

# ANNUAL REPORT 2010

We care for your health. For twenty years now.



Polska Grupa Farmaceutyczna

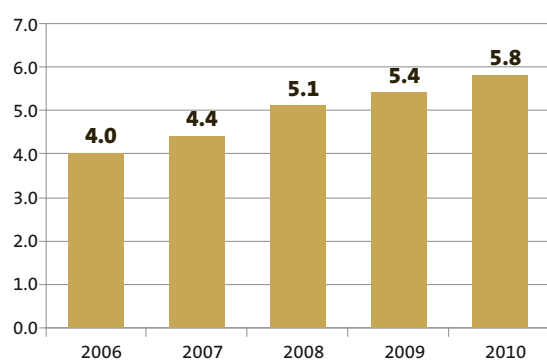


# FINANCIAL HIGHLIGHTS OF THE PGF GROUP FOR 2006-2010

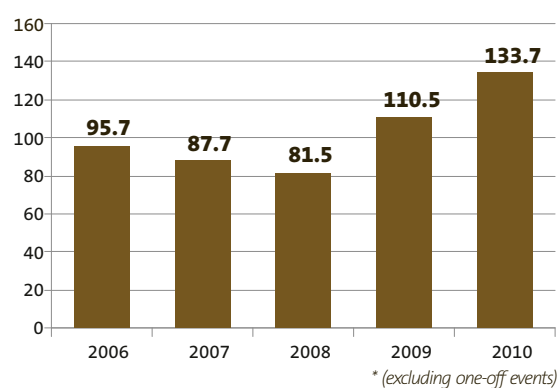
		2006	2007	2008	2009	2010
<b>PROFIT AND LOSS STATEMENT</b>						
Sales revenue	PLNm	4,007.6	4,410.5	5,095.0	5,427.4	5,795.4
Gross profit on sales	PLNm	420.5	463.7	618.1	693.9	761.0
EBITDA	PLNm	108.3	13.7	108.8	146.2	140.1
Pre-tax profit	PLNm	81.3	90	54.8	90.5	84.4
Net profit attributable to owners of the Parent	PLNm	62.5	74.4	44.6	63.8	70.7
<b>BALANCE SHEET</b>						
Balance-sheet total	PLNm	1,490.4	2,011.7	2,202.8	2,191.4	2,339.2
Non-current assets	PLNm	355.3	619.4	737.0	745.0	785.3
Current assets	PLNm	1,135.1	1,392.4	1,398.7	1,430.2	1,545.4
Equity	PLNm	291.2	406.6	348.7	412.3	466.1
Liabilities and other equity and liabilities	PLNm	1,199.2	1,605.1	1,800.6	1,779.1	1,873.1
<b>FINANCIAL RATIOS</b>						
Earnings per share	PLN	5.0	5.9	3.6	5.1	5.8
Current ratio	r	1.1	1.4	1.2	1.0	1.1
Quick ratio	r	0.6	0.8	0.6	0.5	0.6
Return on assets (ROA)	%	4.2	3.7	2.1	2.9	3.0
Return on equity (ROE)	%	25.3	26	13.1	15.5	15.2
Price/Earnings (P/E)	PLN	15.8	15.1	7.7	7.3	9.4
No. of employees	persons	4,110	6,397	6,487	7,238	7,208

		2009	2010	Change 2009=100%
<b>PROFIT AND LOSS STATEMENT</b>				
Sales revenue	PLNm	5427.4	5 795.4	6.8%
Gross profit on sales	PLNm	693.9	761.0	9.7%
EBITDA	PLNm	146.2	140.1	-4.2%
Pre-tax profit	PLNm	90.5	84.4	-6.8%
Net profit attributable to owners of the Parent	PLNm	63.8	70.7	10.7%
<b>BALANCE SHEET</b>				
Balance-sheet total	PLNm	2,191.4	2,339.2	6.7%
Non-current assets	PLNm	745.0	785.3	5.4%
Current assets	PLNm	1,430.2	1,545.4	8.1%
Equity	PLNm	412.3	466.1	13.0%
Liabilities and other equity and liabilities	PLNm	1,779.1	1,873.1	5.3%
<b>FINANCIAL RATIOS</b>				
Earnings per share	PLN	5.1	5.8	13.7%
Current ratio	r	1.0	1.1	
Quick ratio	r	0.5	0.6	
Return on assets (ROA)	%	2.9	3.0	
Return on equity (ROE)	%	15.5	15.2	
Price/Earnings (P/E)	PLN	7.3	9.4	
No. of employees	persons	7,238	7,208	

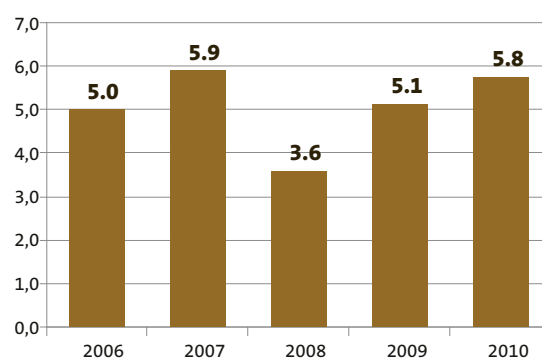
SALE REVENUE /PLNbn/



EBITDA\* /PLNm/



ERNINGS PER SHARE /PLN/





## WORKING WITH PASSION FOR 20 YEARS

*In the early 1990s, we were a small wholesaler operating on the local market covering one province. Today, we are the largest pharmaceutical services provider in Poland.*

*Such rapid growth would not have been possible without passion and commitment. Our Company comprises people of different professions and with various interests, but what is common for all of them is that they perform their professional duties with the same kind of dedication as they show in their personal interests.*





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# GOVERNING BODIES



Ignacy Przystalcki

Vice-President  
of the Management Board  
– Sales and Marketing



Zbigniew Molenda

Vice-President  
of the Management Board  
– Procurement and Distribution



Jacek Sz wajcowski

President  
of the Management Board

Management Board





**Anna Biendara**

Vice-President  
of the Management Board  
– Finance



**Jacek Dauenhauer**

Vice-President  
of the Management Board  
– Financial Strategy and Development

## Supervisory Board

**Jerzy Leszczyński**  
Chairman of the Supervisory Board

**Hubert Janiszewski**  
Deputy Chairman of the Supervisory Board

**Jan Kalinka**  
Member of the Supervisory Board

**Cecylia Teresa Wiśniewska**  
Member of the Supervisory Board

**Jacek Tucharz**  
Member of the Supervisory Board

# PRESIDENT'S LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,



## Twenty years of market presence

2010 was special for Polska Grupa Farmaceutyczna as it marked our 20th anniversary. Over the years, a small local wholesale business evolved into a listed company which provides a comprehensive range of services in the healthcare market. However, the impressive growth would not have been possible had the circumstances been different. The Company was born in turbulent yet fascinating times: we witnessed a real breakthrough in the modern history as rapid political and economic transformation unfolded in Poland. Economic reforms were launched under the Balcerowicz Plan and first private companies emerged. The country entered a new era, the era of free-market economy. The fall of communism marked a new beginning for all sectors of the Polish economy. It was also a new start for the pharmaceutical industry – new pharmacies were established, their number growing every day. None of them, however, was adequately stocked. It was at that time that me and my school friend, Zbigniew Molenda, decided to open our own pharmaceutical wholesale business. The plan was put into action on December 20th 1990. At that point, we did not even dream that in as little as twenty years our company would develop into a leader on the pharmaceutical distribution markets in Poland and Lithuania.

## Strong performance at the end of 2010, ESP growth

This year, marking our 20th anniversary, was a year of hard work rewarded with strong performance. We reported record-breaking sales of PLN 6bn and high net profit, which was up by almost 11% relative to 2009. Earnings per share was PLN 5.8, representing a year-on-year increase by 13%. The results we owe to a well thought out, carefully designed and consistently implemented strategy.

## Wholesale to pharmacies

Starting twenty years ago as a small wholesaler supplying only a few pharmacies, we did not even dream of becoming the leader in the pharmaceutical wholesale market. Today, our regional companies provide a full range of products to pharmacies all over Poland. In order to ensure that our patients have immediate access to each product, we deliver three times a day thanks to our optimised distribution network, car fleet and 14 centrally managed warehouses in Poland and Lithuania, which supply over 10 thousand pharmacies. In 2010, the Group streamlined its

internal logistics by modernising its warehouse in Łódź, where a fully automated conveyor system for order picking and packaging of drugs was installed. Thanks to the new equipment, we prepare for shipment approximately 1.3 million products a day.

## Wholesale to hospitals

We have been present on the wholesale distribution market to hospitals for 11 years, extending and improving the offering targeted at in-patient healthcare institutions year by year. We entered this particular market segment following the merger (in December 1999) with Urtica Zaopatrzenie Farmaceutyczne Szpitali Sp. z o.o. (operating under the name of PGF Urtica Sp. z o.o. since 2002), and we have become its undisputed leader. More than 80% of Polish hospitals have used our services. In 2010 we have won, partially or fully, almost 2,000 contract award procedures, where the key criteria were the price and delivery time.

## Retail

In 2004, PGF started rapid expansion in the retail sector following integration of Cefarm Łódź and Apteki Polskie, together with their retail outlets, into its structures. Before that, cooperation with pharmacies was based on the Dbam o Zdrowie loyalty programme, launched in 2001. In 2008, considering the immense scale of our operations, we decided to establish a separate retail segment. In the process, Central European Pharmaceutical Distribution (CEPD) N.V., a holding company, was incorporated whose strategic objective is to increase retail sales of pharmaceuticals in the CEE region. CEPD N.V. manages, through subsidiary DOZ S.A., the largest family of pharmacies in Poland and one of the largest in Europe, unified under the Dbam o Zdrowie brand. Currently, the brand covers more than 2,500 pharmacies, including 865 own, 307 franchise and over 1,300 partner pharmacies. The Dbam o Zdrowie pharmacies in Poland and the Lithuanian Gintarine Vaistine and Norfos Vaistine pharmacies serve almost 10 million customers each month.

2010 saw further growth of our business on the Lithuanian market. We completed the project launched in 2007. Furthermore, an agreement was signed in Amsterdam in June under which CEPD N.V. came to hold 100% of shares in UAB Nacionaline Farmacijos Grupe. The UAB NFG Group owns, manages or has business relations established with





a total of over 420 pharmacies. The transaction strengthened PGF's position as one of the largest groups operating in the Polish and Lithuanian healthcare markets. Investments in Lithuania are part of the consistently implemented strategy to increase PGF's presence in the CEE region.

We are most pleased that our customer loyalty programmes, in particular the 60+ and Senior programmes, were successfully implemented. Their key goal is to help individuals who cannot afford the prescribed medicines and continue treatment due to difficult life circumstances or poor financial standing. Under the programmes, thousands of patients were provided with discount-price medicinal products.

The targeted programmes are not the only distinguishing feature of the Dbam o Zdrowie pharmacies. In our day-to-day operations, we want our orange-coloured pharmacies to be associated with professional pharmaceutical care, a broad range of products and services, commitment to disease-prevention and awareness initiatives and promotion of knowledge in the field of pharmacy and medicine. In response to the growing expectations of our customers and everchanging market environment, we have established [www.doz.pl](http://www.doz.pl), the most advanced web portal in Poland devoted to health and healthy lifestyle. Its e-pharmacy service is the largest in the country and the only one selling prescription drugs. It offers the widest range of over 17 thousand products, attractive discounts and special daily offers. It is unique in that it combines online sales with the conventional distribution channel – the patients order products on [www.doz.pl](http://www.doz.pl) and collect them at the selected Dbam o Zdrowie pharmacy. We are pleased that the portal is growing in popularity: nearly three million Internet users visit the website each month.

We may proudly say that PGF is the leader on retail market in Poland and one of the key players in Lithuania. This offers us a sound foundation for further growth.

**Broader range of services for pharmaceutical manufacturers**

The evolving pharmaceutical market offers great opportunities for companies like ours. New business areas emerge, where our resources and experience can be best put to use.

Our presence in the segment was established in May 2009 following the execution of a contract for the provision of services under the direct sales model with one of the largest pharmaceutical companies in the world. In 2010, our offering for pharmaceutical manufacturers was expanded to include marketing research, loyalty programme management, warehousing, transport, and call centre services. Owing to our strong market position, experience, proven track record and well-organised logistics base, we are a reliable partner for drug manufacturers in conducting sales activities that go beyond simple wholesale.

The four segments comprise the core business of Polska Grupa Farmaceutyczna.

I am truly proud that the company I manage conducts its business in both financially and socially responsible manner. As a company operating in the pharmaceutical industry, our primary focus is on health protection. This objective is achieved by providing support and professional advice to our patients through the Dbam o Zdrowie pharmacies and by ensuring access to medicines for those who need them. In order to implement corporate social responsibility policies in our operations, we have set up the Dbam o Zdrowie Foundation whose main aim is to tackle the problem of poor access to medicines. Since its establishment, the Foundation (operating since 2008 as a public benefit organisation) has given assistance to 20 thousand people and nearly 100 social institutions. In 2010 alone the Foundation donated almost PLN 800 thousand to those most in need. Its efforts shone the spotlight on the problem faced by thousands of people in Poland: the affordability of medicinal products. The CSR-related projects undertaken by PGF in the previous year have won wide recognition. The Forbes magazine named PGF the most socially responsible company in the region of Łódź, while Gazeta Finansowa, in recognition of the company's support programmes for socially sensitive areas, included PGF in its quarterly report Corporate Social Responsibility.

**Our strength lies in our employees**

With the benefit of hindsight, I may safely say that we have always been fortunate to attract the right people. Each new person joining our team brought with them enthusiasm, eagerness and new ideas, the values which determined where we are today.

Initially our team comprised just a few people. At present, PGF has over seven thousand employees. Although every person is different, together we create a unique team. Thus, I would like to express my sincere gratitude to all those who contribute to our Company's success every day. I strongly believe that together we are able to achieve still more.

Having been present on the pharmaceutical market for twenty years now, we are aware that the key to our success lies in ambitious, creative and highly-motivated employees, innovative business approach and well-planned business strategy. Our results prove that we have chosen the right direction. With the certainty that we are thoroughly prepared to face new challenges and continue our business, even in demanding market conditions and difficult legal environment, I am full of hope and optimism for the future. We are not afraid to go for any solution that is consistent with the principles of market economy and free competition.

You are welcome to read the Annual Report which summarises our activities in 2010.

**Jacek Sz wajkowski**  
President of the Management Board of PGF S.A.

# SHARE PRICE

PGF S.A. share price since first listing

Source: stooq.com



## PGF SHARE PRICES

The shares of Medicines S.A. (our former trade name) were admitted to public trading by the decision of the Securities and Exchange Commission of September 4th 1997. The first listing of the shares on the Warsaw Stock Exchange took place on February 17th 1998.

The shares are traded on the main market of the WSE in the continuous trading system. In 2010, they were included in the sWIG80 index.

There have been no major changes in the Company's shareholder structure in years, which reflects the long-term nature of investments in our shares. Investors adopt the long-term investment horizon knowing that the pharmaceutical industry is relatively resilient to economic cycles. The voting structure at the General Shareholders Meeting does not fully correspond to the shareholder structure as some of the shares are preference shares conferring five votes per share.

In 2010, the rate of return on PGF shares was 43%, compared with a 18% change in the WIG index. In the first quarter, the share price climbed steadily until a correction in the second quarter of the year, which took down the price to PLN 35.70 in July. In December, the share price recorded a 52-week high of PLN 56.00.

### Shareholders holding 5% or more of the total vote at the General Shareholders Meeting:

**Jacek Sz wajcowski** – Founder, President of the Management Board since the Company's establishment,

**Zbigniew Molenda** – Founder, Vice-President of the Management Board since the Company's establishment,

**Artio Global Management LLC** (formerly Julius Baer Investment Management LLC) – financial assets management company, a member of the Julius Baer Group, a leading Swiss private banking and asset management group,

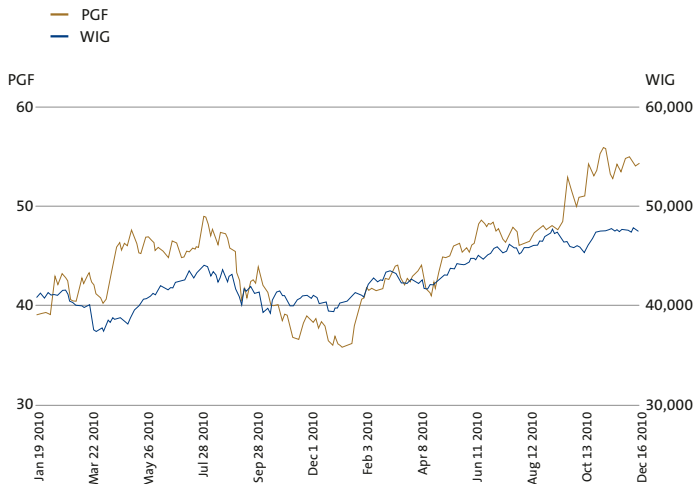
**ING OFE** – one of Poland's leading pension funds,

**AVIVA OFE** – one of Poland's leading pension funds,

**KIPF Sp. z o.o.** – company whose shareholders are Jacek Sz wajcowski and Zbigniew Molenda.

## PGF S.A. share price in 2010

Source: stooq.com



An open line of communication with capital market participants makes it easier for the Company to showcase its achievements and share future development plans. Every year, representatives of the Company's Management Board take part in at least four regular meetings with journalists, equity analysts and stock-exchange investors in order to comment in detail on the Company's current standing. In 2010, representatives of the Company's Management Board participated in several dozen investor meetings during which the Company's strategy and business were presented. In addition, PGF's representatives followed the established tradition of attending the annual Wall Street Conference organised by the Polish Retail Investors Association.

To manage its relations with investors and shareholders in the best possible way, PGF has broadcast its General Shareholders Meetings online.

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Polska Grupa Farmaceutyczna



### 1990

On December 20th in Łódź, a pharmaceutical wholesaler **Hurtownia Leków Medicines** opened for business



### 1994

**Medicines S.A.** registered as a joint stock company. In four years, the Łódź-based wholesaler became one of Poland's largest players in the pharmaceutical sector

### 1997

The Polish Securities and Exchange Commission admitted new and existing shares of **Medicines S.A.** to public trading

## At that time ...

### IN 1990...

- *The Balcerowicz Plan was launched*
- *Poland established diplomatic relations with NATO*
- *Inflation reached a record high annual rate of 1360%*
- *Lech Wałęsa won the first in the Polish history general presidential election*

### IN 1994...

- *The EC-Poland Association Agreement came into force*
- *The Polish government formally applied for Polish membership of the European Union*
- *April 11th went down in the WSE history as a „black Monday” – the WIG index plummeted by 10.7%*

### IN 1997...

- *The Constitution of the Republic of Poland was adopted*
- *The Special Łódź Economic Zone was established*
- *The Sejm passed the personal data protection act*

# STRATEGY AND STRUCTURE

The Company's strategy is to build sustainable value and a strong position across distribution channels in the complex and fast-changing pharmaceutical market. To this end, PGF has been flexible in expanding the range of its services to meet the needs of its customers. New and varied expectations of the participants in the pharmaceutical market offer further development and growth prospects for PGF.

We are able to quickly adapt to market developments forced by any potential changes in the legal environment thanks to:

- strong organisation,
- internal order,
- market structure,
- employees' qualifications,
- experience,
- great ability to search for new solutions, and
- openness to innovation.

## CORPORATE STRATEGY

PGF consistently strives to improve its platform for connecting all participants of the healthcare market. From cooperation with producers to maintaining contacts with pharmacists and patients, PGF builds and refines tools serving to streamline processes in the fast-changing pharmaceutical market.

The long-term outlook for the pharmaceutical sector in Poland is optimistic.

Drug sales per capita which remain below the level seen in Western European countries will drive growth of the Polish market. This, combined with the prevailing trend towards personal income convergence, will result in lower cross-border drug spending disparities. According to IMS Health, in 2010, per capita spending on drugs at pharmacies (at producer prices) in Poland and Lithuania amounted to EUR 114 and EUR 110, respectively.

The Polish innovative drug market ranks ninth in Europe, but it is nearly six times smaller compared with Spain which has a similar population size<sup>(1)</sup>.

Other factors driving sector growth will include growing health awareness among Polish consumers, increased incidence of diseases of civilisation, and progressive ageing of the Polish society.

The trend of population aging is a key reason why Poland was ranked by the IMS among the seventeen fastest growing pharmaceutical

markets worldwide (the so-called pharmerging countries, rated as dynamic and subject to rapid change).

According to estimates, in 2015 the share of population aged above 65 is to grow to almost 16% of total population in Poland, with the number exceeding 23% in 2035.

There has also been a steady increase in the number of young people who are aware of the importance of a healthy lifestyle and disease prevention. The development of dietetics, biotechnology, medical analysis and public health promotion points to an increased health awareness.

Diseases of civilisation are the negative effect of a lifestyle imposed on people by modern societies. The number of people suffering from various conditions requiring pharmacological treatment is growing by the year. An increased number of people in Poland suffer from cardiovascular system diseases, cancer, diabetes or osteoporosis, which are all classified as civilisation diseases.

In the coming years, PGF aims to focus on the following core areas:

- further development on its existing markets, covering wholesale to pharmacies and hospitals, retail sales and services to manufacturers;
- expansion of its retail network in selected markets of Central and Eastern Europe;
- and leveraging significant synergies offered by the economies of scale.

<sup>(1)</sup> Source: IMS Health, 2011.

