

Annual Report
2011

Innovation
with respect for tradition

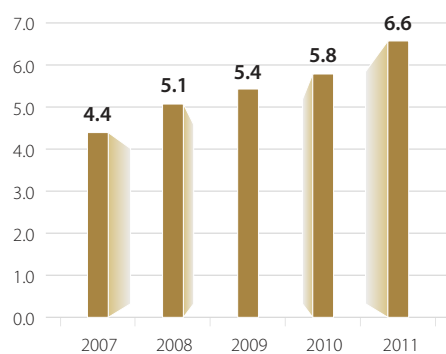
Pelion 
HEALTHCARE GROUP



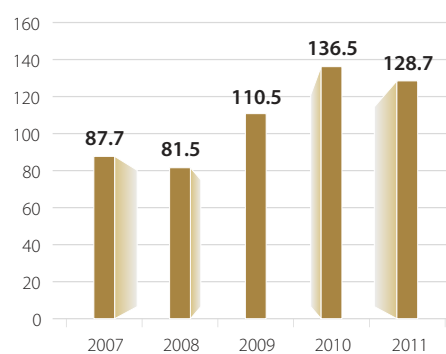
Financial highlights of the Pelion Group for 2007-2011

		2007	2008	2009	2010	2011	change 2011/2010
PROFIT AND LOSS STATEMENT							
Sales revenue	PLNm	4,410.5	5,095.0	5,427.4	5,799.4	6,569.9	13.3%
Gross profit on sales	PLNm	463.7	618.1	693.9	754.4	797.6	5.7%
EBITDA	PLNm	113.7	108.8	146.2	142.9	128.7	-9.9%
Pre-tax profit	PLNm	90.0	54.8	90.5	84.4	65.5	-22.4%
Net profit attributable to owners of the Parent	PLNm	74.4	44.6	63.8	70.7	80.2	13.4%

Sales revenue (PLNbn)



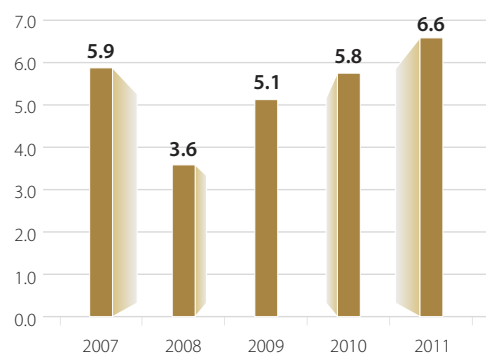
EBITDA* (PLNm)



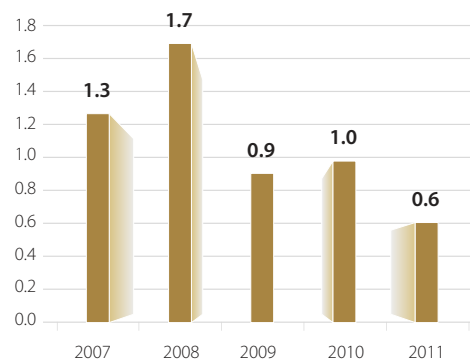
*(excluding one-off events)

		2007	2008	2009	2010	2011	change 2011/2010
BALANCE SHEET							
Balance-sheet total	PLNm	2,011.7	2,149.3	2,191.4	2,339.2	2,474.5	5.8%
Non-current assets	PLNm	619.4	737.0	745.0	803.9	919.8	14.4%
Current assets	PLNm	1,392.4	1,398.7	1,430.2	1,526.8	1,540.1	0.9%
Equity	PLNm	406.6	348.7	412.3	466.1	540.3	15.9%
Current and non-current liabilities	PLNm	1,605.1	1,800.6	1,779.1	1,873.1	1,934.2	3.3%
FINANCIAL RATIOS							
Earnings per share	PLN	5.9	3.6	5.1	5.8	6.6	13.8%
Return on assets (ROA)	%	3.7	2.1	2.9	3.0	3.2	-
Return on equity (ROE)	%	26.0	13.1	15.5	15.2	14.9	-
Net debt/EBITDA	r.	4.6	5.5	2.6	3.2	2.6	-
Net debt/equity	r.	1.3	1.7	0.9	1.0	0.6	-

Earnings per share (PLN)



Net debt/equity



Innovation
with respect for tradition

Pelion Healthcare Group

is not only four business lines and other operations but, first of all, strong organization, in which creativity and courage dominate, intuition rules, and pursuing perfection is the driving force. Our company is distinguished by innovation with respect for tradition as well as stability and reliability.

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Governing bodies

*The only certain thing in the 21st century business
is a constant change
and setting of new directions.*



Jacek Sz wajkowski

President of the Management Board



Zbigniew Molenda

Vice-President of the
Management Board – Distribution

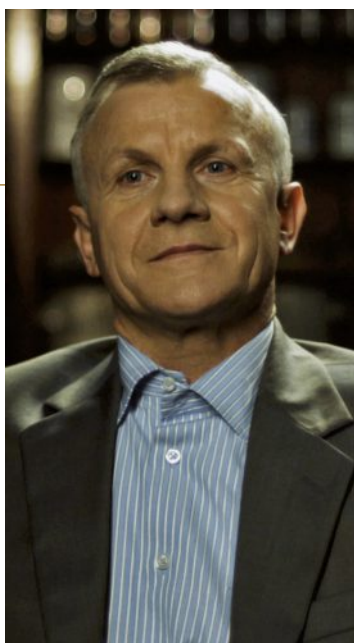
Founders

Management Board



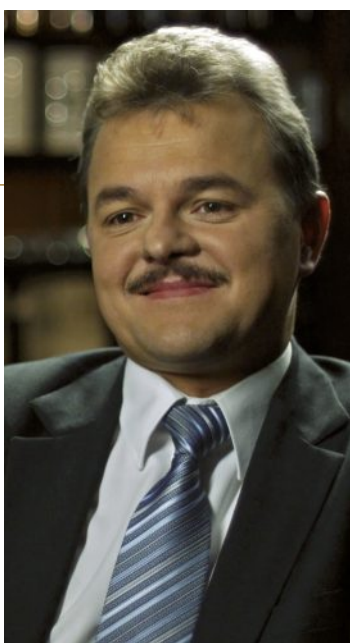
Anna Biendara

Vice-President of the Management Board – Finance



Ignacy Przystalski

Vice-President of the Management Board – Sales



Jacek Dauenhauer

Vice-President of the Management Board – Financial Strategy and Owner's Supervision



Sylwia Pyškiewicz

Vice-President of the Management Board – Development and New Technologies

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

President's letter to Shareholders

Ladies and Gentlemen,
Dear shareholders of Pelion S.A.

I am extremely honored to present you the annual report of Pelion S.A. for the year 2011. It was a year full of unexpected events that had a significant impact on the global economy. Political revolutions and the crisis of the Eurozone showed the degree of variability of the reality in which we have been operating. However, these adversities, unfavourable and exceptionally difficult external conditions did not affect negatively stable foundations on which Pelion Healthcare Group is based.

