing balance, as of 31 December</b>	<b>342 800</b>	<b>0</b>	<b>0</b>	<b>140 000</b>	<b>36 005</b>	<b>58 063</b>	<b>14 466</b>	<b>591 334</b>
Legal form of the accounting unit : joint stock company		Compiled by: Mainušová				Compiled on: 05/05/2011		
Subject of enterprise :						Approved on: 05/05/2011		
Purchase of goods for sale and resale		Statutory body signature:						
Incorporated in the Company Register administered by the Regional Court in Ostrava, Section B, File 188								

Minimum binding account of information acc. To  
Ministry of Finance Regulation No. 500/2002 Coll.

**Cash Flow Statement**  
(cash-flow) (nepřímá metoda)

Trade name  
**PHARMOS, a.s.**  
Registered office  
Těšínská 1349/296  
Ostrava-Radvanice  
716 00

As of **31.12.2010**

(rounded to CZK '000)

YEAR	Month	ID No.
2010	1 2 1 9 0 1 0 2 9 0	

Identification a	TEXT b	Line No.: c	Figures posted during fiscal year	
			current 1	previous 2
P.	<b>Cash and cash equivalents at the beginning of accounting period</b>	01	147 713	82 929
	<b>Cash flows from ordinary activities</b>	02		
Z.	Profit/loss from ordinary activities before tax	03	19 787	14 476
A. 1.	<b>Adjustments for non-monetary operations</b>	04	101 316	75 236
A. 1. 1.	Depreciation of fixed assets (+) excluding book value of fixed assets sold, amortization of	05	23 778	21 655
A. 1. 2.	Changes in adjusting entries and reserves	06	13 777	-13 495
A. 1. 3.	Profit (loss) from the sale of fixed assets (-/+)	07	-2 341	-979
A. 1. 4.	Revenue from dividend and share of profit (-)	08		-152
A. 1. 5.	Posted interest expense (+)excluding capitalised interest and interest income (-)	09	66 102	68 207
A. 1. 6.	Adjustments other non-monetary operations	10		
A. *	<b>Net cash flow from operating activities before tax, movements in working capital</b>	11	121 103	89 712
A. II.	<b>Change in non-monetary elements of working capital</b>	12	13 019	75 236
A. II. 1.	Change in receivables from operating activities (+/-),active accounts of temporary and	13	-103 773	29 472
A. II. 2.	Change in current liabilities from operating activities (+/-), accruals, and estimated liabilities	14	118 545	383 647
A. II. 3.	Variation in stock (+/-)	15	-1 753	-337 883
A. II. 4.	Change in short-term investments not falling under cash and cash equivalents	16		
A. **	<b>Net cash flow from operating activities before tax and extraordinary items</b>	17	134 122	164 948
A. III.	Interests paid except for capitalised interests (-)	19	-67 643	-71 907
A. IV.	Interests received (+)	19	1 541	3 700
A. V.	Income tax paid except for operating activities, additional tax paid for previous years (-)	20	-10 599	-13 680
A. VI.	Income and expenses related to extraordinary events that are extraordinary profit or loss, including tax paid on income from extraordinary activities	21		
A. VII.	Accepted dividends and share in profits (+)	22		152
A. ***	<b>Net cash flow from operating activity</b>	23	57 421	83 213
	<b>Cash flow from investment activity</b>	24		
B. I.	Expenditures related to acquisition of fixed assets	25	-11 248	-18 567
B. II.	Receipts from fixed assets sold	26	5 792	2 182
B. III.	Loans and credits for related persons	27		
B. ***	<b>Net cash flow related to investment activity</b>	28	-5 456	-16 385
	<b>Cash flow from financial activities</b>	29		
C. I.	Change in long-term liabilities, or short-term liabilities falling in the area of financial activities to	30	416	
C. II.	<b>Impact of variation in equity on cash and cash equivalents</b>	31	-1 951	-2 044
C. II. 1.	Increase in cash and cash equivalents due to increase in share capital, share premium,	32		
C. II. 2.	Payment of share in equity to associates (-)	33		
C. II. 3.	Other monetary deposits by partners and shareholders (+)	34		
C. II. 4.	Settlement of loss by partners (+)	35		
C. II. 5.	Direct payments to the debit of funds (-)	36		
C. II. 6.	Dividends or shares in profits, royalties, including withdrawal of tax relating to such claims	37	-1 951	-2 044
C. ***	<b>Net cash flow related to financial activity</b>	38	-1 535	-2 044
F.	<b>Net increase or decrease of cash and cash equivalents</b>	39	50 430	64 784
R.	<b>Cash and cash equivalents at the end of the accounting period</b>	40	198 143	147 713