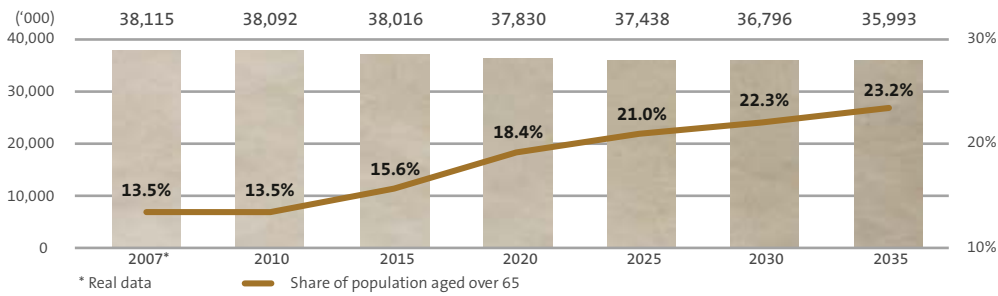


# Potential for continued growth of the pharmaceutical market

## 1. Ageing society

Population forecast for Poland until 2035

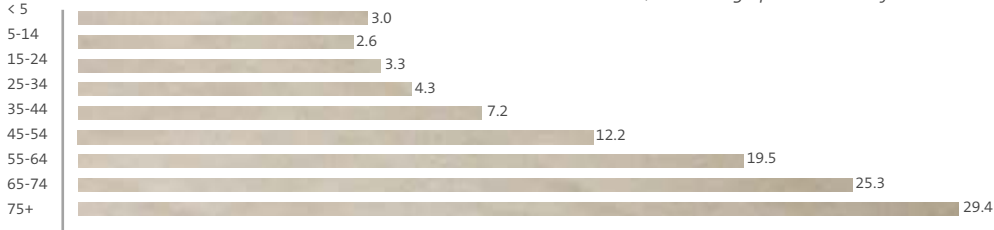
Source: GUS, The Demographic Yearbook of Poland 2009



Number of prescriptions issued, by age

(m annually)

Source: GUS, The Demographic Yearbook of Poland 2009



## 2. Growing health awareness

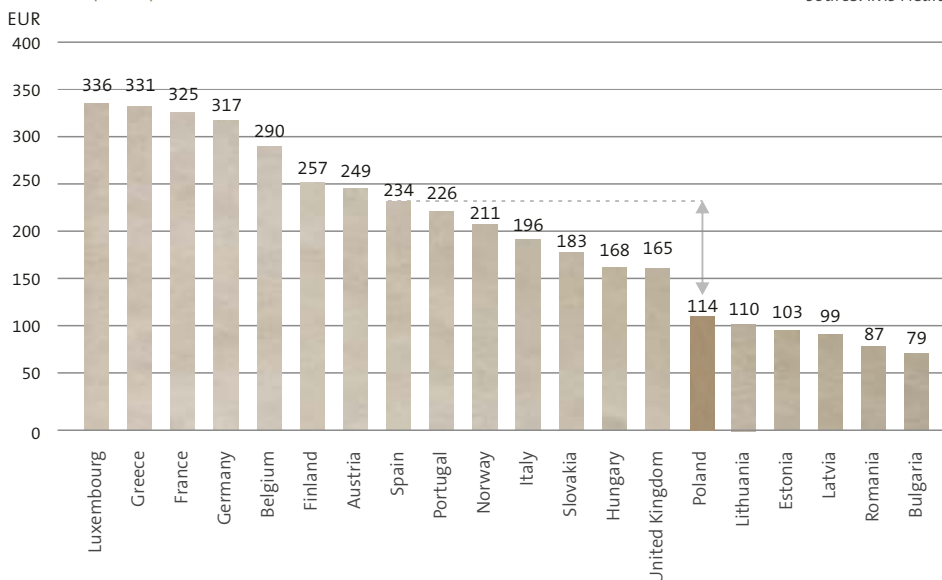
## 3. Increased incidence of civilisation diseases



## 4. Low per capita spending on drugs in comparison with other countries

Market value per capita, 2010

Source: IMS Health





# Polska Grupa Farmaceutyczna



## CEPD N.V.

Central European  
Pharmaceutical Distribution



**13 wholesale regions**  
(wholesale sale to pharmacies in Poland  
and logistic services as a part  
of direct distribution)

**DOZ S.A.**  
(an operating company  
on the Polish market – an operator  
of Apteka Dbam o Zdrowie chain)

**UAB NFG** (an operating company on the  
Lithuanian market – an operator  
of Gintarine Vaistine and Norfos Vaistine  
pharmacy chains)

**DOZ UK Ltd.** (an operating company  
on the British market - an operator of  
Apteka Dbam o Zdrowie in London)

## Organizational Structure

**PGF URTICA**

**WHOLESALE  
TO HOSPITALS**

**PGF URTICA Sp. z o.o.**  
(wholesale sale to hospitals in Poland)

**pharmalink**

**SERVICES TO  
MANUFACTURERS**

**PharmaLink Sp. z o.o.**  
(services to manufacturers)

**OTHER  
COMPANIES**

**FARM-SERWIS  
Sp. z o.o.**  
(central debt collection)

**ePRUF S.A.**  
(pharmacy card operator)

**Eubioco S.A.**  
(galen preparations production)

**Pharmena S.A.**  
(production of innovative  
dermocosmetics  
search of innovative medicines)

**DARUMA Sp. z o.o.,  
Bez Recepty Sp. z o.o.,  
AB7 Sp. z o.o.,  
AB8 Sp. z o.o.  
Fundacja Dbam o Zdrowie  
and others  
retail companies**

(support functions from a range of services:  
accounting and taxes related, financial, controlling, payroll related, legal)

# INSPIRATION

” I remember, it was September 1990. I was the manager of a pharmacy back then and I could see pharmacies in Poland being gradually converted into private businesses. I thought to myself that I also wanted to run a pharmacy of my own. Persuaded by my son-in-law Jacek Sz wajcowski, I took over a pharmacy from Cefarm of Łódź. It was not long before the greatest ailment of the first private pharmacies became apparent – the enormous difficulties in ensuring adequate stocks of medicines. Let us remember that in the early 1990s deliveries were made once a month and pharmacies were usually closed for one or two days for the time of the delivery. As a consequence, it was very difficult, sometimes even impossible, for patients to purchase drugs they needed for their therapy. As a pharmacy owner, but most of all as a pharmacist, I felt responsible for the health of my customers and I could not tolerate a situation where they were sent back home empty-handed. I knew that a change was needed immediately. Once again, I could count on the support of my son-in-law and his school friend Zbigniew Molenda, who decided to set up a pharmaceutical wholesale business. ”

TERESA GÓRSKA

MSc in Pharmacy



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Polska Grupa Farmaceutyczna



# VISION

*” Z bigniew Molenda and I decided to take matters into our hands and put an end to the monopoly of the state-owned pharmaceutical wholesaler by establishing our own enterprise. Our plan became reality on December 20th 1990, when Hurtownia Leków Medicines opened for business. We set up our business at the time of Poland's transition into a free-market economy. The fall of communism marked a new era for Polish businesses. We decided to make the most of it by putting up our best effort. From the very beginning, we knew that we wanted to build a trend-setting company which would define development directions for the whole industry. ”*

**JACEK SZWAJCOWSKI**

President of the Management Board

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*” **B**efore we opened our first warehouse and employed staff, we did everything ourselves. We worked from dawn to dusk, delivering drugs to pharmacies by two polonez cars. We had to compensate for insufficient funding and lack of proper infrastructure with creativity, commitment and persistence. Our efforts paid off. After a few months, our customer base expanded to several dozen pharmacies, and after two years – to as much as 200. However, the greatest reward for us was the satisfaction of pharmacy owners. ”*

**ZBIGNIEW MOLEND**

Vice-President  
of the Management Board  
– Procurement and Distribution

**PERSISTENCE**

*” From the very start, we were aiming high. At first, we thought that supplying ten pharmacies would be a success. However, the strong demand for our services whetted our appetite. We aspired to become a dynamically growing pharmaceutical wholesaler with a national reach, which would set trends for the pharmaceutical industry and define directions for its development. However, turning the company into a modern enterprise with a countrywide reach required significant capital expenditure on such essentials as new warehouses and IT systems. We were not able to finance those with our own funds and profits. To raise the funds we needed, we decided to take the risk and do what nobody else from the industry had dared do before – float our shares on the Warsaw Stock Exchange. ”*

**JACEK SZWAJCOWSKI**

President of the Management Board

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Polska Grupa Farmaceutyczna



# AMBITION





*”**T**he company’s debut on the Warsaw Stock Exchange took place on February 17th 1998 with myself, Jacek Sz wajcowski, Zbigniew Molenda, Jerzy Leszczyński and Jacek Dauenhauer in attendance. Even today I remember the sound of the bell marking the first listing of the company shares. It was an unforgettable moment for all of us. We were aware of entering a completely new stage of our development, which required us to run the business not only wisely and responsibly, but also in a manner transparent to potential shareholders.”*

JOY

**ANNA BIENDARA**

Vice-President  
of the Management Board – Finance

*” Although it took barely a week to make the decision to go public, the decision turned out to be a milestone in the company’s history. In October 1997, we issued new shares as part of an IPO. The offering proved a big success. Demand was much higher than supply, which meant that investors found our company attractive, appreciating its performance and development strategy. The proceeds from the offering totalled nearly PLN 70m, which enabled us to implement our extensive investment plans and start (again as the industry leader) to consolidate the pharmaceutical wholesale market. ”*

# DEVELOPMENT

We care for your health. For twenty years now.

Polska Grupa Farmaceutyczna



## JACEK DAUENHAUER

Vice-President  
of the Management Board  
– Financial Strategy and Development

# DIVERSITY

” *In 1998, Hurtownia Leków Medicines changed its name to Polska Grupa Farmaceutyczna and entered a stage of mergers and acquisitions. By integrating with a number of other companies, PGF soon became the leader of the pharmaceutical market in Poland. Carbo Katowice, a wholesale business I ran, was one of the first companies to join forces with PGF having realised its huge potential. Apart from Carbo, another company which became a new member of the PGF Group was Cefarm B of Opole. Never before had a public company merge with two private businesses at the same time. Thanks to the M&A transactions, PGF became a holding company managing businesses with very different backgrounds – both those originally founded as private, as well as those which had for many years operated as state-owned enterprises and had already underwent privatisation or became private on entering the PGF Group. With time, such a diverse mix of companies and people proved to be a major advantage.*”



We care for your health. For twenty years now.

Polska Grupa Farmaceutyczna



## IGNACY PRYZYSTALSKI

Vice-President  
of the Management Board  
– Sales and Marketing

*”Today, PGF ranks among the largest players on the Polish and Lithuanian healthcare markets. The PGF Group comprises some 160 companies, employing more than 7 thousand staff. We are one of the leaders on the pharmaceutical wholesale market. Our regional companies deliver a full range of products to pharmacies throughout Poland, operating 24 hours a day, 365 days a year. PGF’s portfolio permanently comprises over 20 thousand products, including drugs from all therapeutic groups, medical and rehabilitation equipment, herbs, dietary supplements and cosmetics. In order to ensure that patients have immediate access to each product, we make three deliveries a day. Such efficiency is possible thanks to our optimised distribution network and fleet of cars, as well as the automated and centrally managed warehouses.”*

EFFICIENCY

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Polska Grupa Farmaceutyczna



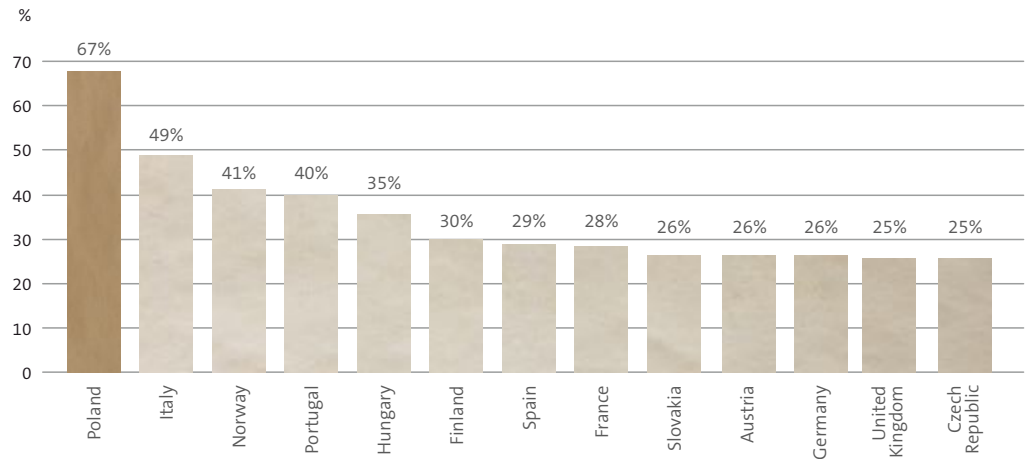
**JACEK SZWAJCOWSKI**

President of the Management Board

# MARKET ENVIRONMENT

Share of patients' contribution in the overall expenditure for healthcare services in selected countries

Source: IMS Health



## PHARMACEUTICAL LAW IN POLAND

The PGF companies' operations are regulated primarily by the Polish Pharmaceutical Law, which together with the relevant secondary legislation provides a legal framework for the industry, including such activities as:

- admission of medicinal products to trade, manufacture and import,
- advertisement of medicinal products, trading in medicinal products, issuing permits for the operation of pharmaceutical wholesalers and pharmacies, including regulations restricting the number of pharmacies a single entity may own,
- the State Pharmaceutical Inspection's supervision over compliance with the provisions of the Pharmaceutical Law.

The rules governing reimbursement of medicinal products are stipulated in the Act on Healthcare Services Financed from Public Funds, dated August 27th 2004. The rules governing official pricing of certain medicinal products are stipulated in the Pricing Act of July 5th 2001. Trade in drugs, as an area of vital importance from

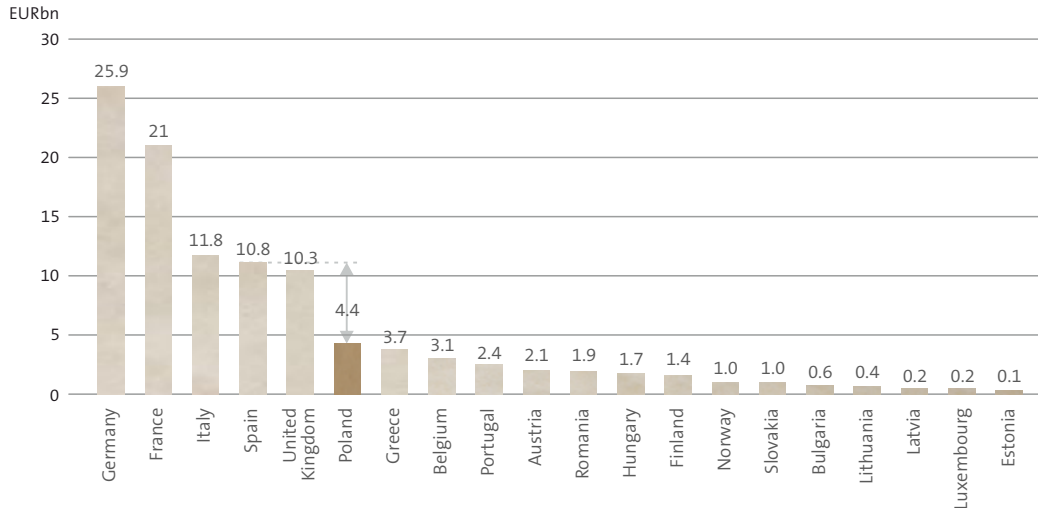
the point of view of public health and security, is heavily regulated.

The secondary legislation specifies for which drugs available in pharmacies patients should pay a lump-sum price, and for which a certain percentage of the price (the regulations also set the maximum price which may be charged by pharmacies). With respect to drugs not included in the list, pharmacies are free to set prices at their discretion.

Over 50% of the value of all drugs sold in pharmacies are reimbursable by the state. Therefore, the Minister of Health's regulation specifying the drugs and medical devices financed from public funds, their maximum prices and the reimbursement level is an important factor affecting the performance of companies operating pharmaceutical wholesale businesses and pharmacies.

At present, the Act on Reimbursement of Drugs, Foodstuffs Intended for Particular Nutritional Use and Medical Devices, passed by the Polish Parliament on March 25th 2011, is in the process of further legislative work. If the said Act becomes law, it may change the pharmaceutical market in the following year. The scale of PGF's operations and long-lasting experience allow the Company to respond quickly in order to mitigate or eliminate any adverse effects of the anticipated changes in the pharmaceutical market and to align its operations with the new legal framework.





Value of pharmacy market at net producer prices in 2010

Source: IMS Health

### PHARMACEUTICAL MARKET IN POLAND

In 2010, pharmacies' sales to patients rose by 2.8%<sup>(1)</sup> in value terms, while wholesalers' sales to pharmacies and hospitals went up by 3.9%<sup>(2)</sup>. The unfavourable regulations, lack of a stable state policy with respect to pharmaceuticals, lack of procedures protecting patients from untested pharmaceuticals, and a low level of reimbursement resulting in the high cost of drugs for patients, have slowed the pace of the sector's expansion.

At 67%, Poland's level of patient co-payment for overall healthcare expenses is the highest in Europe. (chart: *Level of patient co-payment for overall healthcare expenses in selected countries*)<sup>(2)</sup>.

In Poland, the average drug prices are among the lowest in Europe (ca. 55% below average)<sup>(2)</sup>.

On the other hand, the value share of generic drugs (at 65%) is the highest among European countries, significantly above the corresponding levels in other countries, such as Spain (31%), the UK (43%) and Germany (45%)<sup>(2)</sup>.

The number of drug manufacturers operating on the Polish market amounts to several hundred, including major global pharmaceutical companies.

The market size can be estimated based on three different criteria:

- pharmaceuticals sold by the producer to the wholesaler – value of the market in terms of net producer prices,
- pharmaceuticals sold by the wholesaler to pharmacies and hospitals – value of the market in terms of net wholesale prices,
- pharmaceuticals sold by pharmacies to patients – value of the market in terms of retail prices.

Poland has the sixth largest pharmacy market in Europe which, however, is almost 2.5 times smaller than the Spanish one, although the two countries have comparable populations. (chart: *Pharmacy market in 2010*). In addition, Poland lags behind most of its European peers in terms of drug sales per capita<sup>(2)</sup>.

<sup>(1)</sup> Source – *Pharma Expert 2011 data*

<sup>(2)</sup> Source – *IMS Health 2011 data*



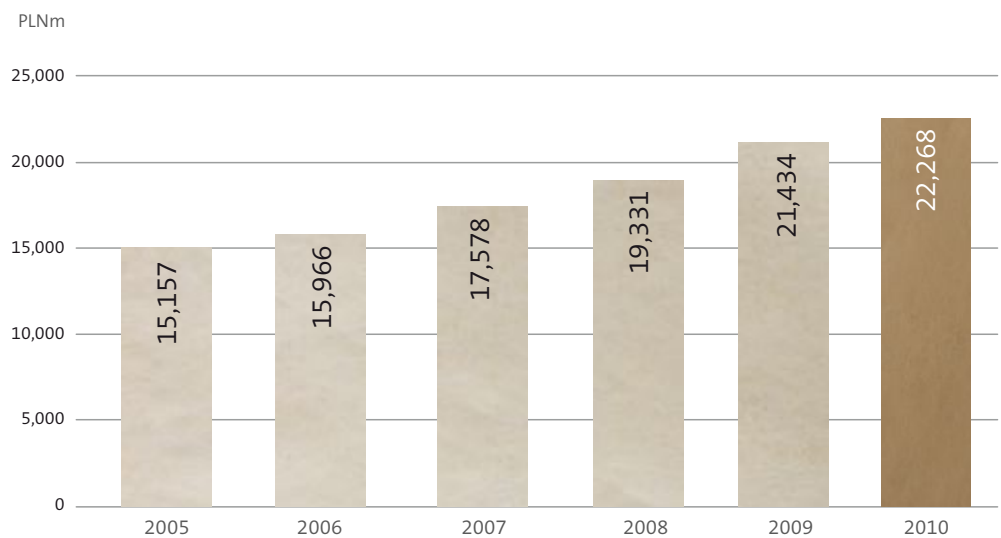


# WHOLESALE TO PHARMACIES



## WHOLESALE TO PHARMACIES IN POLAND

In 2010, the wholesale pharmaceutical market showed an upward trend and sales to pharmacies reached a record-high level of PLN 22bn at wholesale net prices. Sales grew by 3.9% relative to 2009, more slowly than in the previous year (10.9% growth in 2009 vs. 2008). According to analysts, the pharmaceutical market will expand at the rate of 6%-7% annually, which means that its value will exceed PLN 30bn in about five years.



Value of wholesale distribution  
to pharmacies, PLNm

Source: IMS Health: Annual 2010



## We deliver any pharmaceutical in right place, in right time

### SUPPLIER TO PRIVATE PHARMACIES

Thanks to its sales and telemarketing teams numbering several hundred employees, PGF is able to serve customers 24 hours a day. The Company's offering comprises over 20 thousand items, including drugs from all therapeutic groups, but also medical and rehabilitation equipment, herbs, dietary supplements and cosmetics. PGF guarantees access to all drugs registered in Poland. In other words, thanks to the flexibility of the companies owned by PGF, thousands of pharmacies may rest assured that any product can be delivered to the right place and at the right time. Products are delivered to pharmacies even three times a day to enable PGF's customers to provide patients with quick access to any drug. It is particularly important today, when pharmacies compete not only on prices, but also on the range of available products. Only a few years ago, a typical pharmacy cooperated with as many as up to six wholesalers. Today, almost 40% of all pharmacies are supplied by only one wholesaler and the proportion will continue to rise.

### WHOLESALE POLICY

2010 saw further positive effects of GRA (Grupy Rabatowo-Asortymentowe – product discount groups), an innovative scheme launched in 2008 under which products are sold to pharmacies. In line with PGF's wholesale strategy, the value of discounts granted to customers depends on conditions prevailing on the market. PGF's objective is to better control its margin, especially in the light of changes in the structure of drug purchases and the evolving legal environment.

The launch of the new sales policy follows from PGF's care for the interests of all participants of the pharmaceutical market and is a reaction to the need to streamline the processes in the sector.