In 2011, Pelion Healthcare Group achieved more than 13-percentage dynamics of sales revenue. It is one of the best results in the last years, proving strengthening market position of the company in all areas of the conducted operations. We executed also the assumed – two-digit – dynamics of consolidated net profit, partially thanks to a positive tax effect related with the project of reorganization of operations of the Group. However, a very good result on sales did not translate into increase in EBITDA – we have to classify this fact to financial failures in the year 2011. This state of affairs was influenced to the greatest extent by still far from the planned results obtained by the retail line in Poland. We are in the course of activities aiming at fast achievement of assumptions, in particular execution of financial results of the retail branch of our business, adopted in the long-term plan. The Lithuanian companies operating in the same segment may classify last year to very successful, and the results achieved by them were fully compliant with the previous expectations. It is also significant that the companies belonging to the Group managed to decrease debt significantly, which, as a result, improved debt ratios of Pelion Healthcare Group.

Solid foundations. New opening

A breakthrough event in 2011 was the completion of the long-term process of reorganization of the Group structures. Its last step was separation and contribution of operational activities with regard to wholesale to pharmacies to subsidiary PGF-Hurt, as well as change in the name of listed company from Polska Grupa Farmaceutyczna S.A. (Polish Pharmaceutical Group Joint-Stock Company) to Pelion S.A. The reorganization made it possible for us to determine clearly the areas of competences and responsibilities of four business lines. Three of them, i.e. hospital supplies, retail and services for

manufacturers, were executed earlier by subsidiaries: PGF Urtica, CEPD N.V. and Pharmedlink, respectively.

In 2011, we successfully continued the process of restructuring of the retail line, which allowed us centralization of business functions in this area, standardization of processes and individualized approach to every customer. This line, managed by CEPD N.V., to which one of the largest European pharmacy chains belong, was expanded in 2011 by further 208 own entities. The chain of Dbam o Zdrowie (I Care for My Health) Pharmacies, operating in Poland, was expanded by 133 entities. On the other hand, a Lithuanian chain of pharmacies CEPD N.V., operating under two brands, Gintarine Vaistine (Amber Pharmacy) and Norfos Vaistine (Norfos Pharmacy), was expanded by 75 establishments, 65 of which are pharmacies belonging to Litfarma Vaistine chain, acquired in July 2011. This dynamic development of the chain enabled CEPD N.V. to strengthen the leading position on the Polish market and obtain the first position in Lithuania.

Currently, each of the companies in the Group independently builds its value and brand. On the other hand, they use shared synergies resulting from the presence in all segments of the pharmaceutical distribution industry. The new organization of the Group enables optimization of management processes and, which is extremely important, brings savings.

The processes of arrangement of the Group's structures coincided with preparation of the company to introduction of new regulations of the "reimbursement" Act. We dedicated the last six months of 2011 to strengthen our position in each segment of the conducted operations, putting, at the same time, a particular emphasis on increase in recognition and building of identity of Dbam o Zdrowie brand. The above and a number of other activities enabled us to start the year 2012 with confidence.

Innovation as the source of success

From the beginning of our existence, we value innovative solutions, we participate actively in modernization of the pharmaceutical sector, and we initiate and implement innovative projects. I believe that the understanding of needs and expectations of the contemporary customer is the key to success. The best confirmation of the above is trust of our patients. At the end of 2011, more than one million customers joined the program 60+, conducted by Dbam o Zdrowie Pharmacies.

Since years, we have been the leader on the Polish e-pharmacy market. The website www.doz.pl, belonging to the Group, is visited monthly by approximately 3 million patients. The website offers them access to a wide information base relating to health protection, as well as the possibility of ordering over the Internet large assortment of drugs and products available in pharmacies. This possibility covers also prescription drugs. It is a unique solution in Poland. Today the customers of the website www.doz.pl place more than 100 thousand orders a month.

Also the website portal www.pharmbook.pl, directed to the professionals from the pharmaceutical industry, launched last year, has been enjoying constant popularity. Its users have a possibility of entering into business contacts, participating in trainings raising qualifications, or exchanging views on the Internet forum.

New technologies are an inseparable element of our everyday work – necessary to cope with growing expectations of our customers and business partners. Thanks to them, today, we have one of the most advanced, fully automated warehouse facilities in our industry, as well as we use up-to-date technologies of sales and communication with customers.

Social commitment

The executed development strategy of Pelion Healthcare Group as well as the fact of conducting operations in the health protection area impose upon us particular responsibility and obligations. We make every effort so that business goals set by us would contribute, to the maximum extent, to creation of shared value for our customers, shareholders and employees. We are responsible for more than 7 thousand employees of Pelion Healthcare Group, who co-create our organization and contribute to its sustainable development. We ensure them decent terms of employment as well as the possibility of improving competences.

We actively execute social commitment projects, thanks to which we can respond better to the needs and expectations from the environment. We are looking for the area of social responsibility of Pelion Healthcare Group in the guaranteed availability of drugs on the market. The Foundation *Dbam o Zdrowie*, operating for more than five years, the task of which is to eliminate barriers in the access to drugs, also serves these goals.

Proud of our roots, we also support and popularize the tradition of the Polish pharmacy, performing patronage over Pharmacy Museums, caring for historical pharmacies and publishing monographs about them.

In 2011, with a view of promoting health and active lifestyle, we initiated "*Łódź Marathon Dbam o Zdrowie*". I hope that the project will become a fixed item in the calendar of sports events in the country.

Plans for the year 2012

We run business in one of the most developed and stable sectors of the global market economy.

The factors which determine dynamic growth in the pharmaceutical industry are, on one hand, huge expenses on search for new molecules and progresses in research on diseases, on the other hand, however, constant growth in the number of people falling ill with diseases of civilization, ageing society and increase in its wealth, which translate into larger expenses on health protection.

Increasing costs of medical treatment and increasingly significant share of public funds in financing healthcare make governments of European countries undertake actions aiming to obtain savings in this respect, especially in the face of difficulties in balancing the budgets during the financial crisis.

In Poland, among others, the amended "reimbursement" act, valid from January 1st 2012, serves this purpose.

The new regulations have completely transformed the Polish pharmaceutical sector. They are of so fundamental nature that may substantially change the market position held presently by particular entities, affecting, at the same time, future financial results achieved by them. Our company, alike other market participants, will have to learn how to function in a new, difficult legal reality.

Despite related uncertainty, we will strive to improve the achieved financial results, strengthen the position in all segments of conducted operations and build sustainable value on the capital markets.

Yours faithfully



Jacek Sz wajcowski

President of the Management Board

Pelion share quotations

Share quotations in 2011

Place of quotations	the Warsaw Stock Exchange
Market/segment	Basic/50 PLUS
On the stock exchange from	02.1998
Quotation system	continuous
Trade sector	wholesale trade
Abbreviated name	PEL
Bloomberg	PEL PW
Reuters	MDIC.WA
Indexes' participant	sWIG80, WIG
Number of share at the end of 2011	12,248,098

On February 17th 1998, Pelion S.A. (then under the name Medicines S.A.), as the first company from the pharmaceutical distribution industry, had its debut on the Warsaw Stock Exchange. Presently, the Company shares are quoted on the main market of the Stock Exchange, in the system of continuous quotations, and are included in WIG and sWIG80 indexes.

In the first half of the year, share rate oscillated above PLN 50, with average month variability of approx. 10% and average daily volume of 6.6 thousand shares. The largest drops of share prices were recorded in August and September, when almost all main indexes in the world decreased at two-digit pace, first of all, owing to reduction in rating of the USA by S&P and uncertainty of investors with regard to solving problems of the Eurozone.