Compiled on: 5. 5. Approved on: 05/05/2011

Signature of the statutory body of the accounting unit

Legal form of accounting unit

Joint-stock company

Subject of enterprise:

Purchase of goods for sale and resale

Incorporated in the Company Register administered by the Regional Court in Ostrava, Section B, File 188

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## **Report on the Relations between Controlling and Controlled Entity**

### **issued pursuant to the provisions of Section 66a (par. 9) of the Commercial Code**

**PHARMOS, a.s.**, with the registered office at Těšínská 1349/296, Ostrava-Radvanice, postal code: 71600, ID. No.: 19010290, incorporated in the Company Register, Section B, File 188, administered by the Regional Court in Ostrava (hereinafter referred to as the "**Submitter**"). As regards the provisions of Section 66a) of Act 513/1991 Coll. – the Commercial Code, as amended, the company is a part of the business group (holding) in which the following relations between the Submitter and the controlling entities and further between the Submitter and the entities controlled by the same controlling entities (hereinafter referred to as the "**interconnected entities**") exist.

This report on the relations between the entities mentioned hereinafter has been elaborated in compliance with the provision of Section 66a paragraph 9 of Act No. 513/1991 Coll., the Commercial Code (hereinafter referred to as the CC), as amended, for the fiscal year 01/01/2010 – 31/12/2010 (hereinafter referred to as the "**Fiscal Year**").

The following contracts and agreements were entered into between the Submitter and the below-specified entities during this Fiscal Year, and the following legal and other deeds were adopted or effected:

#### **A. CONTROLLING ENTITIES**

The vertical relationships between the controlling and controlled entities are specified hereunder. For detailed information, see Annex 1 Group Structure. The Structure is as follows:

**Česká lékárnická, a.s.** with the registered office at Těšínská 1349/296, Ostrava - Radvanice, ID No.: 63080877

**Phoenix International Beteiligungs GmbH** with the registered office at Mannheim, the FRG

**Relation to the company:** an entity controlling an entity

#### **B. OTHER AFFILIATED ENTITIES**

*a) Companies controlled by the Submitter*

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*b) Companies controlled by the same controlling entity as the Submitter (affiliated companies) and the companies controlled by them with whom business relationships were established during the evaluated period*

Pražská lékárnická s.r.o., with the registered office at Theodor 28, 273 08 Pchery, ID No: 25633741

Jihlavská lékárnická s.r.o., with the registered office at Pávovská 3136/73, Jihlava-Bedřichov, ID No: 25534459

Plzeňská lékárnická s.r.o., with the registered office at K Jezu 32, 326 00 Plzeň, ID No: 25238213

PHARMACY-distribuce léčiv s.r.o., with the registered office at Kojetínská 4219/10, 796 01 Prostějov, ID No: 65139577

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Lekis s.r.o. with the registered office at Těšínská 1349/296, Ostrava - Radvanice, ID No: 25356089

THERÁPON 98, a.s. with the registered office at Štefánikova 1301, 742 21 Kopřivnice, ID No: 25399195

GALMED a.s., Těšínská 1349/296, Ostrava - Radvanice, ID No: 47672145

LEKTRANS, s.r.o., Těšínská 1349/296, 716 00 Ostrava - Radvanice, ID No: 27779271

PHARMOS, a.s. with the registered office at Levická 11, 949 01 Nitra, Slovenská republika, ID No: 35974559

Sanovia, a.s., with the registered office at Ostrava – Radvanice, Těšínská 1349/296, postal code: 716 00, ID No: 28570481

Lektrans Bohemia s.r.o., with the registered office at Těšínská 1349/296, Ostrava - Radvanice, ID No: 28616600

- Other members of the Group with the same top controlling entity which whom the Submitter entered into business relationships during the period concerned:

None.

**c) *Other companies controlled by the same controlling entity as directly controlling entity with whom business relationships were established during the evaluated period***

None.