The changes in PGF's policy coincided with the launch of a number of new IT tools supporting pharmacies, such as the On-Line Pharmacy, an electronic ordering system and the ePruf card. Individual sales models were developed as part of the GRA scheme, designed to adapt the commercial policy to the specific requirements of pharmacies.

Understanding of the needs of particular counterparty groups and flexible adjustment of the offering to the evolving situation on the distribution market has allowed PGF to create a comprehensive portfolio of sales supporting services. The introduction of innovative solutions is one of the holding company's priorities.

Wholesale to pharmacies is an area where PGF boasts the longest and most extensive experience. Acting through regional companies, PGF delivers a full range of pharmaceuticals to pharmacies all over Poland.



## No-one can do it cheaper

### INTERNET HELPS REDUCE PRICES OF DRUGS

PGF uses the Internet to a wide extent. The Company continues to rely on modern state-of-the-art technologies, and consistently promotes and develops electronic Web-based solutions. PGF has adapted its transaction systems so as to instantly handle electronic orders from pharmacies using any of the systems available on the market. Electronic orders represent 50% of all orders sent to wholesalers.

PGF has pioneered the launch of a platform ([www.efarmtargi.pl](http://www.efarmtargi.pl)) serving as the venue for on-line pharmaceutical fairs for pharmacies and a place to present current promotions. The website enables pharmacies to place on-line orders 24 hours a day. In 2010, the number of the website's users exceeded 5,000.

**eFARMTARGI**



**eFarmtargi to ogólnopolska oferta, zawierająca atrakcyjne pakiety producentów farmaceutycznych.**

Wyślijcie nam pocztą lub kurierem, a my za darmo przekażemy ofertę do Państwa aptek. Zapraszamy do współpracy i do odwiedzenia naszego portalu [www.efarmtargi.pl](http://www.efarmtargi.pl).

Wykorzystując platformę eFarmtargi, Państwa apteki mogą skorzystać z szerokiej oferty produktów farmaceutycznych oferowanych w atrakcyjnych cenach i dostawach kurierem.

**Zarejestruj się już teraz - wstaw swój adres do formularza.**

Zapraszamy do skorzystania z naszej szerokiej oferty!





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In 2010, the Company also developed an on-line wholesale warehouse, [www.emedicines.pl](http://www.emedicines.pl) increasingly popular among pharmacists, which offers over 12,000 most attractive products on the market. The Company managed to simplify its operations, without compromising the high level of service, and offers products to pharmacies at prices which are among the lowest on the market. In 2010, approximately 2,500 pharmacies purchased medicines from the on-line wholesale warehouse.

In 2010, PGF celebrated a special occasion – its twentieth anniversary. The Company prepared a special programme for pharmacies to commemorate the anniversary. Pharmacists collected credits through the [www.20latpgf.pl](http://www.20latpgf.pl) website and exchanged them for attractive gifts from a catalogue. Other interesting features included a quiz for which pharmacists could also score points and a wide range of promotional packages offered by manufacturers. The anniversary programme was very popular among pharmacists.

At the end of the year, 5,100 pharmacies and over 7,300 pharmacists had registered to the website.

**1998**

**In January, the Management Boards of Medicines S.A., Carbo S.A. of Katowice (the largest domestic distributor of medicines at the time) and Cefarm B S.A. of Opole (first among the privatised Cefarm companies) resolved to merge the companies**

**In February, Medicines S.A. was the first pharmaceutical wholesaler in Poland to make its debut on the Warsaw Stock Exchange**



**In the same month, it acquired a majority interest in Eskulap Łomża, a pharmacy company**

**In November, Medicines S.A. changed its name to Polska Grupa Farmaceutyczna S.A., which was subsequently adopted for the entire holding of merging wholesalers**

## At that time ...

- *Internet banking services were launched in Poland – Powszechny Bank Gospodarczy of Łódź added online access to bank accounts to its offering*
- *The European Union commenced accession negotiations with Poland*
- *The Sejm passed the act on three-tier territorial division of the country*
- *The WSE launched the MIDWIG index*

WHOLESALE  
TO PHARMACIES



Modern warehouse facilities, meeting the Good Distribution Practice requirements and the storage and transport of drugs ensure high quality and safety of drug trade in Poland, and help maintain the highest global standards.

#### WE SUPPORT OUR PARTNERS

PGF's goal is to simplify and modernise the relations between producers, pharmacies and patients, to reduce operating costs and maximise shared profit. The value of such a model increases in line with the improvement of profitability of each pharmacy on which the economic strength of the system is based. Every day PGF works on solutions facilitating development of its partners.

Apart from delivering drugs, PGF also offers additional services to customers. The Company supports pharmacies at each level of management.

The services offered by PGF include training, assistance in fitting out pharmacies' premises, marketing programmes, organisation of national and regional pharmaceutical fairs, loans and multi-level support under the I Care for My Health programme.

#### LOGISTICS IN THE PHARMACEUTICAL INDUSTRY

In the sectors where use-by dates of products are long, the primary concern is to ensure that retail outlets are fully stocked. In the pharmaceutical sector such an approach would be completely ineffective, as there are a lot of slow-moving products used in the treatment of a very narrow group of conditions. Therefore, in the model applied in the sector pharmacies stock only the most popular drugs comprising 30% of the product range. The remaining products are stored in the distributor's warehouse and are available at the customer's request within a few hours.

The full range of medicinal products and efficient service are among the most important factors considered when selecting the wholesaler by pharmacies. The time in which the drug reaches the patient is determined by efficient logistics of the wholesaler.





## By cutting costs, we are reducing drug prices



In 2010, an automated unit for handling fast-moving products was added to the existing automatic line at PGF's warehouse in Łódź. Thanks to the full automation of the shipment preparation process, the Company managed to improve efficiency ratios, reduce the risk of error and significantly accelerate the processing of orders placed by pharmacies.

### LOGISTICS AT THE PGF GROUP

Today PGF is one of the largest suppliers of drugs in Poland. Every day its delivery vehicles make over 1,500 trips to pharmacies, filling almost 20 thousand orders. The warehouses of PGF supply mainly pharmacies and hospitals as well as smaller wholesalers. Its warehouses with a floor area of approximately 70 thousand square meters store all pharmaceutical products available in Poland. Thanks to the appropriate location of the 13 warehouses, the Company is able to deliver drugs to any location in Poland within a few hours, irrespective of the distance.

One of PGF's priorities is to reduce logistics costs. All the possible processes, from utilisation of the warehouse space to automation of the shipment preparation process to frequency of deliveries made to pharmacies are subject to on-going

optimisation. Overall, in the last few years, the rationalisation of the transport operations allowed PGF to significantly reduce distribution costs.

Automation of processes helps deliver drugs more quickly, cheaply and safely. The automation of processes at five warehouses, accounting for 40% of the Group's sales revenue, largely improved their efficiency. Thanks to the process automation orders are processed in record-short times.

Orders for the most popular products are prepared almost without any human assistance. The Company also managed to reduce the time required to prepare a delivery in the life saving mode to just a few minutes.



# INNOVATIVENESS

## ZBIGNIEW MOLENDĄ

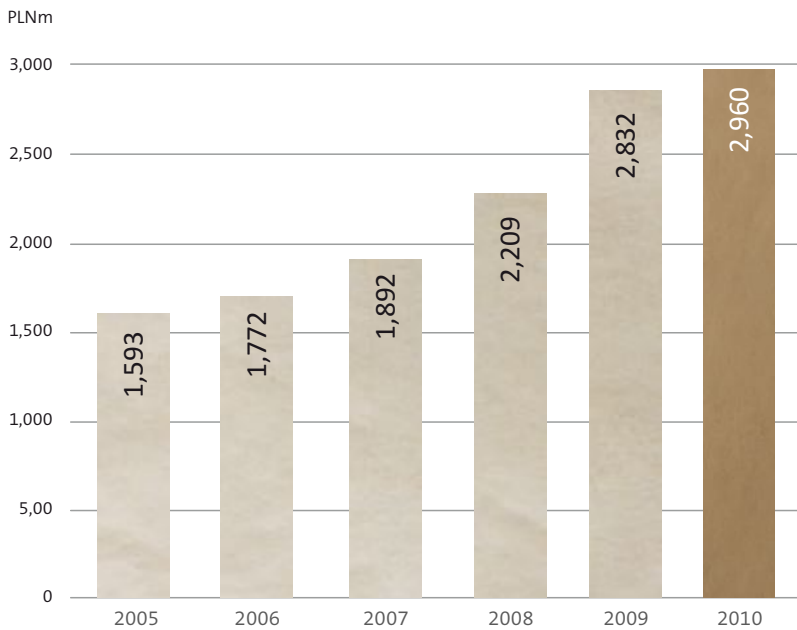
Vice-President of the Management Board  
– Procurement and Distribution

” *In December 1999, we merged with Urtica Zaopatrzenie Farmaceutyczne Szpitali Sp. z o.o. (since 2002 operating under the name PGF Urtica Sp. z o.o.) and started to intensively develop our operations in the area of wholesale to hospitals. Today the segment represents one of our four core business lines. Over 80% of all Polish hospitals have come to rely on our supplies. We would not have been able to achieve this without efficient sales and logistics processes or without our own inventive ideas designed to help hospitals maintain day-to-day liquidity and ensure continuity of drug supplies. In 2010, we won in whole or in part nearly 2,000 tenders held by hospitals where the key criteria were the price and delivery time.*”



# WHOLESALE TO HOSPITALS

PGF S.A.'s activities are not only limited to wholesale to pharmacies



Value of wholesale distribution to hospitals, PLNm

Source: IMS Health: Annual 2010

## THE HOSPITAL MARKET

2010 was another year when the value of wholesale distribution to hospitals increased. Although the 4.5% market growth was lower compared with the previous year, the market value was record-high at almost PLN 3bn.

Financing of hospitals depends directly on the financial capabilities of the National Healthcare Fund. In 2010, the Fund allocated over PLN 27bn to hospital services. Hospitals now spend somewhere between 10% and 20% of their budgets on pharmaceuticals, these expenses are expected to rise in the coming years.





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Commercialisation of hospitals, i.e. their transformation into companies established under commercial law is a recurring issue in the Polish healthcare system. The government's plan B assumed a PLN 2.7bn assistance for healthcare providers which decide to commercialise. The funds were to be granted for repayment of public and legal liabilities of hospitals. The plan B assumes that amounts due to creditors of the transformed healthcare providers will be acquired by local governments acting as the founding body.

**1999**

**Biomedic of Kielce and Urtica of Wrocław (the largest Polish distributor of medicines to hospital pharmacies) joined PGF. Furthermore, PGF acquired majority interests in Cefarm Olsztyn and Cefarm Bydgoszcz**

**2000**

**In February, PGF acquired Cefarm Lublin shares**

**In April, it began streamlining its structures under the Lider 2001 restructuring programme.**

**In October, PGF merged with Cefarm Poznań**

## At that time ...

*IN 1999...*

- *16 self-governing provinces were created*
- *Poland acceded to NATO*

*IN 2000...*

- *mBank – the first Internet bank in Poland commenced its operations*

## PGF URTICA

### PGF URTICA

PGF Urtica, present on the Polish market since 1991, is among the ten largest pharmaceutical wholesalers in the country. Every day the company executes approximately thousand sale transactions, and ships over 5,500 items from the central warehouse.

The success of PGF's hospital line of business is based on a long-term strategy, which assumes business consolidation and focusing on reducing expenses.

In 2010, the company continued to implement the business model adopted in 2009 and providing for the reduction of staffing levels and distribution costs, as well as optimisation of selling and tendering procedures.

The monitoring system allowed to maintain strict payment discipline among the hospitals. Therefore, the receivables risk was retained at a safe level. In 2010, innovative solutions were implemented to support hospitals' financial liquidity and to guarantee uninterrupted supplies of pharmaceuticals.

The company continued its risk assessment programme which enables PGF to manage sales efficiently and quickly respond to changes in the hospitals' financial standing. Each hospital PGF begins to cooperate with is thoroughly analysed in terms of financial liquidity, profitability and development strategy.





In the increasingly more competitive environment, PGF Urtica strives for a maximum use of its internal capabilities. The ability to swiftly adapt to the changing conditions and respond to opportunities and risks are the ingredients which helped build the competitive edge. The processes implemented to optimise the work organisation have enhanced the efficiency of particular teams. With the broadest range of pharmaceuticals on the market and specialist logistics network, PGF Urtica maintained the top position. Based on its own logistics potential and the opportunities offered by cooperation with manufacturers of pharmaceuticals, in 2002 PGF Urtica launched the Urtica Logistics project, consisting in the provision of additional distribution services to the external business partners.

In 2010, PGF Urtica focused on the activities of the Business Support Division, particularly in the areas of innovative IT tools and marketing. Automation of key processes, such as tendering and sales transactions, allowed Urtica to better leverage the company's potential.

The additional advantage in the hospital market were training courses for pharmacists and publishing activities.

#### 2001

**In May, Eskulap (currently PGF Łomża) merged with TAR, a pharmaceutical wholesaler of Ostrołęka**

**In September, PGF as probably the first Polish company operating in the pharmaceutical distribution sector launched full automatic packaging line in Warsaw**

**At the end of September and beginning of October, PGF commenced the Dbam o Zdrowie marketing programme in selected pharmacies**

**In December, the Lider 2001 programme was completed. Since that moment, all subsidiaries of Polska Grupa Farmaceutyczna operate under the PGF brand**

#### 2002

**January saw the establishment of Cefarm Kraków S.A., in which PGF subsequently acquired 50% plus 1 share. The State Treasury acquired the remaining block of shares in exchange for the contribution of PZF Cefarm-Kraków under privatisation**

**In February, PGF S.A. was awarded the title of the "Listed Company of the Year" by the Puls Biznesu daily**

**In September, the Company shares were included in the WIG 20 index of the WSE**

## At that time ...

#### *IN 2001...*

- *A capital gains tax (the Belka tax) was introduced*

#### *IN 2002...*

- *The negotiations on the Polish membership were completed at the EU summit in Copenhagen*

# STRATEGY

## MARIA WIŚNIEWSKA

President of the Management Board  
of CEPD N.V.

” **A** lthough I have been managing CEPD N.V. since 2008, I had been closely looking at Polska Grupa Farmaceutyczna’s activities already before. Watching its dynamic development and successes. I considered it a good place to think about the future in a brave manner. The experience gained on the pharmacy market in Poland, Lithuania and in London may and should be capitalised on by implementing a strategy of expansion into new markets, particularly in the CEE. It is high time for companies with Polish roots to join the top league of European business. ”



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# LETTER FROM THE PRESIDENT OF CEPD N.V.

LADIES AND GENTLEMEN



Central European Pharmaceutical Distribution N.V., a holding company registered in the Netherlands, is a member of Polska Grupa Farmaceutyczna and is responsible for the development of retail distribution business on the pharmaceutical markets in Poland and the CEE region.

CEPD N.V. was established in mid-2008 and initially focused on organising the management of the pharmacy business in the countries where it was present right from the start, i.e. Poland, Lithuania and the United Kingdom, and on strengthening its market position in these countries.

After two and a half years of operation, we can say to our satisfaction that the pharmacy chain operated by CEPD N.V., which in all the countries includes 2.5 thousand of outlets, is the third largest pharmacy chain in Europe.

Having implemented the idea to manage a pharmacy chain by centralising all the processes, from negotiation with suppliers to deliveries to pricing policy and marketing, we have freed the pharmacists from their auxiliary tasks so that now they can devote their entire time to the patients. This has brought benefits in the form of visibly improved quality of service and patient care, and consequently has been reflected in enhanced financial performance of all CEPD subsidiaries.

We enter 2011 with optimism, but we are aware of the risks and dynamically changing situation on the pharmaceutical markets all over Europe.

The risks relate mainly to the uncertainty surrounding the anticipated regulatory changes in various countries. Changes have also been announced to be introduced in Poland and in Lithuania, which will require the market participants to significantly adjust their operations.

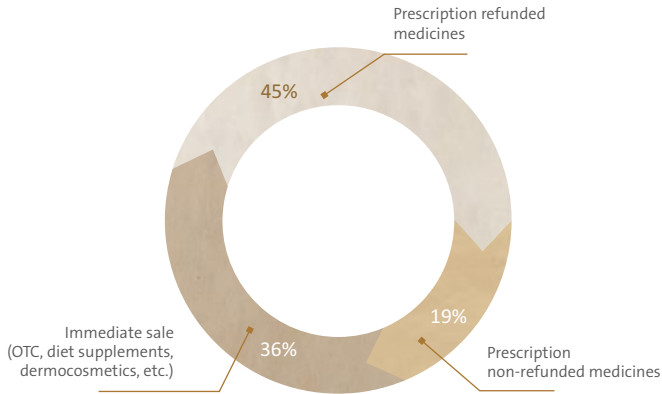
Therefore, our strategy of developing the business on new markets must be implemented carefully and thoughtfully, if shareholders are to be guaranteed a sustainable value growth.

To end, I would like to thank all the employees of CEPD N.V. and its subsidiaries for their good work and perseverance in pursuing the ambitious goals we have set for ourselves.

I believe that by adhering to the highest quality in everything we do, we will win trust from patients in the countries where we operate the pharmacy chains, thus strengthening our market position and increasing value for our shareholders.

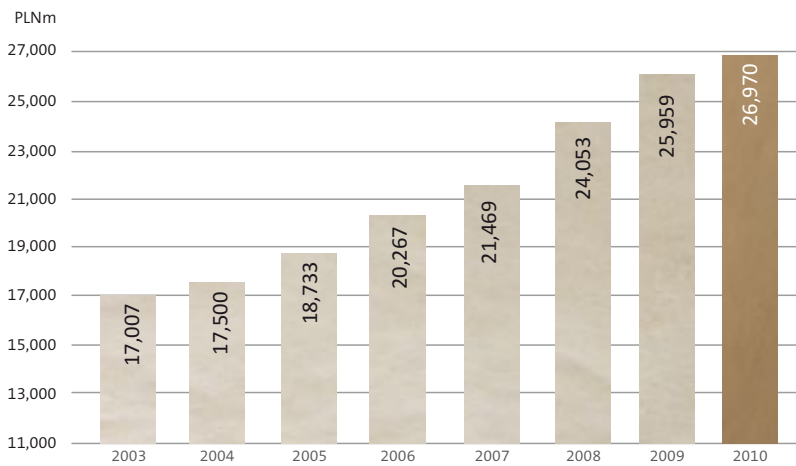
Yours sincerely,

**Maria Wiśniewska**  
President of the Management Board  
of CEPD N.V.



Medicaments pharmacy sales structure in 2010

Source: based on PharmaExpert data



Value of retail distribution market in Poland, PLNm

Source: based on PharmaExpert data



# RETAIL

**CEPD N.V. as a holding company is one of the leading players in the region, operating in the retail pharmaceutical distribution sector.**

As at the end of 2010, CEPD N.V. ran a network of over 2,500 pharmacies, the majority of which were the Dbam o Zdrowie pharmacies in Poland – in total 2081 outlets, including 512 directly held by the DOZ Group, 307 franchise and 1262 partnership pharmacies. It secures the Dbam o Zdrowie network an undisputed leading position on the domestic market, with a 15.6% share calculated on the basis of the total number of pharmacies.

In Lithuania, CEPD N.V. sells pharmaceuticals through 424 pharmacies, including 213 own pharmacies (operating under two brands: Gintarine Vaistine and Norfos Vaistine) and 211 partnership pharmacies (under the BVG brand) supplied with medicinal products by Limedika, a wholesaler that belongs to the holding. CEPD N.V. has a 30% share in the retail market based on the number of pharmacies, which makes it the market leader. Limedika ranks second on the wholesale market with, a 20% share.

CEPD N.V.'s network is complete with two Dbam o Zdrowie pharmacies operating in London.



## RETAIL MARKET IN POLAND

In 2010, the pharmacy market successfully coped with the aftermath of the economic downturn and continued its growth, albeit slower than in the previous year. Retail sales of pharmaceuticals rose 2.8%, to PLN 23bn in 2010<sup>(1)</sup>, mainly driven by the continued growth of the OTC sales. It is a positive development for pharmacies, as it directly translates into an increase in average margins, which, in the case of OTC products, are fully liberalised. In response to a shift in clients' buying preferences, CEPD has been remodelling its pharmacies and launching more and more self-service outlets.

In 2010, the average turnover per pharmacy was PLN 2m (at retail prices), up 5.2% year on year. To a large extent, the growth was attributable to the OTC segment, which saw a 4% rise in sales in 2010. Year after year, the OTC products' market share is expanding – in 2009 it was 35.7% of the total market, to rise to 36.1% in 2010. This trend is expected to continue also in 2011<sup>(1)</sup>.

## POLAND – DOZ S.A.

The Dbam o Zdrowie pharmacies are Poland's largest chain of pharmacies operating under a single brand. DOZ S.A., an entity that belongs to the international holding company CEPED N.V., runs the chain, which serves nearly 9m patients a month, including over 3m participants of the Dbam o Zdrowie loyalty programme. Furthermore, DOZ S.A. runs the largest on-line pharmacy in Poland – [www.doz.pl](http://www.doz.pl). Due to the centralization of the chain management and uniform standards, the company leverages the potential that allows it not only to achieve ambitious sales targets, but also to reach a precisely selected group of clients with its promotional message.



<sup>1)</sup> Source: Pharma Expert's data, 2011



In 2010, DOZ S.A. continued the restructuring programme. The changes were designed to further centralise the processes and adjust the company's operation to patients' needs. Concurrently, the whole structure was geared to support sales, which was subsequently reflected in the pharmacies' performance. In Q4 2010, the average sales per pharmacy in the Dbam o Zdrowie chain were 7.4% higher than the average sales at other pharmacies on the Polish market.

#### PHARMACY FORMATS

Each pharmacy managed by DOZ S.A. has been assigned one of four formats, based on two key criteria – customer profile and location of the pharmacy. Once the format is selected, DOZ S.A. makes the required changes in the interior design of the pharmacy, product categories and their display, as well as in the marketing strategy. The main goal behind the selection of the format is to supply the pharmacy with appropriate product mix and adapt the pricing policy to the purchasing capabilities of its customers. The formats also serve the purpose of integrating the approach to pharmacy sales. Cooperation with producers is based on an analysis which takes into account customer segmentation, location of pharmacies and their turnover. This system guarantees that the selected marketing tools are suitable for the assumed targets and the promotion strategy.