The Company was covered by this declining trend, reaching, at the end of September, the price of PLN 30.8 per share. In October, stock exchange moods improved and world and Polish indexes gained.

The decision to change the name from Polska Grupa Farmaceutyczna S.A. to Pelion S.A. and presentation of the business concept of a holding were assessed positively by the market and share price recorded 4.7% growth as compared to September. In November and December, indexes lost again, and along them shares in Pelion, obtaining the price of PLN 29.2 at the end of December. In the first months of 2012, the trend reversed and the Company share price gained more than the WIG and sWIG80 indexes, recording dozen-or-so growth month-on-month.

Capitalization and P/E ratio in the years 2007-2011

Year	Capitalization in thousand PLN	P/E ratio
2007	1,121,895	15.1
2008	344,123	7.7
2009	469,030	7.3
2010	666,348	9.4
2011	357,644	4.4

Dividend

On May 26th 2011, the Annual General Meeting of the Company decided to allocate a part of net profit generated in the financial year 2010 in the way that the amount being the product of the number of shares in the Company's share capital as well as the amount of PLN 1.23, representing the amount of dividend due per one Company share would be allocated for payment of dividend for Company shareholders. The record date, according to which the list of shareholders entitled to dividend for the financial year 2010 was determined, was June 22nd 2011, while the dividend payout date was fixed on July 4th 2011. As of the day of adoption of a resolution, 12,290,839 shares were entitled to dividend.

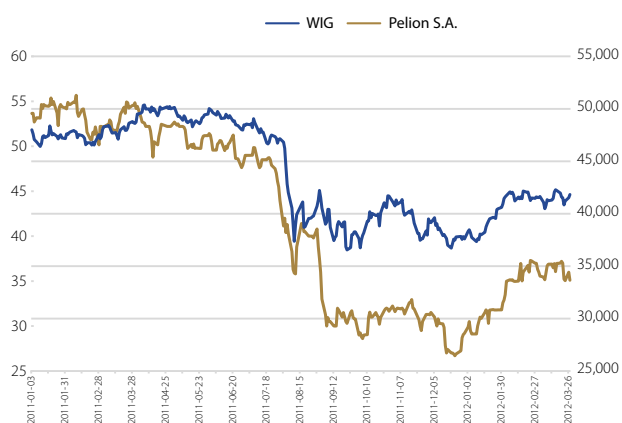
In March 2012, the Management Board of Pelion S.A. decided to recommend to the General Meeting of Shareholders payout of the dividend in the amount of PLN 1.50 per share, when making decision on distribution of profit generated in 2011.

Shareholder structure

Pelion has stable institutional structure of shareholders, which covers, among others, the founders of the Company, majority of Open Pension Funds and Investment Funds. A high level of free float and the program of share buyback were reflected in an increase in trade of Pelion shares on the Warsaw Stock Exchange in 2011.

The structure of votes at the General Meeting differs from the structure of shareholders, due to the fact that a part of shares are preference ones with voting right in the ratio 5 to 1.

Pelion S.A. share quotations in 2011



Source: stooq.com

Basic data concerning shares in the years 2010-2011

	2010	2011	change 2011/2010
Average weighted number of shares 000 pcs.	12,273	12,144	-1.1%
Average trade volume per session 000 pcs.	6.1	7.7	26.2%
Average closing share price	PLN 44.7	44.1	-1.3%
The highest closing share price	PLN 56.0	57.1	1.9%
The lowest closing share price	PLN 35.7	26.7	-25.2%

In the third quarter of 2011, the Company received notices of a change in the number of shares in Pelion in the packages of two shareholders: as a result of a sale transaction of a part of Company shares, the number of shares held by Artio Global Management LLC decreased, therefore its share in votes at the General Meeting of Shareholders fell down below 5%. On the other hand, Legg Mason Zarządzanie Aktywami (Asset Management) S.A. (total 5 funds) executed a share purchase transaction, as a result of which it has more than 5% votes at the General Meeting of Shareholders.

The Company conducts an open dialogue with capital market participants, obeying the principles of transparency.

Each year, representatives of the Management Board participate in at least four cyclic meetings with journalists and stock exchange analysts and investors, in order to present the current operations and development directions of Pelion Healthcare Group.

An important means of communication is the website www.pelion.eu, which includes, among others, characteristics of business lines, information on authorities of the Company and shares quoted on the Warsaw Stock Exchange, current reports, financial statements, annual reports and presentations explaining the Group's results.

In order to conduct operations aimed to manage contacts with investors and shareholders in the best possible manner, for many years, Pelion has broadcast the General Meeting of Shareholders online.

Shareholders holding more than 5% of votes at the General Meeting of Shareholders:

Jacek Sz wajcowski – founder of the Company, performing, from the beginning, the function of President of the Management Board of Pelion S.A.,

Zbigniew Molenda – founder of the Company, performing, from the beginning, the function of Vice President of the Management Board of Pelion S.A.,

Legg Mason (total 5 funds managed by Legg Mason TFI S.A.), a part of Legg Mason Group, one of the largest investment companies in the world,

Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK – leading Polish pension fund,

ING OFE – a leading Polish pension fund,

KIPF Sp. z o.o. – company whose shareholders are Jacek Sz wajcowski and Zbigniew Molenda (less than 5% votes at the General Meeting of Shareholders).





Profile of Pelion

Strategy and mission

The strategy of Pelion is to build a strong position on the European healthcare market, strictly related to pharmaceuticals, and sustainable value on the capital market.

To achieve the above goal, the Company is constantly looking for modern solutions optimizing its operations. Considering the needs of the changing pharmaceuticals distribution market, in 2011 organizational structures were reconstructed. The result of the reorganization is a formal separation of the wholesale business line, next to three lines arranged earlier in this way: hospital supplies, retail and services for manufacturers.

A new structure clearly emphasizes that Pelion Healthcare Group operates on a widely understood healthcare market and is present in all pharmaceutical distribution channels.

The goal of the introduced changes was to obtain transparency of activities as well as clearly determine the areas of competences and responsibilities of particular business lines. Operating activities of each line are carried out by a separate company, assuming own responsibility for building of its value and brand. It enables to optimize management processes, guarantees transparency of settlements as well as provides cost savings.

Diverse and changing expectations of the pharmaceutical market participants create opportunities of development and further growth for all entities of the Group.

Pelion S.A., acting as a holding company, supports actions of subsidiaries, among others, through: determination of a long-term policy of their development, coordination of cooperation between particular segments, standardization of central procedures, allocation of resources and control of effectiveness of their use, organization of subsidiaries operations financing and support for functioning of companies from the Group (including managing IT hardware, consulting with regard to investments, support in HR and PR areas).

Regarding the introduced legal changes on the pharmaceutical market in Poland, Pelion, thanks to:

- strong organization,
- internal arrangement,
- market structure,
- competences of employees,
- experience,
- ability to search for new solutions,
- openness to innovations

is able to adjust rapidly to changes on the pharmaceutical market.

Pelion Healthcare Group strives to improve its platform connecting all participants of the healthcare market. Achievement of this goal is possible as a result of dynamic development of four main business lines. Their established position in distribution services chain constitutes value of Pelion.