This Report provides a summary of the business and economic relationships between the controlled entity, the controlling entities above this controlled entity and the companies controlled by the same top entity.

## **1. Contracts**

### **1.1. Sales**

#### **1.1.1. Fixed assets**

As regards sales, there were no business relationships established and implemented as of the date of this Report in 2010 within the group with respect to the controlled entity or the affiliated entities within the same Group, regarding the sale of fixed assets, other assets, material and products.

The Submitter does not lease out any assets.

#### **1.1.2. Merchandise**

The Submitter entered into the following sales and other contracts during the period specified below, pursuant to which products were sold during the fiscal year.

<i>Title</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate Contract of</i>	<i>Jihlavská</i>	<i>Products</i>	-	<i>Common</i>	-

<i>Sale - delivery according to an invoice</i>	<i>lékárnická, s.r.o.</i>	<i>pharmaceuticals, parapharmaceuticals, additional assortment</i>			
<i>Separate Contract of Sale - delivery according to an invoice</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Products - pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Separate Contract of Sale - delivery according to an invoice</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Products - pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Separate Contract of Sale - delivery according to an invoice</i>	<i>PHARMOS, a.s. SR</i>	<i>Products - pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Separate Contract of Sale - delivery according to an invoice</i>	<i>Pražská lékárnická s.r.o.</i>	<i>Products - pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	<i>-</i>	<i>-</i>

### 1.1.3. Services

The Submitter concluded contracts on the basis of which it provided services in respect of the controlling entity or affiliates within the same Group during the fiscal year.

<b>Name</b>	<b>Party</b>	<b>Description</b>	<b>Price</b>	<b>Detriment (if any)</b>	<b>Advantages / Disadvantages</b>
<i>Software Lease Agreement, according to invoices</i>	<i>Česká lékárnická, a.s.</i>	<i>Lease of the Helios accounting IS</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Non-residential Premises Lease Agreement</i>	<i>Česká lékárnická, a.s.</i>	<i>Non-residential premises at Těšínská 1346/296 Ostrava - Radvanice</i>	<i>Common</i>		
<i>Software Lease Agreement, according to invoices</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Lease of the Helios accounting IS</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Re-invoicing of services - separate contracts according to invoices</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Re-invoicing of services - promotional campaigns, advertising articles, provision of data services and fire protection</i>	<i>Common</i>		
<i>Software Lease Agreement, according to invoices</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Lease of the Helios accounting IS</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Re-invoicing of services - separate contracts according to invoices</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Re-invoicing of services - promotional campaigns, advertising articles, provision of data services and fire protection</i>	<i>Common</i>		
<i>Software Lease Agreement, according to invoices</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Lease of the Helios accounting IS</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Re-invoicing of services - separate contracts according to invoices</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Re-invoicing of services - promotional campaigns, advertising articles, provision of data services and fire protection</i>	<i>Common</i>		
<i>Re-invoicing of services - separate</i>	<i>Plzeňská lékárnická,</i>	<i>Re-invoicing of marketing bonuses</i>	<i>Common</i>		