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#### 2003

In June, PGF as one of the first companies listed on the WSE broadcast the General Shareholders meeting online

#### 2004

In April, PGF concluded an agreement for purchase of 100% of shares in Apteki Polskie, a company managing a pharmacy network under the name of Apteki 21, for the equivalent of USD 18.8m. The transaction was executed in July after PGF had obtained the approval of the Polish Office of Competition and Consumer Protection

PGF was named the "Trustworthy Company" by the Polish Institute of Directors

#### 2005

On August 17th, an agreement was executed that provided for the establishment of Pharmena North America Inc. by Pharmena Sp. z o.o. of Łódź (as at December 31st 2005, PGF S.A. held 47.64% shares in this company)

PGF was named the "Trustworthy Company" by the Polish Institute of Directors

PGF was awarded the title of the "2005 Polish Business Leader" in the category of "Large Companies" for effectively competing on a very demanding European market and defending its leading position

The Dbam o Zdrowie programme was awarded the European Medal

#### 2006

PGF was awarded the title of "Distributor of the Year 2006" for establishing the Dbam o Zdrowie pharmacy chain, which is the most financially efficient system for drug distribution in Poland

## At that time ...

#### IN 2004...

- Poland and nine other countries joined the European Union
- Poland's first elections to the European Parliament were held

#### IN 2005...

- John Paul II passed away

#### IN 2006...

- The European Regional Centre for Ecohydrology under the auspices of UNESCO was opened in Łódź





# SENIOR



## FRANCHISE

Due to economic pressures and rising costs, a growing number of pharmacists look for assistance in professional management of their businesses. The trend was first observed in connection with the year-on-year increase in the number of private pharmacies participating in loyalty schemes. The second stage involves strengthening the cooperation and supporting further business areas.



At the end of 2008 and beginning of 2009, DOZ S.A. was the first chain of pharmacies in Poland to offer the franchise model, providing professional services related to management of commercial relations, sales, marketing activities and cost control.



Services provided by DOZ S.A. to franchisees involve full support in managing the pharmacies with a view to enhancing their competitiveness and consequently ensuring higher business efficiency and top quality pharmaceutical care.



Two years after the launch introduction of the franchise model, we can report a great level of interest in this form of cooperation among private pharmacy owners. As at the end of 2010, our franchise chain comprised 300 pharmacies, operating under the Dbam o Zdrowie brand.

## MARKETING

Distinctive orange-coloured pharmacies can be spotted all over the country – at shopping malls, on the main streets of big cities, in small towns and villages. The large scale of operations and premium locations of the Dbam o Zdrowie pharmacies enable us to reach customers across the entire country.

The key component of the Dbam o Zdrowie pharmacies' offering are marketing programmes targeted at specific customer groups.

In 2010, the Dbam o Zdrowie pharmacies launched four marketing programmes using ePRUF cards: Senior, Mama i Maleństwo (The Mummy and Baby), 60+ and Energia Zdrowia (The Energy of Health).

The Senior programme was launched in February 2010 and is aimed at people aged 75 and over. It is now implemented at over 1,200 pharmacies. Under the programme, personal ePRUF cards are issued, which entitle their holders to a 25% discount for all prescription drugs available at the Dbam o Zdrowie pharmacies. The total discount available to each customer until the end of 2010 was PLN 500. At the end of 2010, registration of new customers was closed and the programme was extended until 2011, yet only for the customers who had been registered by the end of the year.

The Mama i Maleństwo programme was designed for pregnant women and mothers of young children (up to three years old) and launched in February 2010. Participating customers are offered attractive discounts on over 100 products in three categories: cosmetics, health and body care.

The 60+ programme, launched in October 2010, was prepared on the basis of the experience gained while implementing the Senior programme. It is directed at people aged 60 or over. Personal ePRUF cards issued under the programme entitle their holders to purchase all prescription drugs available at the Dbam o Zdrowie pharmacies at attractive prices. The total discount availa-



## dla **Mamy i Maleństwa**

### **60+** Twoja Recepta na **oszczędności!**

ble to each customer until the end of 2011 is PLN 750. The programme is implemented at over 1,300 pharmacies.

The Energia Zdrowia programme commenced in December 2010 and is aimed at persons who value and care for their health. Cards issued under the programme entitle the customer to a discount for selected cosmetics and products purchased at [www.doz.pl](http://www.doz.pl). The programme also offers a wide range of special medicinal products, cosmetics and dietary supplements for physically active people.

In 2010, DOZ S.A. launched the first image and product campaign on the Polish pharmaceutical market. The campaign, named "The Autumn Special Offer", involved advertisements in the mass media (TV and radio) and on billboards. The campaign of the Dbam o Zdrowie pharmacies reached over 31 million Polish people.

The Dbam o Zdrowie pharmacies pursue an active sales policy, offering the lowest prices for a few dozens of most popular drugs in the season, updated each month. Information on current special offers is printed in promotional brochures, available at all Dbam o Zdrowie pharmacies, as well as on billboards, in newspapers and leaflets placed in postboxes. The list of special offer products may also be found on [www.doz.pl](http://www.doz.pl).

Furthermore, for over nine years PGF has been running the largest customer loyalty programme on the Polish pharmaceutical market, the Dbam o Zdrowie programme, under which the clients may collect credits for purchases made at the pharmacies. The credits may be redeemed and exchanged for attractive prizes. In 2010, medical services were added to the list of available prizes.

Moreover, customers who spend at least PLN 50 at one of our pharmacies in the previous month are also given access to our free medical helpline. DOZ S.A. also publishes Dbam o Zdrowie, a bi-monthly designed to promote a healthy lifestyle, which is distributed among members of the customer loyalty programme, and, more importantly, at our pharmacies. The magazine has been in great demand with our clients.

Since 2010, the magazine has also been sold at Empik, Relay, Inmedio and Ruch newsstands.

[WWW.DOZ.PL](http://WWW.DOZ.PL) AND SMS PHARMACY  
AT 0048 661 004 000

In 2010, DOZ S.A. introduced an SMS Pharmacy, available at 0048 661 004 000, which enables our customers to check prices and availability of drugs, locate the nearest Dbam o Zdrowie pharmacy, and place an order – all using their mobile phones.

Internet sales of pharmaceuticals is one of the fastest growing segments of the pharmaceutical market. Currently, Poland can boast over 100 Internet pharmacies, with [www.doz.pl](http://www.doz.pl) being the largest one, visited by nearly three million Internet users each day. The portal features an e-pharmacy, a unique solution combining online sales with the conventional distribution channel – the patients order products on [www.doz.pl](http://www.doz.pl) and pick them up one of the 1,700 Dbam o Zdrowie pharmacies. Since no delivery cost is added, the prices of pharmaceuticals ordered online are among the lowest on the market.





#### REPUBLIC OF LITHUANIA'S LAW ON PHARMACEUTICAL ACTIVITIES

The Republic of Lithuania's Law on Pharmaceutical Activities is a binding legal act which regulates almost all aspects of trade in medical products. In Lithuania, no regulations are in place which would restrict the number of pharmacies a single entity can own. Nor are there any legal restrictions concerning the location and number of retail outlets. The Law on Pharmaceutical Activities sets in detail the following: rules governing the issuance of authorisations to operate a pharmacy or engage in wholesale of pharmaceutical products, rules governing the distribution of pharmaceutical products on the market, including rules for their promotion and marketing, authorisation of pharmaceutical activity, manufacturing and imports of pharmaceutical products, including relevant manufacturing and import authorisations, rules governing pharmacies' operations, rules governing the disclosure of information on medicinal products and advertising thereof, rules governing supervision and control exercised by competent authorities, rules governing the pricing of reimbursed medicines, setting caps on wholesale and retail prices of medicinal products.

2010 was a year of dynamic regulatory changes in the Lithuanian pharmaceutical market. In April, the Lithuanian Parliament adopted amendments to the Law on Pharmaceutical Activities, regarding in particular the prices of non-subsidised medicines. Subject to this amendment, the Lithuanian government passed a regulation determining the maximum margins on non-reimbursed drugs for wholesalers and pharmacies. In May, the government issued a regulation

imposing fixed margins on drug manufacturers and required all discounts granted by the manufacturers to pharmacies and distributors to be awarded to patients. Further changes were introduced in June by the Lithuanian Ministry of Health, which published a recommendation to use international drug naming system in medical prescriptions. In September, the Ministry of Health enacted regulations that prohibit pharmacies from granting any discounts on reimbursed medicines. All these changes had a material impact on the performance of the drug manufacturing and distribution industry in Lithuania.

#### PHARMACEUTICAL MARKET IN LITHUANIA

The pharmaceutical market in Lithuania is relatively small compared to other CEE states, mostly due to the country's low population.

2010 was a very difficult period, both for the Lithuanian economy and the local pharmaceutical market, which shrunk by over 3% since 2009. In 2010, the wholesale distribution market in Lithuania generated sales of nearly LTL 1.4 bn.

#### LITHUANIA – UAB NFG

Despite challenging market conditions, UAB NFG recorded strong sales performance. The company consolidated its position as the market leader in terms of the number of operated pharmacies and the third largest pharmacy owner. Limedika – a member of the UAB NFG Group – continued to be the second largest wholesaler in Lithuania.

#### LARGER SCALE AND IMPROVED EFFICIENCY OF RETAIL OPERATIONS

In 2010, we focused on developing the retail business of the UAB NFG Group. In the period under review, the network of own pharmacies operating under the Gintarine Vaistine and Norfos Vaistine brands was extended to include 11 new pharmacies, in contrast to a decrease in the overall number of pharmacies on the Lithuanian market. 2010 saw the continuation of active marketing campaigns launched in 2009, advertising the Gintarine Vaistine and Norfos Vaistine pharmacies on nationwide TV channels. The expansion of the pharmacy chain and marketing initiatives resulted in a nearly 11% rise in sales recorded by Gintarine Vaistine and Norfos Vaistine.

Stronger sales, larger number of own pharmacies and improved recognition of the Gintarine Vaistine and Norfos Vaistine brands helped the UAB NFG Group greatly strengthen its negotiating position with suppliers and secure better terms of commercial contracts.

#### ACQUISITION OF SHARES IN UAB NACIONALINE FARMACIJOS GRUPE

On June 16th 2010, an agreement was signed in Amsterdam whereby CEPD N.V. exercised the option to purchase 66,811,675 shares in UAB Nacionaline farmacijos grupe (UAB NFG) for PLN 100,878 thousand.

Following the transaction, CEPD N.V. became the sole shareholder of UAB NFG. The acquisition was financed with CEPD N.V.'s own funds raised by way of a share capital increase effected through the issue of new shares by CEPD N.V., which were subsequently acquired by PGF S.A.

#### 2007

**In August, the Dbam o Zdrowie Foundation was established to eliminate barriers in the access to medicines and offer aid to persons whose difficult life situation or financial problems prevent them from purchasing drugs**

**In July, PGF became a majority shareholder of Limedika, the third largest drug wholesaler in Lithuania, as well as the owner of the Gintarine Vaistine (Amber Pharmacy) pharmacy chain. As a result, PGF became one of the largest Polish investors in Lithuania**

**In August, the shareholders of Hurtownia Aptekarz of Rzeszów decided to become a member of the PGF Group**

**Poland's first promotional campaign of a pharmacy chain was launched**

**In November, the [www.doz.pl](http://www.doz.pl) website was launched**

**In December, DOZ UK Limited, a subsidiary of PGF, opened its first pharmacy in London**

**The Economic Review daily, in cooperation with the Gallup institute, granted PGF the title of the top ranked and most recommended drug distributor**

### At that time ...

- *The office of the Public Interest Attorney was dissolved*
- *More liberal regulations applicable to the Polish electricity market were introduced*
- *Poland joined the Schengen Area*





#### UNITED KINGDOM – DOZ UK

With Poles living in the United Kingdom in mind, two Dbam o Zdrowie pharmacies, managed by DOZ UK, were opened in London. Quick access to professional pharmaceutical care, ability to receive free-of-charge advice in the native language, plus a wide range of Polish products are a great convenience for Polish people living abroad. Purchases of pharmaceuticals, medical products and cosmetics at the DOZ UK's pharmacies in London are made by several hundred Polish families.

Professional service and wide range of products offered at the DOZ UK's pharmacies were also appreciated by the locals, as reflected in stronger sales in 2010. An additional advantage of the Dbam o Zdrowie pharmacies operating in the United Kingdom is consistent extension of the offering of minor healthcare services, which to a large extent are reimbursed from the healthcare fund.

#### OVERVIEW OF THE DEVELOPMENT STRATEGY

The overall strategic goal of CEPD N.V. is to develop its pharmaceutical retail chain in Europe. In the coming years, the company plans to focus its efforts on three main areas: further business growth on CEPD N.V.'s existing markets, international expansion onto the CEE markets, and leveraging significant synergies offered by the economies of scale.

To ensure effective implementation of CEPD N.V.'s strategy, the company considers raising capital

through a share issue. New shareholders will be offered a minority interest in the company. The preparations for the share capital increase started in July 2008, but in view of the adverse market developments driven by the economic crisis, CEPD N.V. chose to postpone the launch of the formal part of the process until the overall climate on the capital markets improves. A new plan is to be implemented in 2011.

#### FURTHER BUSINESS DEVELOPMENT ON CEPD N.V.'S EXISTING MARKETS

One of the strategic priorities of CEPD N.V. is to significantly strengthen its competitive position on the existing markets. The company's long-term plans envisage dynamic development of the sales network, both in Poland and Lithuania.

As for Poland, the company plans to increase the number of the Dbam o Zdrowie pharmacies. In January 2009, private pharmacists were offered an opportunity to participate in a franchise scheme, first of its kind in Poland. The scheme devised by DOZ S.A. is a flexible combination of private businesses with the benefits of economies of scale associated with a large, well-organised pharmacy chain. The new scheme further strengthens the existing partnerships and is intended to even better meet the expectations of private pharmacists. 2010 proved that this strategy has good development prospects. As at the end of December 2010, more than 300 Dbam o Zdrowie pharmacies operated under the franchise scheme.



We care for your health. For twenty years now.

Polska Grupa Farmaceutyczna



## 2008

**In March, Central European Pharmaceutical Distribution N.V. of Amsterdam was established, taking over all activities related to retail distribution of pharmaceuticals**

**In May, the Dbam o Zdrowie Foundation became a Public Benefit Organisation**

**August saw Pharmena's debut on the WSE's parallel market – NewConnect. At opening of trading, the stock price rose by 15.38%**

**In August, PGF introduced a new system of sales of pharmaceuticals to pharmacies in Poland, based on a mechanism whereby product discounts offered by producers are transferred directly onto the same products sold at pharmacies**

**In November, a direct distribution contract was signed, under which PGF, as an independent distributor, was to perform the role of a logistics operator storing, distributing and selling medicines directly to pharmacies on behalf of the producer**

A consistent development of the pharmacy chain is also a goal set by the Lithuanian operating subsidiary of CEPD N.V. The coming years are to witness a higher number of pharmacies both within the own pharmacy chains of Gintarine Vaistine and Norfos Vaistine and BVG partnership pharmacies cooperating with Limedika, a wholesale distributor owned by CEPD N.V.

The strategy for business development on the existing markets includes plans to further develop our online platform. New functionalities are added to [www.doz.pl](http://www.doz.pl), the Polish web portal devoted to health, on a regular basis. Moreover, the range of products offered by the online pharmacy service and store is being consistently expanded, which directly contributes to strong growth in sales through this particular distribution channel. In 2010, work commenced on launching an e-pharmacy in Lithuania. The web portal is to be designed using the best solutions, already implemented in Poland. The online pharmacy service in Lithuania is to be launched in the second half of 2011.

## At that time ...

- *The Polish parliament passed the Act on Ratification of the Lisbon Treaty*
- *Poland became a member of the International Energy Agency*
- *The Monetary Policy Council made a first of a series of interest rates reductions*



## MODERN HOLDING STRUCTURE

Poland	Lithuania	UK	country4	country 5	country 6
DOZ S.A.	UAB NFG	DOZ UK Ltd.	...	...	...

### CEPD N.V.

Central European  
Pharmaceutical Distribution

CEPD Management Sp. z. o.o.

In pursuit of its corporate strategy, in 2010 CEPD N.V. acquired 66,811,675 shares in UAB Nacionaline farmacijų grupė (UAB NFG), increasing its interest in the company's share capital to 100%.

#### EXPANSION ON THE CEE MARKETS

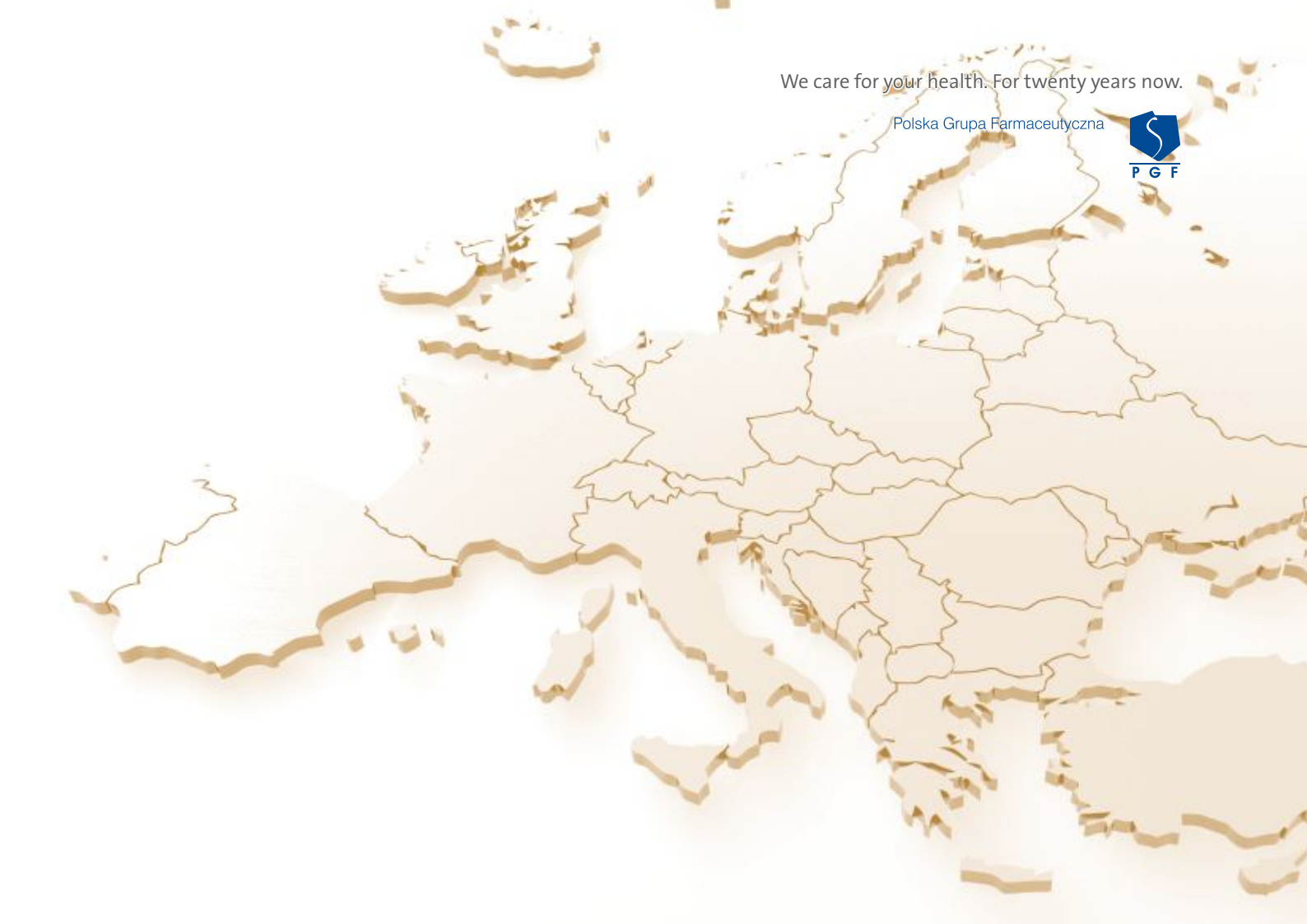
CEPD N.V.'s strategy assumes acquisition of businesses engaged in retail distribution of pharmaceuticals in the CEE region. In 2010, the company updated its international expansion strategy, and the company's management board confirmed its choice of the most promising pharmaceutical markets in the region and decided to intensify efforts aimed at identifying potential acquisition targets in the CEE countries.

The preferred countries include the Czech Republic, Slovakia, Romania and Serbia. These are the markets on which CEPD N.V. is actively searching for companies whose operating and financial features meet pre-defined, rigid criteria. In the other CEE countries, CEPD N.V. selects the best investment opportunities.

With a flexible approach to international expansion, the company is also open to mergers with other distributors in the region to create joint equity groups.

CEPD N.V. adjusts its international expansion strategy on a regular basis, by constantly monitoring developments on the respective CEE markets and tracking changes in macroeconomic conditions.





We care for your health. For twenty years now.

Polska Grupa Farmaceutyczna



## Our objective is growth

### SIGNIFICANT SYNERGIES FROM ECONOMIES OF SCALE

A consistent expansion of the distribution network helps gain strong synergies achieved through economies of scale. CEPD N.V.'s intention is to maximise the benefits both on the revenue and cost side.

As for the revenue side, CEPD N.V.'s strategy provides for gradual, though substantial, strengthening of position in the purchasing process in the coming years. In 2010, the company appointed a special team comprising employees of DOZ S.A. and UAB NFG, whose role is to jointly negotiate with producers and improve purchase terms for both companies.