In longer time horizon, the prospects for the pharmaceutical sector in Poland are optimistic, as for several years, regardless of changes taking place in the economy, stable development of the industry and factors of continuous growth have been visible.

The market development will be fostered by – one of the lowest in Europe – level of sale of drugs per capita, which, in combination with a trend to balance differences in the income of inhabitants, will involve leveling of expenses on drugs. According to the data of IMS Health, expenses on drugs on the retail market per capita in Poland are ca. 2 times smaller than average expenses in Europe. In Poland, one of the lowest price of drugs in Europe is recorded, i.e. 55%⁽¹⁾ below the average. Both generic and innovative drugs are one of the cheapest in Europe, 40%⁽¹⁾ and 54%⁽¹⁾ below the average, respectively.

Additionally, Poland has the greatest, among other European countries, nearly 66%⁽¹⁾ share per value of generic drugs in the market and low level of availability of innovative drugs. It means that the Polish pharmaceutical market has a high growth potential, determined by increase in expenses on research and increasing product innovation.

Other factors fostering growth in the sector include: progressing ageing of the Polish society, development of diseases of civilization and chronic diseases as well as increase in health awareness of Poles.

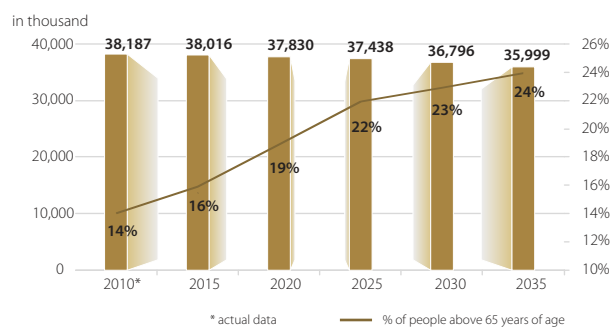
In the coming years, Pelion intends to focus on three core areas:

- further development on markets on which it has been already conducting operations covering wholesale hospital supplies, retail and services for manufacturers,
- international expansion into the selected markets of Central and Eastern Europe, in the scope of development of retail chains,
- building the value and brand of companies responsible for particular business lines, as well as other companies.

⁽¹⁾ Source: IMS Health

Ageing process of society

Forecasted population of Poland until 2035 in thousand



Source: Central Statistical Office (GUS), Demographic Yearbook 2010 and 2011

stability
tradition
innovation

Organizational structure



WHOLESALE



PGF

PHARMA
POINT

HOSPITAL SUPPLIES

PGF URTICA

RETAIL

CEPD N.V.

Corporation of European
Pharmaceutical Distributors

DOZ.PL
dbam o zdrowie

GINTARINĖ
VAISTINĖ

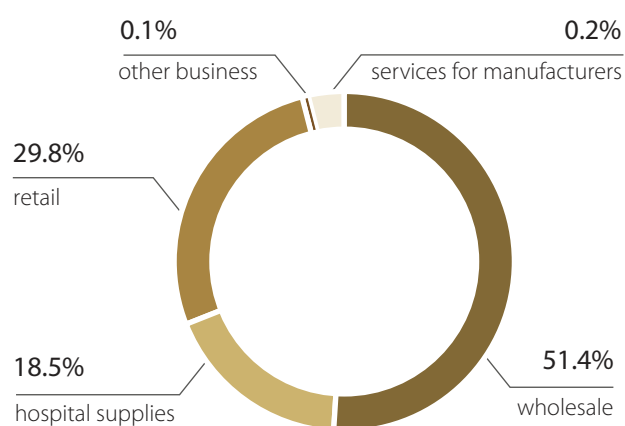
VAISTINĖ

SERVICES FOR MANUFACTURERS

pharmalink



Structure of consolidated sales revenue in 2011



**OTHER
BUSINESS**

**SUPPORTING
COMPANIES**



**OTHER
COMPANIES**

Eubioco S.A.
Pharmena S.A.
Daruma Sp. z o.o.
AB7 Sp. z o.o.
AB8 Sp. z o.o.



Market environment

PHARMACEUTICAL LAW IN POLAND

Trade in drugs, as particularly important from the point of view of health and social safety, is subject to multilateral regulations. In Poland, issues related to trade in drugs are regulated by the Act- Pharmaceutical Law, along with executive regulations issued on its basis.

The Act contains, among others, issues related to:

- process of marketing authorization, manufacturing and import of medicinal products,
- advertising of medicinal products, trade in medicinal products, issuing permits for running pharmaceutical wholesale stores and pharmacies, including regulations restricting the number of pharmacies being the property of one owner,
- control by the State Pharmaceutical Inspection of compliance with the regulations of the Act.

On January 1st 2012, the Act- Pharmaceutical Law was amended, among others, in the way that a provision was introduced, banning advertising of pharmacies and pharmacy outlets and their operations.

The issues concerning drug reimbursement are regulated under separate acts.

Ca. 50%⁽¹⁾ of value of drugs sold in the pharmacy are products covered by the reimbursement system. For this reason, an important factor influencing results of companies running pharmaceutical wholesale stores and pharmacies is official determination by the Minister of Health of the list of drugs and medical products that are covered by financing from public funds, and determination of their prices and level of financing by the state.

Until 2011, the principles of reimbursement of medicinal products were regulated by the provisions of the Act of August 27th 2004 on health care services financed from public funds. The principles of fixing official prices for some medicinal products were regulated by the provisions of the Act of July 5th 2001 on prices.

Executive regulations indicated each time for which drugs distributed in pharmacies the patient would pay lump price indicated in the regulation, and which drugs he or she would receive against payment of a certain part of the price (provided that the legal regulations determined the maximum prices of drugs that could be determined by the wholesale store and pharmacy). With regard to other drugs, which were not included on these lists, market participants could freely determine their selling prices.

January 1st 2012 is the effective date of the Act of 12 May 2011 on drug reimbursement, special-purpose foodstuffs and medical products, which is the greatest and the most complex change in the law concerning the market of drugs, prepared by the legislator over the past 10 years, and covering all the pharmaceutical market participants, i.e. manufacturers of drugs, pharmaceutical wholesale stores, hospitals, pharmacies and doctors.

The primary goal of the new act is increase in availability of drugs for patients through reduction in their prices.

The Act introduces a number of changes, including, among others, fixed official selling prices and fixed wholesale and retail margins for reimbursed drugs, a ban on using any incentives while selling reimbursed drugs, transition from the system of regulations announcing new reimbursement lists to a system of announcements, significantly simpler from the formal point of view, new manner of calculating limits defining the level of co-payment by patients in particular limit groups, linking of cost and time of therapy with the level of reimbursement, as well as more than ten types of sanctions and penalties for breach of provisions of the Act.

The scale of operations and the long-term experience of Pelion enable prompt reaction aimed to minimize or eliminate negative effects of changes taking place on the pharmaceutical market, and adjustment of operations of Pelion to the new legal regulations.