contracts according to invoices	s.r.o.				
Software Lease Agreement, according to invoices	Pražská lékárnická s.r.o.	Lease of the Helios accounting IS	Common		-
Re-invoicing of services - separate contracts according to invoices	Sanovia, a.s.	Re-invoicing of services – publicity campaigns, advertising matters and data services	Common		
Re-invoicing of services - separate contracts according to invoices	Pražská lékárnická, s.r.o..	Re-invoicing of services - promotional campaigns, advertising articles, provision of data services and fire protection	Common		
Contract for transportation of goods	Pražská lékárnická s.r.o.	Remuneration for carriage of goods implemented	Common		
Distribution Services Agreement	Pražská lékárnická, s.r.o..	Remuneration for distribution services	Common		
Distribution Services Agreement	GALMED a.s.	Remuneration for distribution services	Common		
Lease contract, as per invoices	GALMED a.s.	Costs of assets leased and energy	Common		
Re-invoicing of services - separate contracts according to invoices	GALMED a.s.	Re-invoicing of services, fuels, tel. charges, data services, etc.	Common		
Consignation stock keeping agreement	GALMED a.s.	Consignation stock keeping at Hradec Králové branch	Common		-
Non-residential Premises Lease Agreement	LEKTRANS, s.r.o.	Non-residential premises in Prostějov	Common		
Non-residential Premises Lease Agreement	LEKTRANS, s.r.o.	Non-residential premises at Těšínská 1346/296 Ostrava – Radvanice	Common		
Distribution Services Agreement	Sanovia, a.s.	Accounting services	Common		
Distribution Services Agreement	Česká lékárnická, a.s.	Accounting services	Common		
Distribution Services Agreement	GALMED a.s.	Accounting services	Common		
Non-residential Premises Lease Agreement	PHARMACY – distribuce léčiv s.r.o.	Non-residential premises in Prostějov	Common		
Motor Vehicle Lease Agreement	PHARMOS, a.s. SR	Motor vehicle lease	Common		
Refakturace služeb – dílčí smlouva	Plzeňská lékárnická, s.r.o.	Re-invoicing of transport, marketing campaigns, data connection, costs of the co. Edukafarm	Common		
Motor Vehicle Lease Agreement	GALMED a.s.	Motor vehicle lease	Common		
Non-residential Premises Lease Agreement	LEKTRANS Bohemia s.r.o.	Non-residential premises at Těšínská 1346/296 Ostrava – Radvanice	Common		
Non-residential Premises Lease Agreement	LEKTRANS, s.r.o.	Non-residential premises in Brno	Common		
Software Lease Agreement, according to invoices	LEKTRANS, s.r.o.	Lease of the Helios accounting IS	Common		
Software Lease Agreement, according to invoices	LEKTRANS Bohemia s.r.o.	Lease of the Helios accounting IS	Common		



<i>Contract for transportation of goods</i>	<i>for of</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Remuneration for carriage of goods implemented</i>	<i>Common</i>		
<i>Distribution Agreement</i>	<i>Services</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Remuneration for distribution services</i>	<i>Common</i>		
<i>Contract for transportation of goods</i>	<i>for of</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Remuneration for carriage of goods implemented</i>	<i>Common</i>		
<i>Distribution Agreement</i>	<i>Services</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Remuneration for distribution services</i>	<i>Common</i>		
<i>Distribution Agreement</i>	<i>Services</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Accounting services</i>	<i>Common</i>		
<i>Distribution Agreement</i>	<i>Services</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Accounting services</i>	<i>Common</i>		
<i>Distribution Agreement</i>	<i>Services</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Execution of payment supervision</i>	<i>Common</i>		

#### **1.1.4. Other contractual relationships**

PHARMOS, a.s. provided the following companies with the following interest-bearing loans (in '000 CZK)

<b>Title</b>	<b>Party</b>	<b>Balance on 31/12/2010</b>	<b>Description</b>	<b>Price</b>	<b>Detriment (if any)</b>	<b>Advantages / Disadvantages</b>
<i>Loan Agreement</i>	<i>Lekis s.r.o.</i>	<i>2,000</i>	<i>Loan</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Loan Agreement</i>	<i>PHARMOS, a.s. SR</i>	<i>10,500</i>	<i>Loan</i>	<i>Common</i>	<i>-</i>	<i>-</i>

PHARMOS, a.s. concluded an Agreement on the Provision of a Financial Bonus with the co. Lektrans, s.r.o. and Pharmos SK a.s. on the basis of which these companies provide the co. PHARMOS, a.s. with a financial bonus – a quantity discount.

PHARMOS, a.s. concluded an Agreement on the Compensation of a Part of Costs Incurred due to SWAP Interest Rate Fixation and Costs of Money (Interest Rate) with the co. PHARMACY – distribuce léčiv s.r.o., Jihlavská lékárnická s.r.o. and Plzeňská lékárnická s.r.o.

#### **1.2. Purchases**

As regards purchasing, the following purchase relationships were established and implemented as of the date of this Report in 2010 within the group with respect to the controlled entity or the affiliated entities within the same Group, regarding fixed assets, other assets and material.