On the cost side, the company plans to achieve measurable savings directly attributable to the scale of business. This principally involves cost optimisation to be achieved through introducing standard solutions for pharmacy operation and support functions, a common marketing programme and IT tools, and uniform standards for pharmacy reformatting.





# EXPERIENCE

## ZBIGNIEW MOLENDĄ

Vice-President of the Management Board,  
Procurement and Distribution.

*”The evolving pharmaceutical market offers great opportunities for companies like ours. New business areas emerge, where our resources and experience can be best put to use. One of such areas is the market services for pharmaceutical manufactures, which has been undergoing profound changes in recent years. Our presence in the segment was established on May 9th 2009 following the execution of a contract for the provision of services under the direct sales model with one of the largest pharmaceutical companies in the world. Owing to our strong market position, experience, proven track record and well-organised logistics base, we are a reliable partner for drug manufacturers in conducting sales activities that go beyond simple wholesale.”*

# SERVICES TO MANUFACTURERS

We know the meaning of „added value”

PGF has continued efforts commenced in 2009 aimed at expanding the new business line involving the provision of services to pharmaceutical manufacturers. Currently, PGF focuses on developing the segment of services which would enable its business partners to grow fast, including logistics, management, sales support and marketing services.



## DIRECT DISTRIBUTION

PGF acts as a logistics operator which offers storage, distribution and other distribution-related services directly to pharmacies, for and on behalf of the manufacturer.

To facilitate the implementation of the direct sales model, the company uses unique solutions in the form of consignment networks managed by subsidiaries operating on local markets. To meet market expectations, PGF actively developed direct distribution services over the last year, which was rewarded with a leading position on the market.

## LOGISTICS SERVICES

As the owner of modern warehouse facilities located in the largest cities in Poland, PGF may also provide storage services.

In addition, the logistics services offered by the Company encompass distribution of pharmaceutical products to hospital pharmacies, open (out-of-hospital) pharmacies, wholesalers, out-patient clinics, private practices, and even to private individuals. Moreover, PGF offers safe transport of pharmaceuticals in constant temperatures as required under the pharmaceutical law. Additionally, the company distributes thermolabile pharmaceuticals by means of the cold supply chain, which ensures high quality and represents the best logistics solution for the pharmaceutical industry. Upon customer's request, a temperature recorder is provided to record the temperature until the package is delivered, and thus to prove that transport conditions were appropriate.

## MARKETING SERVICES

Apart from the logistics services, PGF renders marketing services to manufacturers. Through

the Dbam o Zdrowie pharmacies operating in Poland, the company is able to provide a comprehensive package of marketing services to promote the products introduced to the market. Such services include joint marketing campaigns, distribution of advertising materials in pharmacies, direct mailing and merchandising, as well as printing materials for pharmacies and patients.

## CALL CENTER

PGF's call centre services involve professional and comprehensive customer service provided by a team of professionals with experience in the pharmaceutical industry, and workstations designed for handling particular inquiries.

The services for manufacturers include

- promotional campaigns;
- market research (e.g. before planned marketing of a product);
- information and marketing campaigns (e.g. to inform pharmacies about new product launches, product recalls and substitutes);
- hotline outsourcing to complement or replace conventional hotline function (this may include handling customers' inquiries related to cross-media campaigns).

## INTERNATIONAL COOPERATION

As a company with international presence, PGF will be able to offer a much more comprehensive range of services. The new possibilities include centralisation, large purchase volumes and long-term contracts with a payment guarantee. Flexible approach to manufacturers' needs and expectations and joint development represent a cornerstone of PGF's recent market success. Therefore, PGF attaches great weight to this particular business segment.

# pharmalink

## PHARMALINK SP. Z O.O.

Pharmalink Sp. z o.o. was established as a member of the PGF Group in order to separate the services segment within the Group's structure. The company delivers goods to customers in Poland, supplies PGF's depots and delivers pharmaceuticals and medical products directly from pharmaceutical companies to the customers.

Pharmalink's offering includes the following services:

- transport of general cargo in controlled temperature (15–25°C),
- transport of general cargo by means of a cold supply chain (2–8°C),
- full truck load transport (15–25°C and 2–8°C) in Poland and abroad,
- specialist isothermal packages,
- constant temperature monitoring,
- renting of temperature recorders,
- temperature printouts,
- storage of goods in consignment warehouses, – warehouse services,
- return delivery of documents and packages,
- insurance cover for the transported goods.

The company's expertise and potential allow it to provide high quality storage and transport services compliant with the pharmaceutical law, and to meet the expectations of pharmaceutical distributors.

Loading and transport methods enable identification of each product, its sender and recipient. The products are protected against contamination, damage and cross contamination.

We care for your health. For twenty years now.

Polska Grupa Farmaceutyczna



2009

ePRUF issued discount cards for Polfa Łódź

PGF was awarded the title of “A Trustworthy Employer” in the “Pharmaceutical Distributors” category

The Forbes magazine named PGF “The Leader of 20 Years of Polish Transformation” in the category “The Best Restructured and Managed Companies of the FMCG, Consumer Goods and Related Industries”

Instytut Badań nad Demokracją i Przedsiębiorstwem Prywatnym (Institute for Private Enterprise and Democracy) granted PGF the title and certificate of “A Fair Play Enterprise 2009”

## At that time ...

- *The PLN/EUR mid-exchange rate quoted by the National Bank of Poland reached PLN 4.90/EUR 1*
- *Poland's GDP grew by 1.9%, which was the highest growth rate in the entire European Union*
- *Jerzy Buzek, former Prime Minister of Poland, was elected President of the European Parliament*
- *President Lech Kaczyński signed the Lisbon Treaty*
- *Poland's Ministry of Labour announced that in January 2009 the unemployment rate exceeded 10%*
- *President Lech Kaczyński signed a strategically important act under a package of anti-crisis measures, introducing more flexible regulations with respect to working time and terms of employment*

# OTHER ACTIVITIES



eubioco



## EUBIOCO S.A.

Eubioco S.A. is a holding company with respect to Laboratorium Galenowe Olsztyn Sp. z o.o. (LGO) and operates exclusively through the subsidiary.

LGO is a producer of galenic preparations, cosmetics and dietary supplements. Moreover, it is actively developing its offering of production, packaging, re-packaging and analytical testing services.

LGO applies state-of-the-art technologies enabling it to produce highest quality medications. The breadth of LGO's products, own research and development facilities, expert and dedicated staff, as well as highly competent management personnel combined with stable financial performance, are widely appreciated by pharmacy and herbal shop customers and are a guarantee of the company's dynamic growth.

As LGO cooperates with the largest pharmaceutical wholesalers in Poland, its preparations are sold at most pharmacies in the country. LGO's rapid growth places the company among the leading producers of galenic preparations in Poland. One of the future growth opportunities for LGO is to launch production of new preparations.

PHARMENA

## PHARMENA S.A.

Pharmena S.A. is fast-growing public company operating in the market for specialist medical care. Its core business involves the development and commercialisation of innovative products for dermatological and other conditions which are still difficult to treat, including acne, skin diseases, burns and alopecia. The full line of skin and hair care products includes the following brands: DERMENA®, DERMENA Plus®, ACCOS®, ALLERCO®, THERMI® and REVIUM®.

Furthermore, Pharmena S.A. conducts research on new medicines used in treatment of cardiovascular system diseases and other disorders, based on active components present in the company's dermatological products. Currently, the research has focused on determining the effective dose of TRIA-662, a medicine for treatment of dislipidemy, an atherosclerosis-related disease involving abnormalities in the lipid profile. TRIA-662 contains a natural substance which has been proved to have potential to give positive treatment results without the side effects seen in the case of other drugs currently available on the market.

Pharmena S.A. has secured a dominant position as regards intellectual property protection of local and general applications of the researched drug and filed for its registration both in the US and Canada.





Patient loyalty, priceless

**ePRUF**

ePRUF S.A.

The company's name is an acronym for Elektroniczna Platforma Rozliczeń Usług Farmaceutycznych (Electronic Platform for Settlement of Pharmaceutical Services). It was established in 2008 and its core business comprises the development and management of private drug reimbursement systems for:

- insurance companies (which have drug reimbursement services in their offerings),
- employers (who offer their employees annual health packages including pharmaceutical care as a fringe benefit),
- social institutions, foundations (which help their beneficiaries by co-financing the purchase of pharmaceuticals),
- members of the PGF Group (in particular the Dbam o Zdrowie pharmacies), and individuals.

The private drug reimbursement system is based on the ePRUF cards accepted in some 1,800 pharmacies across Poland. The ePRUF system guarantees that the benefits are used for predefined purposes, simplifies administration procedures, enhances control of the process, and limits room for abuse and error.

 **Farm-Serwis**

FARM-SERWIS SP. Z O.O.

The company was established in 2001, and its core business is monitoring and collection of debt from PGF's customers. Farm Serwis Sp. z o.o. is the Group's key organisational unit specialising in the management of credit lines and providing services consisting in trade in receivables and advancing loans to customers and companies belonging to the PGF Group.





BSS S.A. is one of the youngest members of the PGF Group, which provides a comprehensive range of business process outsourcing services.

BSS S.A. is also a team of people who prove every day that work may be a passion and that passion may translate into success of the entire team and its individual members.

#### BUSINESS SUPPORT SOLUTION S.A.

The company was established in response to a growing demand for professional, across-the-board support of business processes from the domestic and foreign members of the PGF Group.

BSS S.A. provides services in the following areas:

- tax and accounting,
- HR and payroll,
- finance,
- controlling,
- legal support,
- consolidation of financial statements.

The company employs more than 300 staff, including top specialists in accounting, finance, controlling, reporting and legal advisory services, who hold auditor and legal counsel licences, as well as certificates issued by the Ministry of Finance authorising their holders to offer bookkeeping services. This team, particularly their expertise and experience, represent the principal asset of BSS.

BSS is a leader of business process outsourcing for pharmaceutical sector players, and is gradually expanding its client portfolio to include other sectors. By implementing the “one-stop-shop” concept, BSS offers its clients comprehensive, top quality expert support, thereby enabling them to focus on their core business.

During the first year of its operations, BSS managed to carry out its action plan and deliver high quality services. In numbers, this meant that the company handled 500 bank accounts, prepared more than a thousand management reports, made payroll calculations for more than 8 thousand persons per month, provided services to 160 companies per month, and worked on one million documents per month. In the first year of the company's operations, new types of business activities were also launched. However, it is not numbers that define BSS. The company's distinguishing feature is the passion driving its employees whose work has been connected with accounting for several or more years, as well as those who have devoted all their professional lives to that discipline. To them accounting does



## ONE FOR EVERYONE

Support with knowledge and experiencing



BSS' mission is to provide professional support promoting the success of the businesses it serves. The principal idea underlying all activities of BSS is to be not only a service provider but, first and foremost, a reliable business partner for its clients.

not just mean a slew of documents, incomprehensible figures, or tedious work. Their passion enables them to build strong, personalised relationships with clients, precisely understand their actual accounting needs and jointly identify the best solutions afforded by the tax and accounting laws.

Thanks to their dedication to client service and identification with the business activities of clients, BSS staff treat any business issues faced by their clients as if they were their own. This is the best guarantee of service quality delivered by BSS.

Needless to say, the high service quality is not an end in itself, but rather serves as a tool for winning a competitive advantage.

To win and retain a strong market position, BSS relies on the following assets:

- high operating standards, oriented towards an innovative and personalised approach to each client,
- a long track-record of supporting business processes,
- full confidentiality and security of data and information,
- the provision of high quality services with the use of advanced technologies,
- high and constantly improving qualifications of staff,
- and the nationwide reach.

Thanks to the individualised approach and an all-embracing view of the organisation, BSS is focused on building the value of the businesses it serves. Drawing on its experience and skills, BSS promotes the development of its clients, so they can enhance their competitive lead every day.

The first year of BSS' operations coincided with the 20th anniversary of PGF. PGF's successes and achievements of the last two decades represent both a challenge and an example to follow by each new company.

Showing a high degree of innovativeness, creativity, courage in decision making, consistency, readiness to take risk and team spirit, BSS is well placed to set itself ambitious goals for the future.



*” **T**he history of Polska Grupa Farmaceutyczna reflects the history of Poland after 1989, which has been marked by the country’s profound transformation. The Polish people’s dormant energy was released on an unheard-of scale, which resulted in deep economic reforms. For creative people who wanted to be the architects of their own lives, these were perfect times. We were learning, always ready to venture into the unknown. That is why the Company’s present shape is the sum of own individual biographies. I, for one, was so engrossed in various legal aspects concerning trade in pharmaceuticals, that I am now well versed with this field of law. I believe that personal commitment, going far beyond ordinary work, has provided a solid foundation for PGF’s present and future successes. ”*

COMMITMENT



We care for your health. For twenty years now.

Polska Grupa Farmaceutyczna



**JERZY LESZCZYŃSKI**

Chairman of the Supervisory Board



The gala was held in Teatr Wielki – Opera Narodowa in Warsaw



Guests are welcomed by – (from left) : Maria Wiśniewska, President of CEPD N.V., Jacek Szwajcowski, President of PGF S.A., Zbigniew Molenda, Vice President of PGF S.A., and Jacek Dauenhauer, Vice President of PGF S.A.



Representatives of the Management Board and Supervisory Board of PGF S.A.



Hall of Teatr Wielki – Opera Narodowa of Warsaw was filled to the brim



On December 13th, PGF's 20th anniversary gala was organised at the Teatr Wielki w Warszawie (the Grand Theatre in Warsaw). It was attended by a number of notable figures from all over the world - politicians, people of culture, journalists and businessmen, but, most importantly, the pharmacists working with PGF and the Company's employees.

The celebration featured "The Best of Chopin" concert and a film made especially for this occasion.

The date has a symbolic meaning – 20 years earlier PGF was established, riding the wave of Poland's economic transformation.

"PGF is a contemporary of Poland's reborn free market economy," said Jacek Szwajcowski, President of the Management Board, opening the gala.

"For that reason, we invited here today some of the people without whom the reforms of the 1990s and the free Poland would have never been possible. Among those who have accepted our invitation is the symbolic figure behind that transformation. Our former president, Lech Wałęsa," announced Maria Wiśniewska, CEO of CEPD N.V., an international holding company which manages a chain of pharmacies. At that moment, Lech Wałęsa walked onto the stage to a standing ovation.

20 years of PGF





The audience greeted Lech Wałęsa with a standing ovation



The Symphony Orchestra of Teatr Wielki – Opera Narodowa was conducted by Jacek Kasprzyk



The artists who added splendour to The Best of Chopin concert, received thunderous applause and flower bouquets from the organizers



Sebastian Karpiel-Bułecka, accompanied by Janusz Olejniczak, pianist, presented his own interpretation of Chopin's music

After the speeches, guests listened to a Chopin concert (prelude in C-sharp minor, Op. 45 and concerto in f-sharp minor) and Mozart's "Ch'io mi scordi di te" performed by Janusz Olejniczak (piano) and the Symphony Orchestra of the Teatr Wielki – National Opera, whose artistic director is Jacek Kasprzyk. Four Chopin opuses were performed by Olga Pasiecznik (soprano) and Natalia Pasiecznik (piano).



Ceremonial toast after the gala

A unique interpretation of Waltz in C-sharp minor combined with a folk lullaby and Polonaise in A major was presented by Janusz Olejniczak, Sebastian Karpiel-Bułecka and Mateusz Pospieszalski, accompanied by a symphony orchestra.

Jolanta Fajkowska said she was convinced that the world's most renowned musical theatres would be delighted to host a concert like the one marking the 20th anniversary of PGF.



Jacek Cygan, poet

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE

In 2010, PGF complied with all the corporate governance rules recommended by the Warsaw Stock Exchange and specified in the document entitled “Best Practices in Public Companies”, as amended. The corporate governance rules were reflected in the internal regulations and practices of the Company, its governing bodies and their members.

In May 2010, the Supervisory Board of the Warsaw Stock Exchange adopted new corporate governance rules for listed companies, which superseded the Code of Best Practice adopted by way of Resolution No. 12/1170/2007 of July 4th 2007. The corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies are attached as an appendix to Resolution No. 17/1249/2010 of the WSE Supervisory Board, dated May 19th 2010, and are effective as of July 1st 2010. The text of the Code is available in on the WSE's website dedicated to corporate governance: ([www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)).

PGF S.A. complied with all of the corporate governance rules referred to above.

## KEY CHARACTERISTICS OF THE INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS

The internal audit system of PGF S.A. facilitates the pursuit of the Company's mission and objectives. It also helps to achieve long-term profitability goals and maintain the reliability of financial and management reporting. The internal audit system comprises a range of audit procedures, establishes the division of tasks and responsibilities, and serves to identify and assess risks which may have a bearing on the Company's performance.

As for the organisational aspect, the internal audit system of the PGF Group comprises: functional audit performed as part of general supervision over business operations and observance of internal rules by the members of the PGF Group and their subordinate units, as well as institutional audit performed by the internal audit department of PGF S.A. The internal functional audit is performed by the Company's Management Board, heads of entities owned by the PGF Group and employees, according to their respective scopes of duties.

The internal institutional audit is performed by the internal audit department in line with a set of internal rules, prepared based on the International Standards for the Professional Practice of Internal Auditing and other international professional standards, in particular the standards adopted by the Institute of Internal Auditors (IIA). The responsibilities of the Company's internal audit department include the evaluation of risk management and internal audit procedures in terms of their efficiency. The audit department fulfils its responsibilities independently, by carrying out audits which cover the individual areas and processes at the Company's organisational units, and as well through a reporting and monitoring system which covers control functions at the Group's organisational units (functional audit/self-audit).

The audit department reports to the president of PGF S.A.'s Management Board. The results and effectiveness of the internal audit department's work are reported both to the Company's Management Board and to the Supervisory Board, which fulfils the role of an audit committee. Internal audit plans for a given year are subject to approval by the Supervisory Board, which may request that they be changed or supplemented. The Supervisory Board also monitors the implementation of recommendations issued by the internal audit department.

The information flow within the Company enables preparation of financial reports which are up to date, complete, and reliable, and which comply with the regulations and accounting policies approved by the Management Board.

Until January 2010, the Company's accounting records was kept by the financial and accounting unit operating earlier within the corporate structure of PGF S.A. and since February 2010 – by





Business Support Solution S.A. (BSS S.A.). Preparation of financial statements and consolidated financial statements was assigned to BSS S.A., which follows its own audit procedures in this respect.

In order to ensure effectiveness of the Company's internal audit and risk management system used for the purposes of financial reporting, the Company's Management Board has adopted and approved for application:

- accounting policies of PGF S.A.,
- IFRS-compliant accounting policies for the purposes of consolidated financial statements of the PGF Group,
- inventory-taking instruction,
- documents regarding the IT system for accounting data processing,
- internal audit rules along with instructions, orders and internal procedures.

Both PGF S.A. and BSS S.A. have applied several other rules regarding the audit system, and identification and assessment of risks related to the Company's operations.

The integrated accounting system used by the Company is Oracle e-Business Suite. The system ensures a clear division of powers, consistency of records, and ongoing cross-checking. Oracle e-Business Suite offers password protection against unauthorised access and functional access restrictions. The specifications of the IT system meet the requirements provided for in Art. 10.1.3c of the Accountancy Act of September 29th 1994.

Financial reporting is carried out using the Hyperion system.

The internal audit system enables the identification and mitigation of major risks, such as abuse, irregularities and losses. The Company constantly monitors certain predefined parameters and tracks changes in ratios, such as the inventory cycle or receivables. Processes occurring at the Company are regularly reviewed to identify adequate management procedures. The efficacy of internal audit and risk management procedures applied in financial reporting is reflected by the high quality of the financial statements, as confirmed by qualified auditors' opinions.

Another building block of the internal audit system is the audit of financial statements by independent auditors. They are charged with the task of auditing annual separate and consolidated financial statements and reviewing semi-annual separate and consolidated financial statements.

The Supervisory Board appoints the auditor from among recognised audit firms which submitted their proposals in the bidding process.

For the full text of the statement of compliance with corporate governance rules, see the Company's website ([www.pgf.com.pl](http://www.pgf.com.pl)) or the consolidated financial statements for 2010, enclosed on the CD attached to this Annual Report.



# CORPORATE SOCIAL RESPONSIBILITY



## CULTIVATING THE TRADITION OF POLISH APOTHECARY PRACTICE

The history of pharmacy and medical practice is usually not well known by, or popular with, local communities. Many people own historical objects related to these professions but are not aware of their value. As a result, the condition of such objects deteriorates, as they are put away in basements and attics to be forgotten. Moreover, literature on the history of pharmacies is not collected at a single location and made available to a large number of readers, often preventing pharmacists from pursuing their interests after they complete formal education.

PGF was established thanks to the support of and cooperation with pharmacists, who for generations have been the primary source of information on medicines. In order to save our common roots from oblivion, PGF supports the development of pharmacy museums in Lublin and Łódź. Both museums are located in historical tenement houses, where pharmacies used to operate in the past. The museums feature unique pieces of furniture, utensils and books. They have an educational and academic value and house exhibitions devoted to pharmacy and to history in general. The exhibits collected at the museums were donated by PGF, other museums and private collectors.

The museums were established by descendants of erstwhile apothecaries, as well as by pharmacists and personnel of PGF's pharmacies.

The museum in Łódź organises meetings of members of the University of the Third Age and the poorest children from the region, cooperates with other museums and educational institutions, hosts scientific lectures, organises seminars on the history of pharmacy and lessons for children and youth. The museum participates in the International Night of Museums initiative, its library is open for students and researchers and it offers student placements.

To cultivate the history of the Polish pharmacy practice, PGF became a sponsor of historic pharmacies, including the oldest Polish pharmacy located in Zamość, and publishes monographs on the history of pharmacies in Poland. Each volume is a rich source of knowledge on the pharmacy's history, the town, the lives of the pharmacy's owners and the tradition of local apothecaries. The monograph features archival illustrations and photos. To date, 10 volumes have been published as part of the "Most Famous Pharmacies in Poland" series.