⁽¹⁾ Source: IMS Health

PHARMACEUTICAL MARKET IN POLAND

The pharmaceutical market size can be estimated based on three different levels:

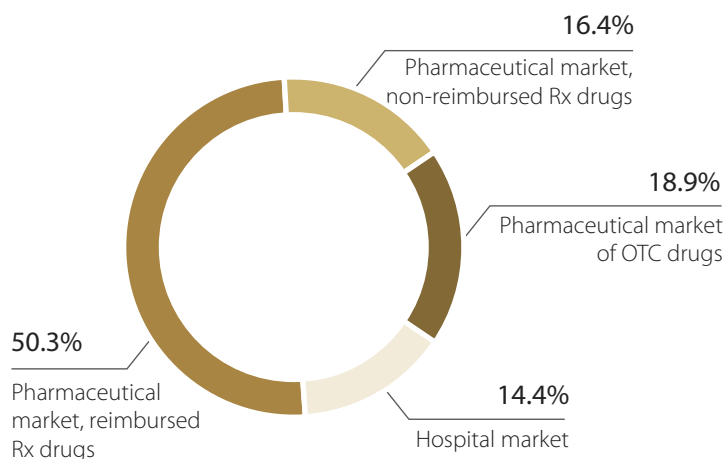
- sale from the manufacturer to the wholesaler – market value at net manufacturer prices,
- sale from the warehouse to pharmacies and hospitals – market value at net wholesale prices,
- sale from pharmacies to patients – market value at retail prices.

In 2011, value of sale from pharmacies to patients increased by 5%⁽²⁾, and value of sale from the wholesalers to pharmacies and hospitals increased by 5.1%⁽¹⁾

In 2011, the wholesale pharmaceutical and hospital market achieved total value of PLN 26.5 bn⁽¹⁾ at net wholesale prices, and average annual growth between 2003 and 2011 amounted to 6.6%.

⁽²⁾ Source: PharmaExpert

Pharmaceutical market structure in Poland calculated according to manufacturer's net prices⁽¹⁾



⁽¹⁾ Source: IMS Health



With regard to the value structure of the pharmaceutical market, 2/3 are prescription drugs available in open pharmacies, the remaining 1/3 of the pharmaceutical market consists of pharmaceutical market of OTC drugs, with 18.9% share, and the hospital market, having 14.4% of market share⁽¹⁾.

In respect of value of sold drugs, Poland holds 6th place in Europe, and, at the same time, remains ahead of all countries of Central and Eastern Europe⁽¹⁾. However, after recalculation of expenses on drugs per capita, the ratio per capita in Poland is one of the lowest in Europe, with the value, as compared, for instance, with countries such as Slovakia and Hungary, lower by 47%⁽¹⁾ and 60%⁽¹⁾ respectively.

On the Polish market several hundred manufacturers operate, including major pharmaceutical concerns of global range.

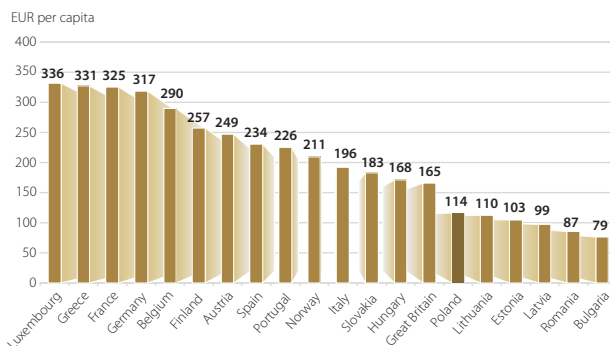
Poland has one of the lowest European average price of drugs but for recent few years, this price has been increased systematically. Its change has been influenced not only by change in the levels of prices of pharmaceuticals themselves (which, at that time, have been decreasing), but also changes in the structure of consumption.

For instance, launching of new, more expensive drugs, change in more expensive therapy or increased share of oncologic drugs in the structure of drugs used in hospitals result in increase in average price of drugs on the market.

Over the last few years, Poland developed dynamically both directions of parallel trade in drugs, i.e. export and import, increasing its share in sales on these markets in Europe. Additionally, changes in the "reimbursement" Act may result in more than two-time increase in the value of parallel export from Poland within the next few years.

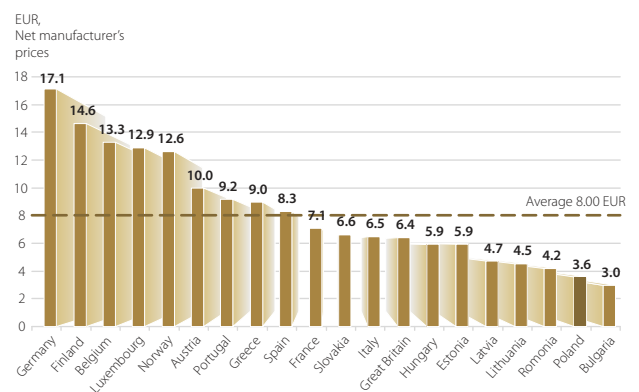
⁽¹⁾ Source: IMS Health

Market value per capita in EUR



Source: IMS Health

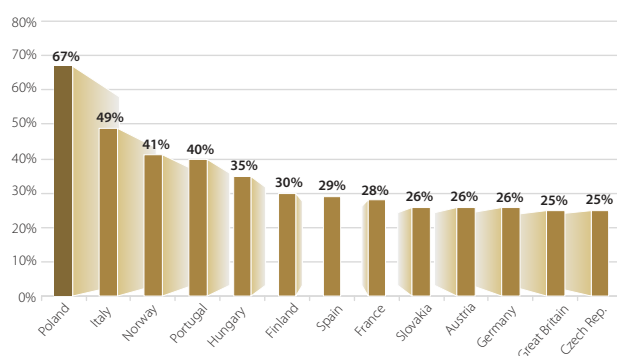
Average price of generic and innovative drugs [EUR], expressed in net manufacturer's prices



Source: IMS Health

Poland has the highest, as much as 67%, level of the patient's co-payment in expenses on drugs as compared to other European countries.

Share of co-payment by the patients for drugs in the selected countries



Source: IMS Health

PHARMACEUTICAL MARKET AND PHARMACEUTICAL LAW IN LITHUANIA

The Lithuanian pharmaceutical market is small as compared to the markets of other states of CEE countries, due to small population. In 2011, market value calculated in wholesale prices amounted to LTL 1.4 bn (ca. PLN 1.8 bn).

The binding legal act, which provides the basis for operations in the field of trade in medicinal products, is the Act- Pharmaceutical Law of the Republic of Lithuania, which sets out, among others, principles of approval of licenses for conducting pharmaceutical and wholesale activities, principles of supply to the market of pharmaceutical products, including principles of their promotion and marketing, licensing of pharmaceutical activities, manufacturing as well as import of pharmaceutical products, including manufacturing and import licenses, principles of operations of pharmacies, principles of informing on medical product and its advertising, principles of supervision and control by the state authorities as well as the principles concerning prices of reimbursed medicines, setting limits of wholesale and retail prices of medical products.



Status

- Sterowanie
- Wyrzutnik
- WCS
- Urządzenia transportowe

Zadania

Zadanie	Przebieg	Status	Typ
24096241	07:13:55		
24096531	07:13:52	Zakończony	
24096421	07:13:58	Zakończony	
24096271	07:13:52	Zakończony	
24096471	07:13:55	Zakończony	
24096111	07:13:52	Zakończony	
24096281	07:13:52	Zakończony	
24096471	07:13:52	Zakończony	
24096281	07:13:52	Zakończony	

Status kanału: Kanały: 1233

MENU GŁÓWNE



PRZEGLĄD





Wholesale

Wholesale

We have been setting development directions for over 20 years. In 2011, the process of restructuring of the Group was completed, as a result of which the business line wholesale was formally separated, appointing at the same time, company Polska Grupa Farmaceutyczna HURT Sp. z o.o., to conduct wholesale to pharmacies, and company Pharmapoint Sp. z o.o., involved in pre-wholesale.