##### **1.2.1. Services (except for leasing)**

The Submitter concluded contracts on the basis of which it was provided with the following services during the fiscal year:

<b>Název</b>	<b>Party</b>	<b>Description</b>	<b>Price</b>	<b>Detriment (if any)</b>	<b>Advantages / Disadvantages</b>
<i>Separate deliveries, according to invoices</i>	<i>Česká lékárnická, a.s.</i>	<i>Agency activities</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Re-invoicing of services – a partial contract</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Re-invoicing of a part of the rent for the use of non-residential premises</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Contract for provision of expert consultancy</i>	<i>GALMED a.s.</i>	<i>Consultancy services regarding tender</i>	<i>Common</i>		

		<i>procedures for the supplies of pharmaceuticals</i>			
<i>General contract for packaging</i>	<i>GALMED a.s.</i>	<i>Medical product secondary packaging</i>	<i>Common</i>		
<i>Re-invoicing of GML Agreement</i>	<i>Česká lékárnická, a.s.</i>	<i>Re-invoicing of expenses related to GML</i>	<i>Common</i>		
<i>Contract for transportation of distributed goods</i>	<i>LEKTRANS, s.r.o.</i>	<i>Arrangement for transportation of goods</i>	<i>Common</i>		
<i>Contract for lease of space on commercial vehicles</i>	<i>LEKTRANS, s.r.o.</i>	<i>Lease of areas for placing a logo</i>	<i>Common</i>		
<i>Contract for cooperation on the project "My Pharmacy"</i>	<i>Sanovia, a.s.</i>	<i>Marketing service</i>	<i>Common</i>		

### 1.2.2. Material Purchases

The Submitter purchased materials from the controlling entity or the affiliated entities within the same Group during the fiscal year.

<i>Name</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>

### 1.2.3 Purchase of goods

The Submitter purchased products during the fiscal year from the controlling entity or the affiliated entities within the same Group.

<i>Title</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate deliverables - as per invoices</i>	<i>GALMED a.s.</i>	<i>Products - pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-
<i>Separate deliverables - as per invoices</i>	<i>PHARMOS, a.s. SR</i>	<i>Products - pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-

### 1.2.4. Purchase of fixed assets

The Submitter concluded contracts during the fiscal year on the basis of which it purchased long-term assets from the controlling entity or affiliated entities within the same Group.

<i>Name</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>

### 1.2.5. Other contractual relationships

PHARMOS, a.s. provided the following companies with the following interest-bearing loans (in '000 CZK)

<b>Title</b>	<b>Party</b>	<b>Balance on 31/12/2010</b>	<b>Description</b>	<b>Price</b>	<b>Detriment (if any)</b>	<b>Advantages / Disadvantages</b>
<i>Agreement on an Interest-Bearing Deposit</i>	<i>THERÁPON 98, a.s.</i>	<i>1,000</i>	<i>Deposit</i>	<i>Common</i>	<i>-</i>	<i>-</i>
<i>Loan Agreement</i>	<i>Česká lékárnická, a.s.</i>	<i>229</i>	<i>Loan</i>	<i>Common</i>	<i>-</i>	<i>-</i>

### **Other legal operations**

Bank Guaranty given to Lektrans, s.r.o. – avalist

Contract on secured assigning the claims from Pharmacy - distribuce léčiv s.r.o. (to secure the loan of Pharmos by assigning the claims from Pharmacy - distribuce léčiv s.r.o.). (to secure the loan of Pharmos by assigning the claims from PHARMACY - distribuce léčiv s.r.o.).