## The combination of several ages of the history of Polish pharmacy with modern solutions in pharmaceutical care

The need for pharmacy museums and for literature concerned with the tradition of Polish pharmacies is confirmed by the growing popularity of such museums, as well as the increasing number of pharmacy enthusiasts. The growing awareness of such museums is evidenced by the number of visitors, which has been growing from year to year. In 2008, the Łódź museum was visited by 4,157 persons, but in 2010 the number of visitors increased to as many as 6,372. Since its inception, the museum has been visited by a total of 15,339 visitors, including 11,000 during the International Night of Museums. Moreover, an undeniable success of the museums in Łódź and Lublin was the rescuing from oblivion of a number of unique exhibits connected with the pharmacy practice. A growing number of people, not only those involved in the pharmacy business, decide to donate their collections to the museums.

### ENVIRONMENTAL INITIATIVES

PGF also runs environmental projects aimed to raise the staff's awareness of negative effects of littering the environment. The employees are invited to take part in waste paper and used batteries collection initiatives. On an ongoing basis, employees receive advice on how to save energy, reduce CO<sub>2</sub> emissions, etc.



Gazeta Finansowa in „Corporate Responsibility Report” awarded PGF for its Senior and Mama i Małeństwo programmes



# FUNDACJA dbam o zdrowie



Newsweek Polska and Academy of Philanthropy in Poland granted main prize Foundation Dbam o Zdrowie in competition 100% from 1% in category special actions for the best campaign of the 1%

## DBAM O ZDROWIE FOUNDATION

In 2007, PGF established the Dbam o Zdrowie Foundation, whose main objective is to provide support to individuals who are unable to purchase medicines due to their poor living and financial conditions. Out of the seven thousand public benefit organisations operating in Poland, the Dbam o Zdrowie Foundation was the first one to offer large-scale assistance to pharmacy patients who cannot afford to buy the prescribed medicines and continue effective treatment. The idea to establish the Foundation originated from the pharmacists, who encounter the problem on a daily basis when talking to the patients. Unfortunately, the problem is becoming increasingly more widespread also among young people: single mothers, large families, patients suffering from chronic diseases and the socially excluded.

The key activities of the Foundation, continued also throughout 2010, focused around the Podaruj Zdrowie campaign run in Dębica and the Zostań Darczyńcą campaign aimed at providing support to the Foundation's beneficiaries. This campaign is backed by such personalities as Piotr Pustelnik – a mountain climber, Anna Cymerman – a soloist at Teatr Wielki in Łódź, Tomasz Gońbiewski – a leader of the Łódź Philharmonic Orchestra and Dariusz Stachura – a tenor.

In 2010, the Foundation offered assistance to 15 single mother's homes all over Poland by granting them annual financial support for purchase of medicines for mothers and children. The Foundation was also actively involved in offering aid to victims of the flood that affected Poland, and provided assistance to 50 Polish hospices. Moreover, it was a partner of the Urtica Dzieciom campaign aimed at organising support for

children's oncology hospitals. Children with cancer are a special group of little patients, who require lengthy hospital treatment. With the commitment of our staff, over the last 14 years we have managed to raise nearly PLN 1m for this cause. This money was used for renovation and refurbishment of hospital and day rooms, and for the purchase of toys and teaching materials for the children. Additionally, a series of Słoneczna Galeria art workshops for children with cancer was also organised in 2010.

As part of the Pomoc Cukrzykom campaign, the Foundation donated about two thousand glucometers to Municipal Social Assistance Centres and Nursing Homes. In 2010, a series of meetings with elderly patients was also initiated in order to raise the social awareness of the growing number of elderly persons in need of care. The meetings were accompanied by lectures regarding the ways of keeping good health in advanced age, delivered by medical and pharmaceutical experts. Furthermore, the Foundation ran a social campaign Recepta nie wystarczy, highlighting the problem of patients receiving prescriptions for medicines they cannot afford to buy. A photo contest under the same name was also held. The photographs were exhibited in various cities across Poland.





# Forbes®

awarded PGF with the title of the most socially responsible firm in the Łódź region

## OTHER INITIATIVES

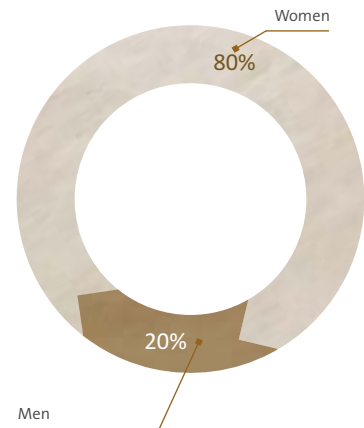
PGF and its employees also became involved in other initiatives to help those in need. That was the case in 2010, when vast areas of Poland suffered as a result of a flood. Concerned about those most affected, the Foundation, its volunteers and the PGF employees joined in the efforts to help the flood victims. Several campaigns were conducted simultaneously. The Foundation provided its support to organisations acting under the Razem Powodzianom slogan. It also entered into cooperation with the Provincial Offices and social assistance institutions, such as the Municipal Social Assistance Centres in Częstochowa, Lublin, Bochnia, Kamionka and Piwniczna Zdrój.

At the beginning of August, those institutions received applications which were then handed over to the persons and families who suffered the most in the flood. Support was also offered to medical institutions in Bogatynia and Zgorzelec. This campaign was initiated by the Dbam o Zdrowie pharmacies of Zgorzelec, which distributed the gifts. Aid was provided for financing of purchase of pharmaceuticals for the children from Bogatynia, who were away on holiday until the end of the flood. The flood victims also received assistance from the PGF companies of Kraków, Lublin, Rzeszów and Łódź.

Employees of PGF Łódź undertook the Książki dla powodzian campaign with a view to donating books to selected schools and libraries from the flooded towns and villages indicated by the campaign coordinators from Kraków and Lublin.



# PGF EMPLOYEES



Employment structure in 2010 by sex

## HEADCOUNT AND EMPLOYMENT STRUCTURE

At the end of 2010, similarly as a year earlier, PGF employed over seven thousand people. The sex structure of PGF's workforce reveals that women, accounting for over 80%, clearly predominate.

The core business of the PGF companies consists in the distribution and sale of pharmaceuticals, that is why over 80% of the headcount are employed at the sales or logistics departments, or in pharmacies. The PGF workforce are mainly young

persons (47% of the employees are below 35 years of age) and persons with higher education (47% of the employees).

## ORGANISATIONAL CHANGES, EMPLOYEE DEVELOPMENT AND PERIODIC APPRAISAL

### Wholesale

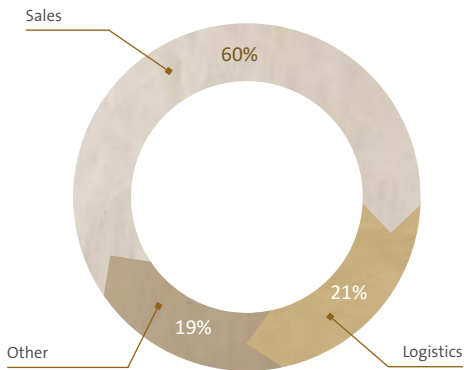
In 2010, implementation of the Company's new organisational model and employee periodic appraisal system was continued in the wholesale segment. The sales division's performance appraisal system was modified. As one of the effects of the changes, a ranking of the best sales specialists was established. Awards were given to those employees who delivered the best performance in terms of meeting sales targets, building customer relations and performing assigned tasks in line with the Company's policy.

In 2010, training was provided to all the employee groups in the wholesale segment, with particular focus on the sales division. Sales directors received training in the area of team management and sales coaching. Customer assistants and sales assistants were provided with training on negotiation, motivation and building partnership relations with customers.

A training course for telemarketing teams was launched, focused on the development of skills required to build long-term, positive relations with customers, as well as team cooperation and communication. Management staff was trained in employee recruitment, selection and motivation, as well as in relations and team building.

PGF subsidised employees' individual trainings as well as under-graduate and post-graduate courses. Each employee also had a chance to take





Employment structure in 2010



part in an open internal training programme on self-management in time management, trade negotiations and assertiveness in professional situations.

In 2010, cooperation continued with the Polish Business Council on the Kariera programme, as well as with higher education institutions.

Support was provided to career development initiatives, for instance in the form of funding a scholarship under the Młodzi w Łodzi scholarship programme. Cooperation with the Career Offices and participation in the Job Fair of the University of Łódź offered a chance to become present in the students' awareness and convince the best graduates to work for the Group.

#### Retail

In 2010, work continued on organisational changes and improvement of processes and structures at the key companies of the CEPD N.V. Group to make them match the latest standards. The sales division was substantially strengthened and a trade and marketing division

was set up at DOZ S.A. The Group continued, with great success, its efforts aimed at adjusting the number of staff employed at pharmacies to the optimum level determined by the number of customers, sales volumes, opening hours and growth potential of an outlet.

New rules were implemented for awarding bonuses to pharmacists, based on their individual sales performance. In 2010, steps were taken to improve the Group's communications system: regular meetings in sales regions were held, information on sales targets and performance was regularly provided, a management roadshow was organised, a weekly newsletter and an employee newspaper were efficiently distributed.

In 2010, as part of the training programme for the employees of the retail segment, the Group continued the Business Academy project, dedicated exclusively to pharmacists and the sales force of the DOZ S.A. Group. There was significant interest in the specialist training courses organised in cooperation with Polish

pharmaceutical universities, during which several hundred pharmacists obtained training. A series of management training workshops was organised at which the key staff of the Polish and Lithuanian companies and the UK company strengthened their mutual relations and familiarised themselves with the professionalism and the strengths of their colleagues.

The annual appraisal system underwent the necessary modifications: it was extended to cover pharmacy managers who for the first time were evaluated by the regional heads. A coaching programme was carried out based on the results of the evaluation.



# INNOVATION AS A SOURCE OF COMPETITIVE ADVANTAGE

## ePrufCARD

- a perfect marketing tool, designed to enhance sales and foster the image and awareness of the pharmaceutical brands,
- a wonderful gift for the loved ones expressing concern for their health,
- a means to promote the pharmacies among local communities, win new customers, establish new communication channels,
- maintain regular contact with customers,
- support CSR projects.

## WEBSITE - WWW.DOZ.PL

- a leading provider of on-line health information,
- the only Polish website via which prescription drugs can be ordered and purchased,
- easy and well-organized access to specialist knowledge.





**+ DOZ.PL**  
dbam o zdrowie



## real pharmacy in virtual reality

### SMS PHARMACY 661 004 000

- an innovative way of ordering pharmaceuticals by SMS,
- a simple, coherent and user-friendly system offering a step-by-step guidance leading to the purchase of drugs,
- facilitated access to pharmaceutical products.

### ACCOUNTS RECEIVABLE MANAGEMENT SYSTEM

- a fully-automated tool used to process cash payments,
- an on-line connection with the accounting system,
- automatic recording of cash payments,
- considerable reduction of financial risk,
- 460 terminals / 4m transactions a month / PLN 121m a month.

# 2010 MILESTONES

## Q1 2010



### **Buy-back of Company shares**

In January, the Management Board of PGF S.A. adopted a share buy-back programme, drawn up and announced on June 24th 2008 in Current Report No. 48/2009 and amended by virtue of Resolution No. 22 of the General Shareholders Meeting, dated June 3rd 2009.

### **2,000th pharmacy joins the Dbam o Zdrowie network**

In February, the 2,000th pharmacy joined the Dbam o Zdrowie partnership programme. Nowadays, Dbam o Zdrowie outlets are the largest network of pharmacies on the Polish market. They offer pharmaceutical care, a broad range of products and services, including a loyalty programme for patients, promote medical knowledge and engage in preventive and educational activities. Every month, the Dbam o Zdrowie pharmacies serve 9 million patients, including 3 million participants of the Dbam o Zdrowie loyalty scheme. The distinctive orange-coloured pharmacies are scattered all over Poland – they are to be found at shopping malls and high-street locations in large cities, small towns and villages. The Dbam o Zdrowie pharmacies follow an active sales enhancement policy, by offering patients the lowest prices for several dozen most popular drugs in each season.

### **Business Support Solution S.A. launches operations**

In February, Business Support Solution, a new PGF Group member, launched its operations. It is an advanced shared service centre which supports financial, accounting, payroll, controlling, and legal services, as well as consolidated financial statements input. BSS derives its competitive

advantage from the comprehensive offering. BSS provides services to PGF S.A. and to more than 160 related companies. BSS' headcount is over 300 employees, three-fourths of whom hold college or university degrees. BSS management staff are professionals, including licensed legal counsels, auditors and persons holding statutory authorisations to provide commercial accounting services. Outsourcing of this type of services helps reduce costs, optimise business processes, eliminate various risks and enhance efficiency. It also provides assurance that the services are delivered by firms with solid track record and expertise.

### **Dbam o Zdrowie pharmacies launch the Senior Programme**

In February, on the World Day of the Sick, the Dbam o Zdrowie pharmacies rolled out the Senior Programme. The Programme is addressed to persons over 75 years of age and is designed to provide them with easier access to necessary medication. Thanks to free personal cards, the Programme's beneficiaries obtain a 25% subsidy for every prescription medicine available at the Dbam o Zdrowie pharmacies, up to the limit of PLN 500.

### **Annex to a credit facility agreement**

An annex to the PLN 130m overdraft credit facility agreement with Bank PKO BP S.A. was signed in March. Under the annex, the PLN 100m overdraft facility and the PLN 30m working capital revolving facility were consolidated, and the term of availability of the financing was extended until January 31st 2012.



## Q2 2010

### Management Board member reappointed for another term

In May, the Supervisory Board reappointed Mr Jacek Dauenhauer to serve for another term of office (starting from June 24th 2010), as Vice-President of the Management Board in charge of Financial Strategy and Development. The other Management Board members had been appointed for a three-year term of office in 2008.

### PGF strengthens its position in Lithuania

In June 2010, an agreement was signed in Amsterdam under which CEPD N.V. exercised an option to purchase 66,811,675 shares in UAB Nacionaline farmacijos grupe ("UAB NFG"). The par value of the purchased shares totalled LTL 66,811,675 (approx. EUR 19,350 thousand) and represented 49.9999% of the share capital and total vote in UAB NFG. The shares were sold by a natural person, a minority investor in UAB NFG ("Lithuanian Investor").

The purchase price totalled 100,878 thousand, including EUR 24,500 thousand (PLN 97,744 thousand) on account of purchase of the block of shares and LTL 2,500 thousand (PLN 3,134 thousand) on account of payment of dividend from the 2009 profit, and was determined in accordance with the terms of the Shareholder Agreement signed in August 2007 between the Parent Entity and the seller, and the annex thereto signed in November 2008 between the CEPD Group and the seller. Subsequent to the transaction, CEPD N.V. has held 100% of the shares in UAB NFG, which currently controls 10 companies operating in the segments of wholesale and retail distribution of pharmaceuticals in Lithuania. As a holding company, UAB NFG holds or operates, or cooperates with, a total of over 420 pharmacies. The transaction was financed using own funds of CEPD N.V. raised

through a share capital increase by way of a new share issue, subscribed for by PGF S.A. This investment was a continuation of activities initiated in July 2007, when PGF registered a subsidiary SPV under the name of UAB NFG, which took over majority stakes in several Lithuanian companies, including the largest Limedika and Gintarine Vaistine. The value of the transaction amounted to EUR 22.5m. It was agreed that after three to five years PGF would have the right to purchase the remaining shares.

### Annual General Shareholders Meeting of PGF S.A. unanimously approves the Company's financial statements for 2009

In June, the Annual General Shareholders Meeting of PGF S.A. was held at the Company's registered office in Łódź, which approved the Directors' Report on the Company's operations in 2009 and the Company's financial statements for 2009, granted discharge to members of the Company's governing bodies in respect of performance of their duties, appointed a new Supervisory Board, decided to allocate the net

profit generated in 2009 to statutory reserve funds, approved a Management Stock Option Plan for 2010 – 2013 and made a decision to continue the share buy-back programme.







## Q3 2010

### Modernisation of the Łódź warehouse

In August, PGF commenced work on expanding its warehouse facility in Łódź.

The project involved the installation of a fully automated Knapp line for order picking and packaging. The Łódź warehouse had only had one semi-automated line of this type in operation. The new system consists of 1,260 order picking channels, enabling each operator to pick up to 1200 orders within an hour, which translates into four- to tenfold efficiency gains compared with traditional order picking methods.



### Execution of an investment loan agreement

In September, PGF executed a PLN-denominated investment loan agreement for an aggregate amount of PLN 100m with PKO BP S.A. The loan was advanced until September 26th 2010 and will be used to refinance the expenditure incurred in connection with PGF S.A.'s increasing the share capital of CEPD N.V., and CEPD N.V.'s purchasing a minority interest in Lithuanian company UAB NFG, a subsidiary of PGF S.A.

### Buy-back of Company shares

In September, the Management Board of PGF S.A., acting on the basis of the authorisation granted in Resolution No. 25 of the General Shareholders Meeting, dated June 23rd 2010, prepared and adopted for implementation a programme of buy-back of the Company's own shares with a view to their retirement and subsequent reduction of the share capital. The programme will remain effective either until May 31st 2013 or until all funds allocated for the buy-back are used up, whichever occurs earlier. For a detailed description of the buy-back programme, see Current Report No. 103/2010.

### DOZ S.A. awarded a distinction for CSR efforts

DOZ S.A., a member of the PGF Group and the operator of Dbam o Zdrowie pharmacies, as well as [www.doz.pl](http://www.doz.pl) (an online pharmacy), received a distinction awarded by *Gazeta Finansowa* in its quarterly report *Corporate Social Responsibility* with respect to the *Senior* and *dla Mamy i Maleństwa* Programmes.

The quarterly reports include distinctions granted to companies and institutions which consistently implement programmes supporting socially sensitive areas. The commended Programmes address the problem of increasingly more difficult access to pharmaceuticals. Their aim is to co-finance the purchase of pharmaceuticals for the social groups in need, as

statistics reveal that almost 4 million Poles do not buy medicines due to financial difficulties. One in three persons does not buy prescription drugs, which means that such person does not begin or continue a treatment recommended by a medical professional. The problem affects mainly the elderly – as much as 40% of senior citizens cannot afford to buy prescription drugs. This leads to delayed or interrupted treatment, a very common cause of serious medical conditions among the elderly.

### A new 60+ Programme launched by the Dbam o Zdrowie pharmacies

In October, a new 60+ Programme was launched by the Dbam o Zdrowie pharmacies. The Programme is targeted at patients over 60 years of age and its main objective is to sell medicines at very attractive prices. As holders of free personal cards, patients are eligible for a special price offer for prescription drugs. The offering covers almost 7 thousand of prescription drugs, which are made available at affordable prices. The card allows its holder to save up to PLN 50 per month (PLN 750 until the end of 2011).

### Retirement of PGF shares

In October, the District Court for Łódź-Śródmieście in Łódź, XX Commercial Division of the National Court Register, registered a reduction in the share capital of PGF S.A. The Company's share capital was reduced by PLN 721,948, to PLN 24,460,878, to reflect the number of shares outstanding following the retirement of 360,974 Company's own bearer shares with a par value of PLN 2 per share. The Company retired its own bearer shares, acquired with a view to their retirement pursuant to Resolution No. 15 of the Company's Annual General Shareholders Meeting, dated June 19th 2008, as amended by Resolution No. 22 of the Company's Annual General Shareholders Meeting, dated June 3rd 2009.





## Q4 2010

### Execution of an annex to the credit facility agreement

In November, the Company executed an annex to the multi-purpose credit facility agreement and an annex to the working capital facility agreement for the total amount of PLN 100m, concluded with Bank Polska Kasa Opieki S.A. Under the annex to the multi-purpose credit facility agreement, the term of the agreement was extended by 21 months, i.e. until June 30th 2012, the loan amount was increased to PLN 89m and the bank guarantee limit was raised to PLN 11m. In addition, the Company received annexes to loan agreements for the total amount of PLN 63m, which extend the availability periods of the individual banking products used to finance subsidiary entities.

### PGF celebrates its 20th anniversary

In December, PGF celebrated its 20th anniversary at the National Opera of Teatr Wielki in Warsaw. As the Company's anniversary coincided with the Chopin Year, a concert entitled "The Best of Chopin" was performed as part of the celebrations by most prominent artists, including Janusz Olejniczak, Symphony Orchestra of the Teatr Wielki – National Opera led by Jacek Kasprzyk, world-famous soprano singers: Olga Pasiecznik and Natalia Pasiecznik, Sebastian Karpień Bułeczka – leader of the Zakopower band and Mateusz Pospieszalski – composer, arranger and music producer. The ceremony, attended by nearly two thousand persons, was MC'd by Jolanta Fajkowska. Among the invited guests were politicians, pharmacists, drug manufacturers, persons representing the media and the art world, as well as the employees of the PGF Group companies. The honorary guest of the ceremony was President Lech Wałęsa.

### PGF named the most socially responsible company in the Łódź region

The Regional Forbes CSR Awards-giving ceremony was held in December during the Forbes Tauron Business Forum. The awards were granted to companies which pay particular attention to compliance with the highest CSR standards. Polska Grupa Farmaceutyczna was among the winners of the award in the province of Łódź. The award was received on behalf of the Company by Jacek Dauenhauer, Vice-President of PGF S.A. in charge of Financial Strategy and Development. The winners were elected based on a survey carried out by the Forbes magazine. The criteria for evaluating the companies included involvement in the support of local communities, the company's charity and sponsorship activities and protection of employee rights.

### PGF becomes a GIRP member

PGF's international recognition has resulted in the Company being accepted as a member of GIRP (Groupement International de la Répartition Pharmaceutique/ The European Association of Pharmaceutical Full-Line Wholesalers), a prestigious association of European pharmaceutical wholesalers. Currently, the organisation comprises 600 companies from 31 countries. To become a GIRP member, a company has to meet stringent quality standards with respect to the services it provides. GIRP membership will enable PGF to exchange experiences with pharmaceutical companies from all over the world and apply the best ideas and solutions at the Company.