Market of wholesale to pharmacies

In 2011, the wholesale market of drugs reported an increasing trends, reaching another record level of PLN 23.3 bn of sale to pharmacies, calculated at net wholesale prices. The year-on-year dynamics was higher than in the previous year and amounted to 4.8% (2010 to 2009 growth: 3.9%).

The market dynamics in 2011 was very diverse: the best results were recorded in the first quarter with more than 10% year-on-year increase and market value more than PLN 6.3 bn, and, after a weaker dynamics in the second and third quarter, in the fourth quarter, dynamics amounted to nearly 7% and sales reached PLN 5.9 bn.



Customers

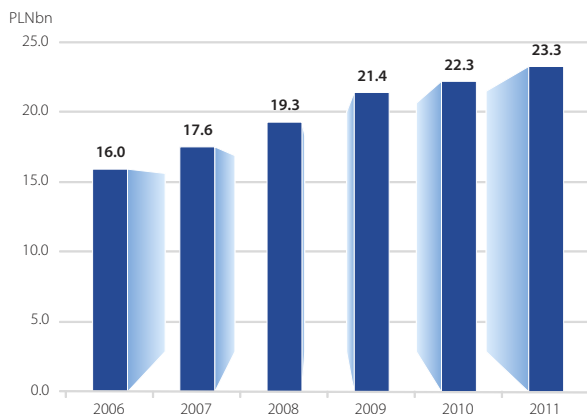
Organizational structure of PGF-HURT Sp. z o.o., via thirteen regional companies and in cooperation with 750 suppliers, provides access to a full assortment of pharmaceuticals for approximately 9,000 pharmacies across the whole country.

Organizational structure

As of October 1st 2011, PGF S.A. (presently Pelion S.A.) contributed to PGF-HURT Sp. z o.o. an organized part of the business conducted, including organizationally and functionally separated group of intangible and tangible components, meant for conduct of operations in the field of wholesale of medicinal products, medical materials and pharmaceutical products. One of assets being component of an organized part of the company was also trademark – brand PGF, under which PGF-Hurt Sp. z o.o. keeps on conducting operations in the field of wholesale to pharmacies.

PGF-Hurt Sp. z o.o., as a decision-making center, is responsible for contacts with manufacturers and supplies to local companies. On the other hand, direct distribution of pharmaceuticals to pharmacies is executed by 13 subsidiaries. Their placement across the whole country enables to maintain strong position on all local markets.

Value of the wholesale market to pharmacies in Poland in PLNbn



Source: IMS Health

Strategy and mission

The mission of PGF-Hurt is to follow the continuously changing market, with observance of standards of top-level cooperation with manufacturers and customers. It is possible owing to the adoption of the appropriate strategy, consisting in:

- centralization of supply processes, permitting to obtain favorable commercial terms allowing, as a result, presentation of an attractive offer to pharmacies,
- centralization of sales strategy through shared purchasing, pricing, sales, debt collection and quality policies,
- centralization of marketing strategy through availability of such tools as:
 - marketing programs,
 - Internet pharmacy,
 - virtual purchasing group,
 - ePRUF card.

Achievements in 2011

Record sales revenue PLN 4.3 bn

Year-on-year sales growth 11%

Centralization of wholesale supply

experience
complex service
development

Strong market position

PGF-Hurt Sp. z o.o. is one of the biggest national pharmaceutical distributors, with 19.7%⁽¹⁾ market share at the end of December 2011. It provides services 24 hours a day, selling more than 1.3 million of drug packages a day. The fixed offer covers ca. 25 thousand assortment items. These are predominantly drugs from all pharmacological groups, the sale of which constitutes a dominant part of revenues (more than 90%). Additionally, PGF-Hurt Sp. z o.o. offers medical and rehabilitation equipment, herbs, dietary supplements and cosmetics. This large package of available products is a source of competitive advantage. The Company guarantees full availability of all drugs registered in the country.

Thanks to flexibility of regional companies, thousands of pharmacies rest assured that, when necessary, they will be supplied with each preparation in proper time. Pharmacies receive deliveries even three times a day, so that their customers could ensure patients fast access to each preparation. Thanks to customer service standardization, the process of execution of the order submitted by the pharmacy – from order acceptance, through its collection in local warehouse, to delivery to the pharmacy – does not take longer than 2 hours.

⁽¹⁾ Source: IMS Health



Business model

The goal of PGF-Hurt Sp. z o.o. is to increase control over the obtained margin, especially in the case of change in the structure of purchased drugs and changing legal regulations. For this reason, in 2011, an innovative scheme of sale of products to pharmacies – GRA, whose name originates from division of the product offer into the Groups of Rebates and Assortments, introduced in 2008, was continued.

From January 1st 2012, after the effective date of the regulations of the Act 12 May 2011 on drug reimbursement, special-purpose foodstuffs and medical products, the GRA system ceased apply to reimbursed prescription medicines for which the margin is fixed and strictly determined in the Act.

Thanks to the understanding of the needs of particular groups of business partners and flexible adjustment to the evolving conditions on the distribution market, PGF-Hurt Sp. z o.o. developed a wide range of services supporting sale. Also sales models were created, aiming at adjustment of sales policy to individual requirements of the pharmacy. The sales policy conducted in this way is the effect of care for interests of all the participants of trade in pharmaceuticals and a response to emerging needs of rationalization of processes in the sector.

Innovative solutions

PGF-Hurt Sp. z o.o. consistently promotes and develops solutions based on Internet technology. For this reason, it has adjusted its transaction systems so as to be able, in any moment, to serve each electronic order from the pharmacies with all systems available on the market. Electronic orders represent more than 50% of all orders transferred to wholesale warehouses. PGF-Hurt Sp. z o.o. uses, to a wide extent eFamtargi, eMedicines and Pharmbook platforms, as modern tools fostering increase in work efficiency in the pharmacy.

20latpgf.pl

In 2011, PGF-Hurt Sp. z o.o. completed a special jubilee program, prepared on the occasion of the 20 anniversary of the company's existence. On a specially created website www.20latpgf.pl, the pharmacists collected points and exchanged them into attractive gifts from the prize folder.

A thematic quiz awarded with points and a wide variety of promotional packages prepared by manufacturers were additional attractions. The program enjoyed high popularity among pharmacists. More than 5,100 pharmacies and more than 7,800 pharmacists registered in it. During 6 months of duration of the program, the company generated nearly PLN 200m of additional sales.

The popularity of the jubilee program inspired its creators to launch the website Pharmbook.pl.

Pharmbook.pl

Adjusting its actions to the most advanced trends present on the Internet, PGF-HURT Sp. z o.o. launched in 2011 an interactive website for professionals from the pharmaceutical industry - www.pharmbook.pl. It is directed to pharmacists, manufacturers and doctors who, after logging in, may obtain access to, among others, forum, chats with experts, purchasing groups, news and market information, free trainings for educational points and up-to-date sales offers for pharmacies.