Securing the credit of PHARMOS, a.s. by means of THERÁPON 98, a.s. real estate

### **Other measures**

None

### **Statement**

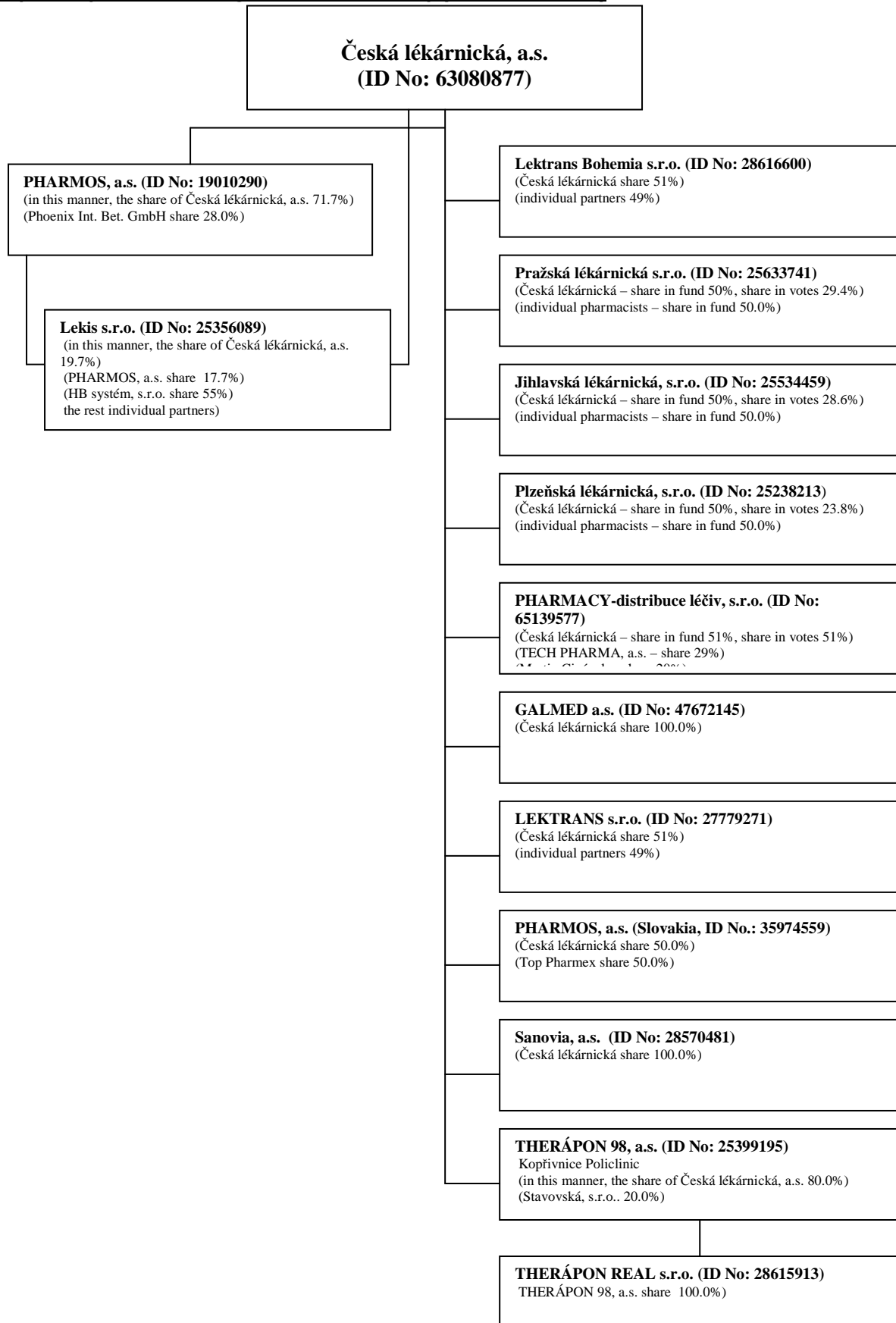
*The statutory body hereby declares, pursuant to the provisions of Section 66a) Paragraph 15 of the Commercial Code that the statutory body guarantees jointly and severally the fulfilment of liabilities regarding the indemnification of the company and its partners as a consequence of a failure to specify agreements or other transactions within this Report from which the Company suffered detriment provided that such detriment was not compensated or that no agreement for its compensation has been entered into.*

In Ostrava on: 31/03/2011

.....  
PharmDr. Jiří Korta, Chairman of the Board of Directors

.....  
Alena Marynčáková, member of the Board of Directors

**Annex 1 to Report on the Relationships between Controlling and Controlled Entity issued pursuant to the provisions of Section 66a (par. 9) of the Commercial Code**  
**Graphical representation of organizational relationship (as of 31 Dec. 2010)**



**PHARMOS, a.s., with the registered office at Těšínská 1349/296, 716 00 Ostrava-Radvanice, ID No.: 19010290**

The company incorporated in the Company Register administered by the Regional Court in Ostrava, Section B, File 188  
 Tel: +420-597575211, Fax: +420-597575261, E-mail: info@pharmos.cz

**Organizational structure – personnel links within the unit (as per the state entered in the Company Register of 31 Dec. 2010)**