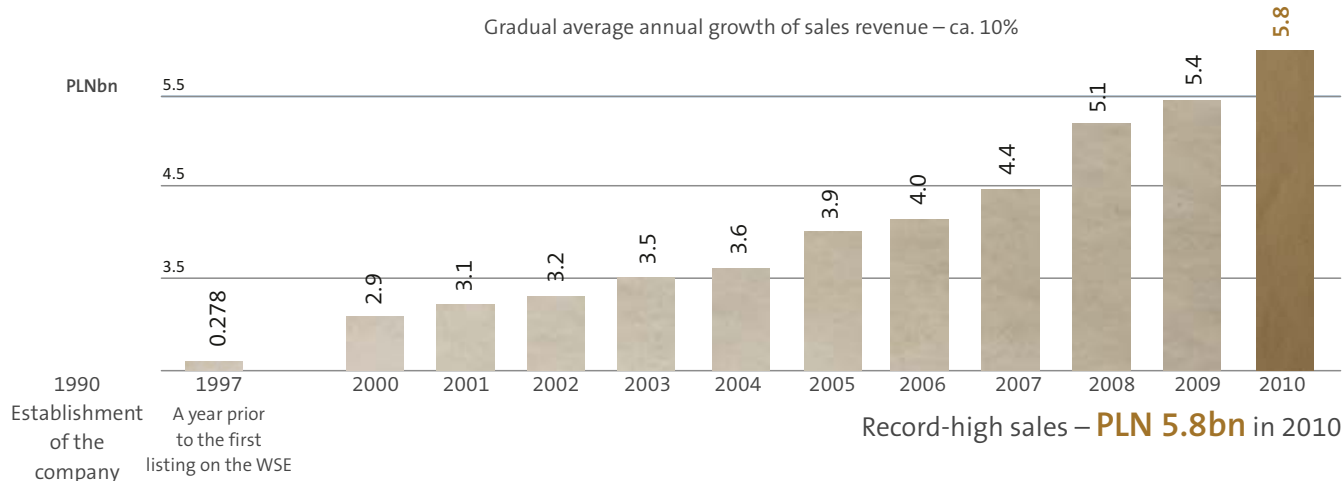
### Introduction of series O1 shares to stock-exchange trading

In December, 18,600 series O1 bearer shares of Polska Grupa Farmaceutyczna S.A. with a par value of PLN 2 per share were introduced to stock-exchange trading. Series O1 shares were acquired by an eligible participant of the management stock option plan launched in 2006.



# FINANCIAL INFORMATION AND ITS ANALYSIS

Sales revenue, PLNbn



## ANALYSIS OF FINANCIAL PERFORMANCE

The Company's financial performance proves that the strategy adopted by PGF is effective. In 2010, PGF posted record-high sales revenue of PLN 5.8bn, a year-on-year increase of 6.8%. PGF solidified its market position across all business segments, particularly in the segment of wholesale to pharmacies and hospitals in Poland, where its sales grew faster compared with the growth of the whole market (7.9% vs. 3.9%).

PGF's share in the Polish pharmaceutical distribution market grew by over 2 p.p. year on year, reaching 20.4% in Q4 2010<sup>(1)</sup>. A geographical analysis of the sales structure shows that the Group is the leader in the wholesale of pharmaceuticals in several regions of Poland, with market shares in excess of 20%.

In the retail segment, the Group outperformed the market as well.

Gross profit margin stood at 13.1%, up by 0.3 p.p. relative to 2009.

*Gross profit margin = gross profit on sales / sales revenue*

<sup>(1)</sup> Source: Q4 2010 Quarterly of IMS Health, 2011.



## Profitability ratios, 2008-2010

	2008	2009	2010
Gross margin	12.1%	12.8%	13.1%
Selling costs and general and administrative expenses ratio	11.0%	11.5%	11.3%
EBITDA margin	2.1%	2.7%	2.4%
EBIT margin	1.6%	2.1%	1.9%
Pre-tax margin	1.1%	1.7%	1.5%
Net margin	0.9%	1.2%	1.2%

gross margin profitability = gross profit on sales / sales revenues

EBITDA profitability = EBITDA / sales revenues

EBIT profitability = operating profit / sales revenues

gross profitability = gross profit / sales revenues

net profitability = net profit / sales revenues

The cost-cutting measures with respect to operating costs continued to yield results and led to reduction in the operating cost ratio. In 2010, selling costs and general and administrative expenses amounted to PLN 656m (compared with PLN 622m in 2009) and the related ratio stood at 11.3%, down by 0.2 p.p. year on year.

*Costs ratio = (selling costs + general and administrative expenses) / sales revenue*

In 2010, PGF recorded consolidated operating profit of PLN 110m, while EBITDA for 2010 amounted to PLN 140m, a PLN 6m decrease

relative to 2009. Excluding one-off items, the year-on-year rise in EBITDA was 21.1% (PLN 134m in 2010 vs. PLN 111m in 2009).

Finance expenses were PLN 27m higher than finance income in 2010, driving pre-tax profit down to PLN 84m.

In 2010, PGF Group posted consolidated net profit attributable to owners of the parent of PLN 71m, which represents a 10.7% rise year on year, while net earnings per ordinary share went up by 13%, to PLN 5.8 per share.

## Net finance expenses in 2008-2010, PLNm

	2008	2009	2010
Finance income	32	27	24
Finance expenses	61	52	51
Net finance expenses	29	25	27





## ASSETS AND FINANCIAL STANDING

### Asset structure

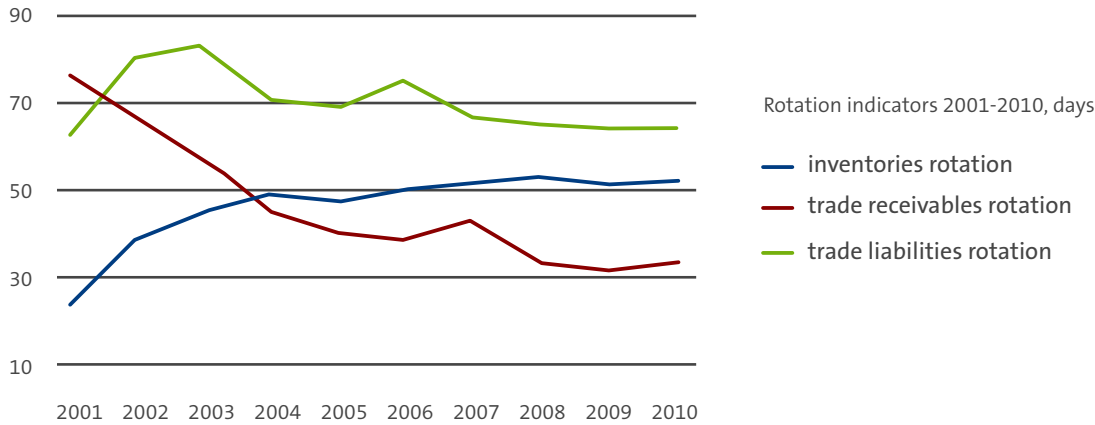
There were no major changes in PGF's asset structure in 2010: current assets continued to prevail over non-current assets. As at December 31st 2010, current assets accounted for 66.1% of total assets (December 31st 2009: 65.3%). Key items of current assets were inventories and trade receivables.

As at December 31st 2010, non-current assets accounted for 33.6% of total assets (December 31st 2009: 34.0%). The key items of non-current assets included goodwill (22.9% of total assets) and property, plant and equipment (7.2% of total assets). Non-current financial assets comprised primarily loans advanced.

### Group assets and sources of financing structure

As at	Jan 1 2009	Dec 31 2009	Dec 31 2010
<b>Non-current assets</b>	34.0%	34.0%	33.6%
<b>Current assets, including:</b>	65.3%	65.3%	66.1%
- inventories	31.7%	29.2%	33.8%
- current receivables	22.9%	27.1%	25.7%
Non-current assets held for sale	0.7%	0.7%	0.3%
<b>TOTAL ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Equity of Parent Entity</b>	15.9%	18.3%	19.4%
<b>Non-current liabilities and other non-current equity and liabilities</b>	27.8%	11.9%	20.7%
<b>Current liabilities and other current equity and liabilities</b>	56.0%	69.3%	59.4%
<b>Non-controlling interests</b>	0.3%	0.5%	0.5%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>





Inventories rotation as at the balance-sheet date was 52 days. Inventories represented 33.8% of PGF's assets and their percentage share in total assets grew by 4.6 pp compared with the balance-sheet date in 2009.

*Inventories rotation = ((inventories as at December 31st 2009 + inventories as at December 31st 2010)/2) / cost of sale of goods and materials \* 365 days*

As at December 31st 2010, the average collection period was 33 days, and was two days longer than in the prior year.

*Trade receivables rotation = ((trade receivables as at December 31st 2009 + trade receivables as at December 31st 2010)/2) / total sales revenue \* 365 days*

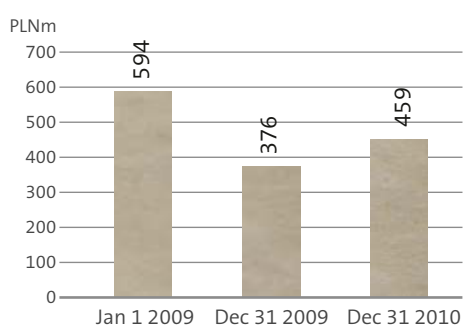
Average collection and payment periods in 2008-2010, days

	2008	2009	2010
Inventories rotation	53	51	52
Trade receivables rotation	33	31	33
Trade liabilities rotation	63	64	64



## Finance liabilities

	As at Jan 1 2009	Share in balance- sheet total	As at Dec 31 2009	Share in balance- sheet total	As at Dec 31 2010	Share in balance- sheet total
<b>Finance liabilities of the PGF Group</b>	PLNm	%	PLNm	%	PLNm	%
Non-current	489	22.9%	250	11.4%	469	20.0%
Current	171	8.0%	257	11.7%	86	3.7%
<b>Total</b>	<b>660</b>	<b>30.9%</b>	<b>507</b>	<b>23.1%</b>	<b>555</b>	<b>23.7%</b>



Net debt as at  
Jan 1 2009, Dec 31 2009, Dec 31 2010

Non-current liabilities comprised mainly financial liabilities, which accounted for 20.0% of the balance-sheet total. Current liabilities comprised mainly trade payables, which represented 44.2% of total equity and liabilities as at December 31st 2010.

As at December 31st 2010, the trade liabilities rotation was 64 days, having remained unchanged relative to the end of the prior year.

*Trade liabilities rotation = ((trade payables as at December 31st 2009 + trade payables as at December 31st 2010)/2) / operating expenses \* 365 days*

Total finance liabilities were up by PLN 48m relative to the end of the previous year.

As at the end of 2010, PGF met the objective of maintaining its net debt below PLN 500m.

### FINANCIAL LIQUIDITY

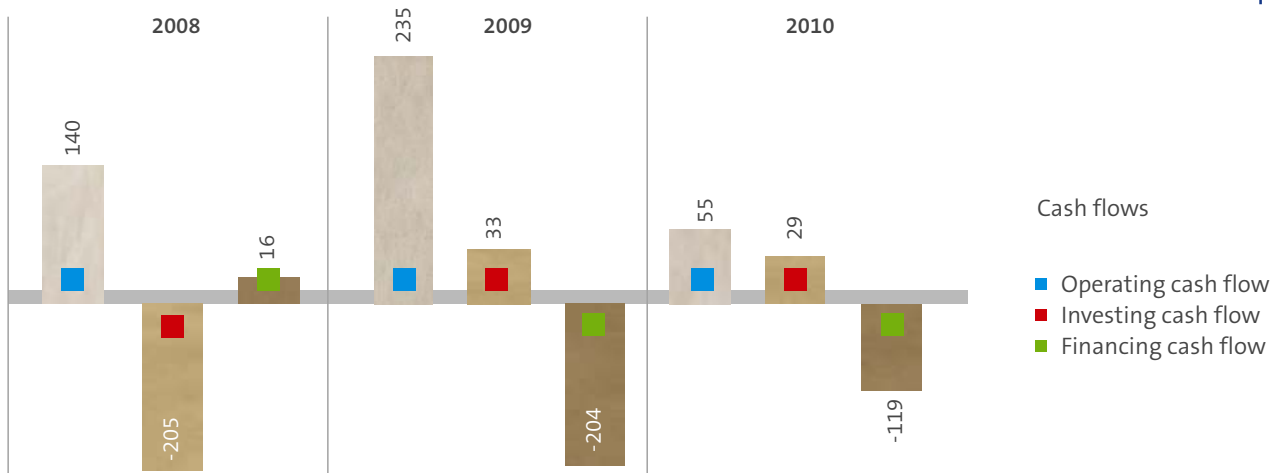
PGF's liquidity ratios are stable and do not materially differ from the levels recorded by the Company's peers which use external sources of financing.

### SOURCES OF FINANCING OF THE GROUP'S ASSETS

As at December 31st 2010, 19.4% of assets were financed with the equity of the parent entity. Liabilities and non-controlling interests accounted for 80.6% of equity and liabilities. Liabilities and other equity and liabilities totalling PLN 1,873m comprised primarily trade payables of PLN 1,035m and financial liabilities of PLN 555m.

### Liquidity ratios

Ratio	Jan 1 2009	Dec 31 2009	Dec 31 2010
Current ratio	1.2	1.0	1.1
Quick ratio	0.6	0.5	0.6



### CASH FLOWS

Net cash provided by operating activities and investing activities amounted to PLN 55m and PLN 29m, respectively, whereas net cash used in financing activities stood at PLN 119m.

As at the end of period, balance of cash was PLN 96m. Net cash flows in 2010 were negative and amounted to PLN -35m.

### SHARE BUYBACK

In 2010, PGF continued to buy back own shares pursuant to the resolution adopted on June 23rd 2010 by the General Shareholders Meeting, which prepared and adopted for implementation a programme of buyback of the Company shares with a view to their retirement and subsequent reduction of the share capital. The programme will continue until May 31st 2013, but in any case no longer than until all funds allocated to the buyback are used up. In 2010, as part of the share buyback programme, PGF bought back a total of 278,921 own shares, representing 2.223% of the Company's share capital and conferring the right to 1.420% of the total vote at its General Shareholders Meeting. Some of the shares bought back in 2010 were retired. As at December 31st 2010, the Company held 49,762 own shares repurchased with a view to their retirement.

From January 1st 2011 to April 15th 2011, as part of the share buyback programme, PGF bought back the total of 79,370 own shares, representing 0.648% of the Company's share capital and conferring the right to 0.411% of the total vote at its General Shareholders Meeting.

### INVESTMENTS AND GROWTH

In 2010, PGF incurred capital expenditure of PLN 186m, including:

- investments in property, plant and equipment of PLN 33m,
- equity investments of PLN 153m.

The most significant investments in property, plant and equipment were related to the construction and upgrading of buildings and structures used by the PGF companies for conducting business activities.

Equity investments comprised mostly expenditure incurred on the exercise of an option to purchase shares from the minority shareholders in PGF Aptekarz Sp. z o.o. (approx. PLN 18m) and in Lithuania (PLN 98m) as well as on the purchase of shares in companies incorporated into PGF in 2010. The investments were financed using internal and external sources of financing.

### PLANNED INVESTMENTS

Over the next twelve months, the PGF intends to spend PLN 35m on property, plant and equipment. The investments include primarily the extension and upgrading of its logistics base and expansion work at one of the subsidiaries (Laboratorium Galenowe).

The majority of the projects in 2011 will be financed with internal sources of funding, and their implementation is not threatened. Some of the cash provided by operating activities will be used towards further reduction of the Company's debt.

As at the date of the report, PGF has no plans to make any major share acquisitions other than under the existing agreements which impose an obligation on the Company to purchase shares in subsidiary entities from minority shareholders. PGF may, however, resolve to make such additional equity investments in the future, given that the pharmaceutical market is changing.

### DEVELOPMENT DIRECTIONS

PGF aims to focus on driving sales through organic growth. To that end, the Company intends to grow its market share in wholesale distribution to pharmacies, while pursuing the adopted sales strategy to achieve adequate margins on each product sold. The Company also intends to focus on improving margins and optimising operating expenses. PGF believes that these efforts will enhance its operating and net margins. Steps will be taken to reduce debt, improve financial liquidity and reduce working capital (in particular by optimising inventory and strictly controlling the collection of receivables).

PGF has reliable and diversified sources of external financing. It plans to maintain its net debt below PLN 500m as at the end of 2011.

# FINANCIAL INFORMATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Dec 31 2010	Dec 31 2009 (restated)
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>	<b>785,346</b>	<b>745,020</b>
Goodwill	536,006	508,959
Intangible assets	32,746	31,562
Property, plant and equipment	167,319	165,150
Investment property	429	-
Investments accounted for with equity method	1,436	1,546
Other non-current financial assets	1,630	4,289
Non-current receivables	24,728	23,193
Deferred tax assets	19,196	8,234
Other non-current assets	1,856	2,087
<b>CURRENT ASSETS</b>	<b>1,545,361</b>	<b>1,430,197</b>
Inventories	790,435	640,350
Other current financial assets	51,130	60,587
Current receivables	601,444	593,659
Trade and other receivables	600,772	585,912
Current tax receivable	672	7,747
Cash and cash equivalents	96,189	130,703
Other current assets	6,163	4,898
<b>NON-CURRENT ASSETS HELD FOR SALE</b>	<b>8,489</b>	<b>16,153</b>
<b>Total assets</b>	<b>2,339,196</b>	<b>2,191,370</b>
<b>EQUITY AND LIABILITIES</b>		
<b>TOTAL EQUITY</b>	<b>466,077</b>	<b>412,280</b>
<b>Equity attributable to owners of the parent</b>	<b>454,835</b>	<b>402,045</b>
Share capital	24,836	25,521
Statutory reserve funds	330,694	333,540
Treasury shares	(2,555)	(7,662)
Other capital reserves	70,001	75,828
Exchange differences on translation of subordinated entities	7,788	14,708
Retained earnings/(deficit)	24,071	(39,890)
- previous years profit/(loss)	(46,592)	(103,705)
- net profit/(loss)	70,663	63,815
<b>Non-controlling interests</b>	<b>11,242</b>	<b>10,235</b>
<b>NON-CURRENT LIABILITIES AND OTHER NON-CURRENT EQUITY AND LIABILITIES</b>	<b>483,809</b>	<b>259,695</b>
<b>Non-current liabilities and provisions</b>	<b>482,106</b>	<b>257,124</b>
Other financial liabilities	469,296	249,794
Liabilities under options to purchase non-controlling interests	1,740	168
Deferred tax liabilities	8,999	5,310
Long-term provisions	2,071	1,852
<b>Other non-current equity and liabilities</b>	<b>1,703</b>	<b>2,571</b>
<b>CURRENT LIABILITIES AND OTHER CURRENT EQUITY AND LIABILITIES</b>	<b>1,389,310</b>	<b>1,519,395</b>
<b>Current liabilities and provisions</b>	<b>1,367,606</b>	<b>1,500,738</b>
Other financial liabilities	85,877	257,194
Liabilities under options to purchase non-controlling interests	1,550	122,148
Short-term provisions	1,843	1,418
Trade and other payables	1,269,817	1,111,533
Current tax payable	8,519	8,445
<b>Other current equity and liabilities</b>	<b>21,704</b>	<b>18,657</b>
<b>Total equity and liabilities</b>	<b>2,339,196</b>	<b>2,191,370</b>



## CONSOLIDATED PROFIT AND LOSS STATEMENT

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
<b>CONTINUING OPERATIONS</b>		
Sales revenue	5,795,383	5,427,373
Cost of sales	(5,034,414)	(4,733,470)
<b>Gross profit/(loss)</b>	<b>760,969</b>	<b>693,903</b>
Selling costs	(501,335)	(474,063)
General and administrative expenses	(154,220)	(147,649)
Net other operating income/(expenses)	4,477	42,659
Share in net profit/(loss) of associates and joint ventures accounted for with equity method	54	(271)
<b>Operating profit (loss)</b>	<b>109,945</b>	<b>114,579</b>
Gain (loss) on investments	1,792	931
Finance income	23,397	27,038
Finance expenses	(50,752)	(52,054)
<b>Profit/(loss) before tax</b>	<b>84,382</b>	<b>90,494</b>
Corporate income tax	(12,711)	(24,620)
<b>Net profit/(loss) from continuing operations</b>	<b>71,671</b>	<b>65,874</b>
<b>DISCONTINUED OPERATIONS</b>		
<b>Net loss on discontinued operations</b>	<b>-</b>	<b>-</b>
<b>Total net profit/(loss)</b>	<b>71,671</b>	<b>65,874</b>
Attributable to:		
Owners of the parent	70,663	63,815
Non-controlling interests	1,008	2,059
<b>Weighted average number of ordinary shares</b>	<b>12,272,922</b>	<b>12,459,598</b>
<b>Diluted weighted average number of ordinary shares</b>	<b>12,509,872</b>	<b>12,645,398</b>
<b>Continuing operations</b>		
Earnings per ordinary share		
- basic	5.76	5.12
- diluted	5.65	5.05
<b>Continuing and discontinued operations</b>		
Earnings per ordinary share		
- basic	5.76	5.12
- diluted	5.65	5.05