Functioning of the website enables to associate the pharmaceutical industry in one place, maintain regular contact with the users, conduct marketing surveys and get feedback from the market. The website has gained a high recognition – every day it is visited by more than 1,000 users. The supporting promotion of Pharmprofit in 2011 involved participation of more than 5,700 pharmacies and more than 8,500 pharmacists.



eFarmtargi.pl

PGF-Hurt Sp. z o.o. is a precursor of the website www.eFarmtargi.pl, via which the online Pharmaceutical Fairs are organized for pharmacies as well as up-to-date promotions are presented. In order to meet the needs of pharmacies, the website www.eFarmtargi.pl enables access to the base of the greatest on the pharmaceutical market special offers, prepared by PGF-Hurt Sp. z o.o. and manufacturers for pharmacists. Thanks to Internet, the website enables submission of an order at any time and in any place. In 2011, the number of users of the website exceeded 5,000.

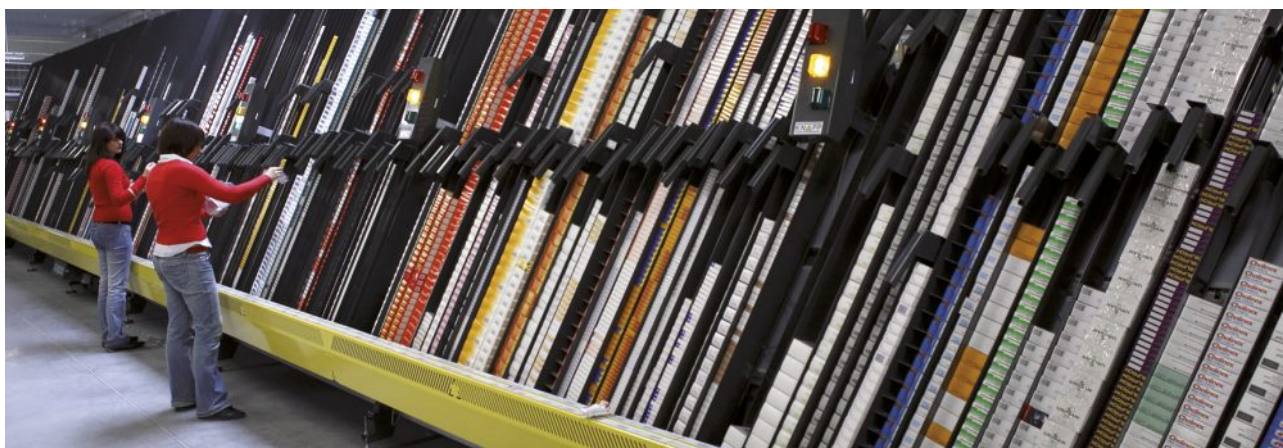
eMedicines.pl

Reliability, punctuality and quality of deliveries in distribution are strengths of the Internet wholesale store www.eMedicines.pl, developed by PGF-Hurt Sp. z o.o. and enjoying growing interest among pharmacists, with the offer including more than 12,000 preparations of the highest turnover. Since the service has been simplified and a high level of service has been maintained, this offer is one of the cheapest on the market. In addition, advantages of this distribution model are: fixed terms of cooperation, without obliging under trade contract, possibility of unassisted determination of the rhythm of orders and deliveries, access to individual orders 24h/day, direct access to current promotions of manufacturers, selection of the most attractive prices on the wholesale distribution market and the assistance of experienced consultants. In 2011, approximately 2,500 pharmacies made purchases in the Internet wholesale store.

Logistics

Today, PGF-Hurt Sp. z o.o. is one of the largest suppliers of drugs in Poland. In 2011, in the central warehouse in Łódź a modern sorting line Vanderlande was installed, the efficiency of which is ca. 3.5 thousand packages per hour. This system can support sorting of products of any size. Then, each day, 12 vehicles transport more than 400 pallets from the central warehouse to regional warehouses, where employees scan deliveries, accept products and make them available for sale to customers. Then, delivery trucks depart from local warehouses to pharmacies more than 1,500 times a day, executing almost 20,000 orders. The area of approximately 70,000 m² houses the whole available assortment of pharmaceutical products in Poland. Thanks to appropriate localization of 13 warehouses, within a few hours, regardless of distance, drugs are delivered to each place in Poland.

Reduction in logistic costs is one of priorities of PGF-Hurt Sp. z o.o. All possible processes, starting from the use of storage area, through automated shipment picking, to frequency of supplies to pharmacies undergo continuous optimization. Over the recent few years, thanks to transport rationalization, distribution costs have been reduced significantly. The lines of conveyors and automatic machines for picking products of the highest turnover, functioning in several warehouses, have contributed to improvement in efficiency ratios, reduced the risk of errors and significantly accelerated execution of orders to pharmacies.



In order to guarantee reliability and credibility of activities, PGF-Hurt Sp. z o.o. has implemented the quality assurance system. It is consistent with the guidelines of the Good Distribution Practice and supported centrally by the Pharmaceutical Quality and Supervision Department in Pelion S.A. The uniform system includes, among others, supervision over documentation and records, quality audits, trainings as well as receiving, warehousing, issuing and transport of products.

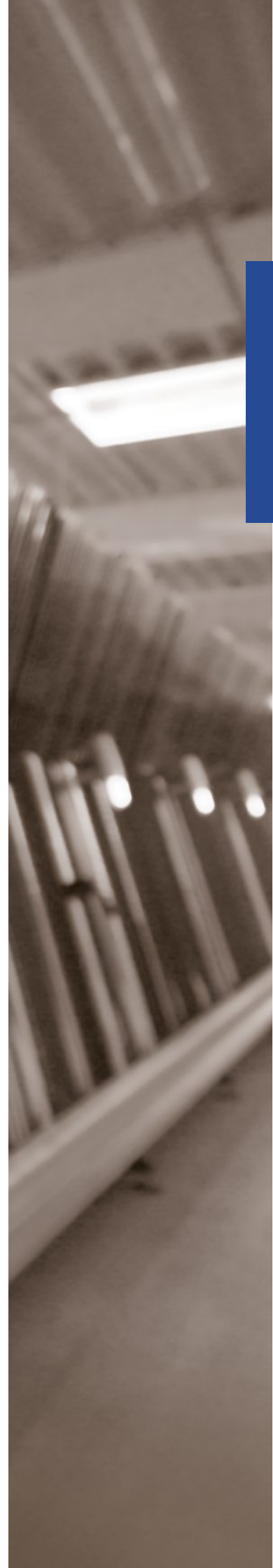
We support our partners

The goal of PGF-Hurt Sp. z o.o. is simplification and modernization of mutual relations on the line manufacturer - warehouse- pharmacy- patient, to reduce operating expenses and maximize common profit. The value of such model increases along with improvement in return of each pharmacy, which is the basis for economic strength of this system. Each day, PGF-Hurt Sp. z o.o. works on solutions that enable development of business partners.

Apart from supplies of drugs, PGF-Hurt Sp. z o.o. guarantees additional services to the customers and supports the pharmacies at each level of management. The offer includes trainings on pharmacy, economy and marketing, assistance in equipping a pharmacy, marketing programs, organization of national and regional pharmaceutical fairs, and multi-level support for pharmacies.