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### 2010

	Total equity	Equity attributable to owners of the parent	Share capital	Statutory reserve funds
<b>At beginning of period: Jan 1 2010</b>	<b>414,612</b>	<b>404,377</b>	<b>25,521</b>	<b>333,540</b>
- changes in adopted accounting policies and correction of errors	(2,332)	(2,332)	-	-
<b>Equity at beginning of period, after reconciliation with comparative data</b>	<b>412,280</b>	<b>402,045</b>	<b>25,521</b>	<b>333,540</b>
<b>Net comprehensive income</b>	<b>64,746</b>	<b>63,743</b>	-	-
- net profit/(loss) for period	71,671	70,663	-	-
- net other comprehensive income	(6,925)	(6,920)	-	-
<b>Other increases in equity</b>	<b>54,276</b>	<b>54,120</b>	<b>37</b>	<b>26,290</b>
- share issue	37	37	37	-
- share premium	336	336	-	336
- distribution of profit	65,073	65,073	-	25,954
- change in shareholder structure	(169)	(290)	-	-
- buyback of own shares	(12,675)	(12,675)	-	-
- changes in accounting policies	443	408	-	-
- management stock options	1,250	1,250	-	-
- acquisition / first-time consolidation of a company	(19)	(19)	-	-
<b>Other decreases in equity</b>	<b>65,225</b>	<b>65,073</b>	<b>722</b>	<b>29,136</b>
- dividend	152	-	-	-
- retirement of shares	-	-	722	-
- profit distribution / covered loss	65,073	65,073	-	29,136
<b>At end of period: Dec 31 2010</b>	<b>466,077</b>	<b>454,835</b>	<b>24,836</b>	<b>330,694</b>

### 2009

	Total equity	Equity attributable to owners of the parent	Share capital	Statutory reserve funds
<i>(restated)</i>				
<b>At beginning of period: Jan 1 2009</b>	<b>348,667</b>	<b>341,330</b>	<b>25,521</b>	<b>320,667</b>
- changes in adopted accounting policies and correction of errors	(2,374)	(2,374)	-	-
<b>Equity at beginning of period, after reconciliation with comparative data</b>	<b>346,293</b>	<b>338,956</b>	<b>25,521</b>	<b>320,667</b>
<b>Net comprehensive income</b>	<b>63,062</b>	<b>60,687</b>	-	-
- net profit/ (loss) for period	65,874	63,815	-	-
- net other comprehensive income	(2,812)	(3,128)	-	-
<b>Other increases in equity</b>	<b>24,003</b>	<b>23,476</b>	-	<b>12,873</b>
- distribution of profit	20,675	20,675	-	12,873
- derecognition of losses attributable to minority interests written off through the Group's equity	-	340	-	-
- change in shareholder structure	772	-	-	-
- management stock options	2,461	2,461	-	-
- acquisition/first-time consolidation of a company	95	-	-	-
<b>Other decreases in equity</b>	<b>21,078</b>	<b>21,074</b>	-	-
- profit distribution/covered loss	20,675	20,675	-	-
- disposal/exclusion of a company from consolidation	4	-	-	-
- other decrease	399	399	-	-
<b>At end of period: Dec 31 2009</b>	<b>412,280</b>	<b>402,045</b>	<b>25,521</b>	<b>333,540</b>

Treasury shares	Other capital reserves	Exchange differences on translation of subordinated entities	Retained earnings/ (deficit)	Retained earnings/ (deficit) brought forward	Net profit (loss)	Non-controlling interests
(7,662)	75,828	15,108	(37,958)	(37,958)	-	10,235
-	-	(400)	(1,932)	(1,932)	-	-
(7,662)	75,828	14,708	(39,890)	(39,890)	-	10,235
-	-	(6,920)	70,663	-	70,663	1,003
-	-	-	70,663	-	70,663	1,008
-	-	(6,920)	-	-	-	(5)
(12,675)	11,233	-	29,235	29,235	-	156
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	9,983	-	29,136	29,136	-	-
-	-	-	(290)	(290)	-	121
(12,675)	-	-	-	-	-	-
-	-	-	408	408	-	35
-	1,250	-	-	-	-	-
-	-	-	(19)	(19)	-	-
(17,782)	17,060	-	35,937	35,937	-	152
-	-	-	-	-	-	152
(17,782)	17,060	-	-	-	-	-
-	-	-	35,937	35,937	-	-
(2,555)	70,001	7,788	24,071	(46,592)	70,663	11,242
Treasury shares	Other capital reserves	Exchange differences on translation of subordinated entities	Retained earnings/ (deficit)	Retained earnings/ (deficit) brought forward	Net profit (loss)	Non-controlling interests
(7,662)	65,565	18,278	(81,039)	(81,039)	-	7,337
-	-	(442)	(1,932)	(1,932)	-	-
(7,662)	65,565	17,836	(82,971)	(82,971)	-	7,337
-	-	(3,128)	63,815	-	63,815	2,375
-	-	-	63,815	-	63,815	2,059
-	-	(3,128)	-	-	-	316
-	10,263	-	340	340	-	527
-	7,802	-	-	-	-	-
-	-	-	340	340	-	(340)
-	-	-	-	-	-	772
-	2,461	-	-	-	-	-
-	-	-	-	-	-	95
-	-	-	21,074	21,074	-	4
-	-	-	20,675	20,675	-	-
-	-	-	-	-	-	4
-	-	-	399	399	-	-
(7,662)	75,828	14,708	(39,890)	(103,705)	63,815	10,235

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Dec 31 2010	Dec 31 2009 (restated)
<i>(indirect method)</i>		
<b>A. Cash flows from operating activities</b>		
<b>I. Profit (loss) before tax</b>	<b>84,382</b>	<b>90,494</b>
<b>II. Total adjustments</b>	<b>(28,926)</b>	<b>144,483</b>
1. Share in net (profit) /loss of subordinated entities accounted for with equity method	(54)	271
2. Depreciation and amortisation	30,158	31,646
3. Foreign exchange (gains)/losses	(693)	(776)
4. Interest and profit distributions (dividends)	19,934	25,915
5. (Gain)/loss on disposal of non-current assets	2,456	(31,986)
6. Change in inventories	(146,369)	74,046
7. Change in receivables	(71,444)	(43,432)
8. Change in current liabilities (net of loans and borrowings)	150,528	117,702
9. Income tax paid	(12,866)	(11,538)
10. Other adjustments, net	(576)	(17,365)
<b>III. Net cash provided by/(used in) operating activities (I +/- II)</b>	<b>55,456</b>	<b>234,977</b>
<b>B. Cash flows from investing activities</b>		
<b>I. Cash provided by investing activities</b>	<b>159,574</b>	<b>141,364</b>
1. Sale of intangible assets and property, plant and equipment	30,092	69,255
2. Disposal of subsidiary entities (net of cash disposed of)	61,384	2,445
3. Acquisition of subsidiary entities (net of cash acquired)	685	-
4. Disposal of other financial assets	636	780
5. Dividends and other profit distributions	145	269
6. Repayment of loans advanced	62,599	55,045
7. Interest paid	3,523	13,567
8. Other net cash provided by investing activities	510	3
<b>II. Cash used in investing activities</b>	<b>(131,073)</b>	<b>(108,005)</b>
1. Acquisition of intangible assets and property, plant and equipment	(37,388)	(31,915)
2. Acquisition of subsidiary entities (net of cash acquired)	-	(4,195)
3. Acquisition of other financial assets	(15,883)	(634)
4. Increase in loans advanced	(74,878)	(68,476)
5. Dividends and other distributions from profit paid out to minority shareholders	(152)	(453)
6. Other net cash used in investing activities	(2,772)	(2,332)
<b>III. Net cash provided by/(used in) investing activities (I - II)</b>	<b>28,501</b>	<b>33,359</b>
<b>C. Cash flows from financing activities</b>		
<b>I. Cash provided by financing activities</b>	<b>354,154</b>	<b>391,980</b>
1. Net proceeds from issue of shares, other equity instruments and additional contributions to equity	373	-
2. Increase in loans and borrowings, issue of debt securities	353,781	391,441
3. Other net cash provided by financing activities	-	539
<b>II. Cash used in financing activities</b>	<b>(472,625)</b>	<b>(596,191)</b>
1. Acquisition of treasury shares	(12,675)	-
2. Purchase of shares from non-controlling interests	(127,098)	(22,621)
3. Repayment of loans and borrowings, redemption of debt securities	(298,127)	(530,673)
4. Other financial liabilities	(613)	(854)
5. Interest paid	(34,112)	(42,015)
6. Other net cash used in financing activities	-	(28)
<b>III. Net cash provided by/(used in) financing activities (I - II)</b>	<b>(118,471)</b>	<b>(204,211)</b>
<b>D. Total net cash flow (A.III +/- B.III +/- C.III)</b>	<b>(34,514)</b>	<b>64,125</b>
<b>E. Balance-sheet change in cash, including:</b>	<b>(34,514)</b>	<b>64,125</b>
-change in cash resulting from foreign exchange differences	(692)	(776)
<b>F. Cash at beginning of period</b>	<b>130,703</b>	<b>66,578</b>
<b>G. Cash at end of period (F +/- D)</b>	<b>96,189</b>	<b>130,703</b>



## SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

### GOODWILL

	Dec 31 2010	Dec 31 2009 (restated)
<b>1. Gross goodwill</b>		
a) gross goodwill at beginning of period	509,195	423,985
b) increase, including:	31,201	86,955
- acquisition of subsidiary entities	29,344	77,313
- acquisition of options to purchase shares	1,857	9,642
c) decrease, including:	4,154	1,745
- sale of an organised part of business	-	3
- foreign exchange differences	4,154	1,742
d) gross goodwill at end of period	536,242	509,195
<b>2. Cumulative impairment losses</b>		
a) impairment losses on goodwill at beginning of period	236	236
b) impairment losses on goodwill at end of period	236	236
<b>3. Net goodwill at end of period</b>	<b>536,006</b>	<b>508,959</b>

### INTANGIBLE ASSETS

	Dec 31 2010	Dec 31 2009 (restated)
perpetual usufruct rights to land	2,385	2,437
acquired permits, patents, licences and similar assets, including:	9,574	10,267
- software	4,699	5,468
other intangible assets	20,562	18,821
intangible assets under construction	225	37
<b>Total intangible assets</b>	<b>32,746</b>	<b>31,562</b>

### PROPERTY, PLANT AND EQUIPMENT (BY TYPE)

	Dec 31 2010	Dec 31 2009 (restated)
land	9,831	9,926
buildings and structures	85,117	83,395
plant and equipment	29,411	27,649
vehicles	10,651	10,351
other property, plant and equipment	20,289	22,960
tangible assets under construction	12,020	10,869
<b>Total property, plant and equipment</b>	<b>167,319</b>	<b>165,150</b>

## SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

### NON-CURRENT RECEIVABLES

	Dec 31 2010	Dec 31 2009 (restated)
1. Security deposit	24,728	23,193
<b>Total net non-current receivables</b>	<b>24,728</b>	<b>23,193</b>
a) impairment losses on receivables	-	-
<b>Total gross non-current receivables</b>	<b>24,728</b>	<b>23,193</b>

### CURRENT TRADE AND OTHER RECEIVABLES

	Dec 31 2010	Dec 31 2009 (restated)
1. Trade receivables	565,758	484,993
2. Tax, subsidy, customs duty, social security, health insurance and other receivables (without income tax)	22,465	30,242
3. Receivables under sale of shares	360	58,416
4. Other receivables	12,189	12,261
<b>Total net current receivables</b>	<b>600,772</b>	<b>585,912</b>
a) impairment losses on receivables	97,590	107,887
<b>Total gross current receivables</b>	<b>698,362</b>	<b>693,799</b>

### TRADE RECEIVABLES (MATURITY STRUCTURE AS FROM THE BALANCE-SHEET DATE)

	Dec 31 2010	Dec 31 2009 (restated)
a) up to 1 month	307,823	263,583
b) over 1 to 3 months	91,306	77,569
c) over 3 to 6 months	58,027	59,100
d) over 6 months to 1 year	2,891	977
e) over 1 year	2,629	1,161
f) past due	187,669	173,902
<b>Total gross trade receivables</b>	<b>650,345</b>	<b>576,292</b>

### PAST DUE TRADE RECEIVABLES (BY PERIOD OF DELAY)

	Dec 31 2010	Dec 31 2009 (restated)
a) up to 1 month	71,223	62,719
b) over 1 to 3 months	25,859	18,799
c) over 3 to 6 months	5,126	4,284
d) over 6 months to 1 year	2,416	3,405
e) over 1 year	83,045	84,695
<b>Total gross past due trade receivables</b>	<b>187,669</b>	<b>173,902</b>

## OTHER ASSETS

	Dec 31 2010	Dec 31 2009 (restated)
<b>1. Other non-current assets</b>	<b>1,856</b>	<b>2,087</b>
a) prepayments, including:	629	787
- paid property insurance	5	2
- IT service	7	-
- pre-paid rent	160	223
- lease payments	211	205
- other	246	357
b) other prepayments and accrued income, including:	1,227	1,300
- discount on security deposit	789	805
- other	438	495
<b>2. Other current assets</b>	<b>6,163</b>	<b>4,898</b>
a) prepayments, including:	5,303	4,475
- paid property insurance	1,416	1,258
- subscriptions	27	39
- IT service	769	721
- pre-paid rent	1,106	1,422
- telecommunications services	16	20
- electricity	138	119
- cost related to issue of shares	12	12
- visual identity of pharmacies	349	-
- registration of drugs and pharmaceutical substances	674	660
- other costs paid in advance	796	224
b) other prepayments and accrued income, including:	860	423
- discount on promissory notes	167	63
- discount on security deposit	236	211
- other	457	149

## INVENTORIES

	Dec 31 2010	Dec 31 2009 (restated)
a) materials	2,229	4,072
b) semi-finished products and work in progress	4,396	3,093
c) finished products	924	953
d) goods for resale	782,886	632,232
<b>Total net inventories</b>	<b>790,435</b>	<b>640,350</b>
<b>Impairment losses on:</b>	<b>5,883</b>	<b>6,133</b>
a) materials	142	252
b) goods for resale	5,741	5,881
<b>Total gross inventories</b>	<b>796,318</b>	<b>646,483</b>

## SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

### NON-CURRENT ASSETS HELD FOR SALE (BY TYPE)

	Dec 31 2010	Dec 31 2009 (restated)
<b>Net non-current assets held for sale at beginning of period</b>	<b>16,153</b>	<b>13,591</b>
<b>1. Initial value</b>	-	-
a) gross non-current assets held for sale at beginning of period	16,224	13,591
- land	409	20
- perpetual usufruct rights to land	807	1,503
- buildings and structures	10,181	7,958
- plant and equipment	87	15
- shares	4,740	4,095
b) increase, including:	113	8,130
- land	113	389
- perpetual usufruct rights to land	-	474
- buildings and structures	-	6,423
- plant and equipment	-	87
- shares	-	757
c) decrease, including:	7,848	5,497
- land	393	-
- perpetual usufruct rights to land	77	1,170
- buildings and structures	2,551	4,200
- plant and equipment	87	15
- shares	4,740	112
d) gross non-current assets held for sale at end of period	8,489	16,224
- land	129	409
- perpetual usufruct rights to land	730	807
- buildings and structures	7,630	10,181
- plant and equipment	-	87
- shares	-	4,740
<b>2. Impairment</b>	-	-
a) impairment losses at beginning of period	71	-
- increase	-	71
- decrease	71	-
b) impairment losses at end of period	-	71
<b>3. Net non-current assets held for sale at end of period</b>	<b>8,489</b>	<b>16,153</b>

### OTHER NON-CURRENT FINANCIAL LIABILITIES

	Dec 31 2010	Dec 31 2009 (restated)
a) loans and borrowings	287,892	68,701
b) debt securities in issue - notes/bonds	180,940	180,875
c) other financial liabilities, including:	464	218
- liabilities under finance lease	464	218
<b>Total other non-current financial liabilities</b>	<b>469,296</b>	<b>249,794</b>



## OTHER CURRENT FINANCIAL LIABILITIES

	Dec 31 2010	Dec 31 2009 (restated)
a) loans and borrowings	51,324	212,976
b) debt securities in issue - notes/bonds	31,522	33,642
c) other financial liabilities, including:	3,031	10,576
- liabilities under finance lease	372	273
- liabilities under dividends	14	9
- liabilities under financial derivatives	634	253
- liabilities under acquisition of shares	1,977	10,041
- liabilities under cash pooling	34	-
<b>Total other current financial liabilities</b>	<b>85,877</b>	<b>257,194</b>

## OTHER EQUITY AND LIABILITIES

	Dec 31 2010	Dec 31 2009 (restated)
<b>1. Other non-current equity and liabilities</b>	<b>1,703</b>	<b>2,571</b>
a) non-current deferred income	1,703	2,571
- non-current non-financial assets received free of charge	101	170
- property, plant and equipment financed from State and Company Funds for the Disabled and from the prevention fund	1,598	1,798
- loyalty programmes	-	600
- other	4	3
b) non-current accrued expenses	-	-
<b>2. Other current equity and liabilities</b>	<b>21,704</b>	<b>18,657</b>
a) current accrued expenses relating to provisions for:	19,564	15,386
- cost of audit of financial statements	624	543
- unused holidays	10,055	9,380
- bonuses and retirement severance pays	6,317	5,261
- costs of services provided but not invoiced	32	20
- gifts under loyalty programmes	2,380	144
- other costs	156	38
b) current deferred income	2,140	3,271
- property, plant and equipment financed from State and Company Funds for the Disabled	202	194
- prepaid interest on loans	353	198
- discount on promissory notes	480	293
- prepayments for services and real property	15	2,427
- non-current non-financial assets received free of charge	67	67
- loyalty programmes	896	-
- other	127	92

## SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

### SALES REVENUE

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
1) goods for resale	5,587,659	5,284,258
2) materials	789	848
3) products	2,805	2,455
4) services	204,130	139,812
<b>Total net sales revenue</b>	<b>5,795,383</b>	<b>5,427,373</b>

### COST OF GOODS FOR RESALE AND MATERIALS SOLD

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
a) cost of goods for resale sold	4,977,616	4,675,182
b) cost of materials sold	834	748
<b>Total cost of goods for resale and materials sold</b>	<b>4,978,450</b>	<b>4,675,930</b>

### COSTS BY TYPE

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
a) depreciation and amortisation	30,142	31,646
b) materials and energy used	35,443	34,254
c) contracted services	203,518	187,432
d) taxes and charges	11,409	11,536
e) staff costs	372,065	355,943
f) other costs by type, including:	56,312	58,562
- business trips	986	1,097
- marketing costs	40,594	43,032
- costs of advertising and entertainment	9,913	7,615
- property insurance	2,359	2,695
- other costs	2,460	4,123
<b>Total costs by type</b>	<b>708,889</b>	<b>679,373</b>
Change in inventories, products, accruals and deferrals	2,259	(58)
Cost of products for own needs (negative value)	371	(63)
Selling costs (negative value)	(501,335)	(474,063)
General and administrative expenses (negative value)	(154,220)	(147,649)
<b>Cost of products sold</b>	<b>55,964</b>	<b>57,540</b>

### PERSONNEL COSTS

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
a) salaries and wages	311,258	297,955
b) social security contributions	52,820	51,813
c) other employee benefits	9,617	5,897
<b>Total personnel costs</b>	<b>373,695</b>	<b>355,665</b>

## OTHER OPERATING INCOME (EXPENSES)

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
<b>OTHER OPERATING INCOME (EXPENSES)</b>		
a) gain on disposal of non-current non-financial assets	6,357	35,738
b) subsidies	5,159	979
c) released provisions	233	647
- for future and other liabilities	233	647
d) other, including:	8,312	18,964
- donations received	3	306
- reimbursed cost of bank guarantees	199	233
- reversed impairment losses on trade receivables and court expenses (payment)	4,248	4,756
- reversed impairment losses on property, plant and equipment	7	192
- reimbursed court fees and cost of enforcement proceedings	143	127
- compensations under insurance policies	1,032	1,206
- accrued/deferred income written off	133	602
- costs refunded from the Company Fund for the Disabled and by the District Labour Office	155	153
- liabilities written off	185	93
- gain on sale of shares	-	5,366
- other	2,207	5,930
<b>Total other operating income</b>	<b>20,061</b>	<b>56,328</b>
a) loss on disposal of non-current non-financial assets	-	-
b) revaluation of assets	6,485	5,992
- property, plant and equipment	82	73
- receivables	6,219	5,897
- intangible assets	184	22
c) created provisions	154	1,060
- for future liabilities	154	1,060
d) other, including:	8,945	6,617
- donations granted	1,321	572
- compensations paid	748	598
- cost of damage removal	602	607
- cost of bank guarantees	483	327
- receivables cancelled and written off	1,721	1,394
- court fees and cost of enforcement proceedings	558	423
- membership fees	224	213
- other	3,288	2,483
<b>Total other operating expenses</b>	<b>15,584</b>	<b>13,669</b>
<b>Net other operating income (expenses)</b>	<b>4,477</b>	<b>42,659</b>

## SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

### FINANCE INCOME

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
1. Interest:	17,650	19,766
a) on loans advanced	4,257	6,402
b) on discount of promissory notes	2,702	1,946
c) on receivables and other interest	10,691	11,418
2. Other finance income	4,123	3,994
a) reversed impairment losses on interest on receivables	1,173	1,221
b) reversed impairment losses on purchased receivables	2,156	2,410
c) other	794	363
3. Revaluation of financial assets	1,624	3,278
<b>Total finance income</b>	<b>23,397</b>	<b>27,038</b>

### FINANCE EXPENSES

	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009 (restated)
1. Interest accrued on:	39,323	38,867
a) loans	20,711	19,592
b) notes/bonds	11,179	14,627
c) liabilities	501	1,063
d) finance lease	107	26
e) other	6,825	3,559
2. Revaluation of financial assets	463	1,071
a) loans advanced	355	867
b) interest on loans advanced	74	136
c) impairment of shares	-	68
d) receivables under finance lease	34	-
3. Other finance expenses	10,966	12,116
a) impairment losses on interest on receivables	1,922	2,894
b) impairment losses on receivables	30	213
c) balance-sheet valuation of financial derivatives	384	876
d) bank fees and commissions	3,127	672
e) loss on sale of receivables	533	947
f) share capital increase and share issue costs	177	29
g) provision for finance expenses	192	-
h) net foreign exchange losses	720	279
i) discount on obligations under options to purchase shares	3,093	6,022
j) other	788	184
<b>Total finance expenses</b>	<b>50,752</b>	<b>52,054</b>

Full text of consolidated financial statement of PGF S.A. Group is enclosed on the CD attached to this Annual Report.



We care for your health. For twenty years now.

Polska Grupa Farmaceutyczna



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