On the other hand, under cooperation with suppliers, PGF-Hurt Sp. z o.o. offers a number of marketing tools aiming at sales support. The tools are adjusted individually according to the needs of partners, and, these are, among others:

- promotional and fair offers for eFarmtargi.pl,
- stationary fairs,
- marketing campaigns,
- support for Call Center and Customer Advisors,
- Internet warehouse eMedicines.pl,
- folder promotions,
- distribution of leaflets and electronic mailing,
- conferences and trainings.





Customers

With regard to pre-wholesale, Pharmapoint Sp. z o.o. serves nearly 100 pharmaceutical wholesale stores in Poland. Each day, the company executes a few dozen orders from the offer, which includes only products with the best sales terms.

Areas of operations

Pharmapoint Sp. z o.o. was founded by Pelion Healthcare Group in October 2011, as a part of the business line wholesale.

The company is responsible for execution of sale to other pharmaceutical wholesale stores.

Cooperation and openness

Pharmapoint Sp. z o.o. strives to provide their business partners, both recipients and manufacturers with the best and the most advanced solutions. New forms of cooperation, expanding the package of marketing services, exclusive distribution offer adapted for the needs of the market are just some of solutions for the future proposed by the company.

Innovative approach to business

In response to the needs of manufacturers, Pharmapoint Sp. z o.o. has introduced to its offer also additional items. The possibility of a complete execution of product distribution to pharmaceutical wholesale stores nationwide through the company with strong distribution-logistic facilities has become the source of competitive advantage of Pharmapoint Sp. z o.o. and enabled to assume the role of exclusive distributor for several manufacturers. Additionally, the company has introduced to its offer a package of services from the scope of pharmaceutical marketing for manufacturers.

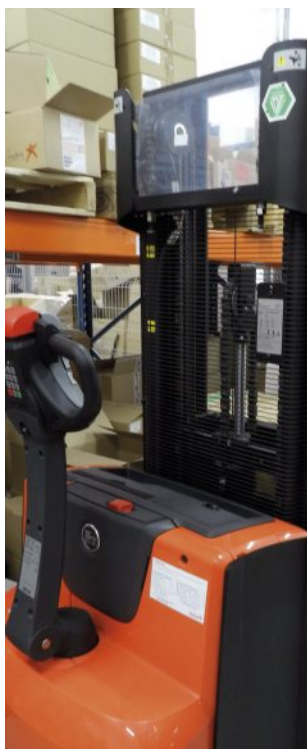
Pharmapoint Sp. z o.o., following the changing market demands, plans to expand constantly its sales and marketing offer and raise standards of distribution and logistic services.



Logistics and distribution

The execution of basic operations of Pharmapoint Sp. z o.o. – service of pharmaceutical wholesale stores – is possible as a result of constantly expanded and modernized warehouse. Presently, warehouse premises enable to handle all pre-wholesale transactions. First few months of functioning of the warehouse made it possible to develop mechanisms of accepting and issuing even up to 200 pallets a week.

With regard to logistics and distribution, Pharmapoint Sp. z o.o. cooperates also with other companies of Pelion Healthcare Group – Pharmalink Sp. z o.o. and PGF-Hurt Sp. z o.o., which enables cost optimization and ensures the best terms.



innowacyjność
doświadczenie
rozwój





Hospital supplies

Hospital supplies

Today, PGF Urtica combines knowledge and experience with an innovative approach to business.

PGF URTICA

Market of wholesale to hospitals

The year 2011 was another year of growth in value of the hospital market. Dynamics was higher than in the previous year and amounted to 6.3% (2010 to 2009 dynamics amounted to 4.5%), and the market value reached over PLN 3.1 bn.

Organizational structure

PGF Urtica Sp. z o.o. is present on the Polish market from 1991 and belongs to ten largest pharmaceutical wholesalers in Poland, remaining at the same time, the leader in drug distribution for hospital health services for many years. Every day, in five branches (in Wrocław, Łódź, Katowice, Poznań and Lublin) approximately thousand sales transactions are executed, and from the central warehouse in Łódź more than 5,500 items are sent to hospitals.

Strategy and mission

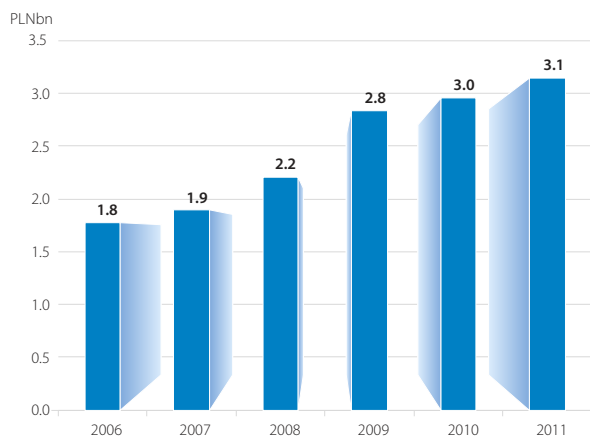
The maintenance of the position on the hospital market and constant improvement in quality of the services provided are goals of PGF Urtica. The success of the company is a result of a consistent execution of the strategy assuming the maximum use of internal potential of the company, optimization of main business processes and development of new areas of operations.

Customers

Apart from hospital health service institutions (public and private), recipients of PGF Urtica include also healthcare units (ZOZ and NZOZ), consulting rooms and veterinary clinics. The Company executes also deliveries of drugs under central ministerial contracts.



Value of market of wholesale to hospitals in Poland in PLNbn



Source: IMS Health

Strong market position

High share of the hospital line in the market in 2011 is an effect of continuation of the adopted strategy and focus on areas of core operations. 20 years of experience, ability of fast response to market changes and the scale of conducted operations are the factors that enable to strengthen competitive advantage of the company. PGF Urtica cooperates with more than 160 reliable suppliers, thanks to which it has a broad and competitive drug offer in terms of price. A strong logistic facilities and financial services dedicated to hospitals are additional strengths, which enable to build a stable market position.

Achievements in 2011

Record sales revenue PLN 1.3 bn

Year-on-year sales growth 21%

Quantity of submitted tender bids: 2,385

Ratio of tenders won by PGF Urtica Sp. z o.o.: 56%

experience
innovation
responsibility

Business model

In 2011, PGF Urtica continued the developed business model, assuming optimization of tender and sales procedures, with simultaneous reduction in operating expenses. The Company maintained a strong market position, e.g., as a result of the scale of conducted operations, which enables to offer to hospitals the greatest on the market assortment of drugs at competitive prices.

In 2011, the company increased the value of won tender procedures by almost 16% and delivered drugs to ca. 80% of Polish hospitals.

The maintenance of high effectiveness of business activities was possible, e.g., thanks to the application of an innovative program of assessment of risk of sale to hospitals, therefore the company efficiently manages sales and responses to changes in financial condition of health service institutions.

Modern logistics facilities enable to maintain the highest distribution standards, consistent with the requirements of the Pharmaceutical Law.

We support our partners

Training and publishing activities are the main areas through which PGF Urtica Sp. z o.o. executes the concept of building relations and supporting its business partners, based on the transfer of professional knowledge.

The magazine issued by the company "Farmakoeconomika szpitalna" ("Hospital Pharmacoeconomics") is created with participation of scientific centers and societies as well as pharmacists themselves.

Logistics

High quality and safety of the services provided are priority of PGF Urtica. The company delivers medicinal products to each place in Poland within 24 hours, and in "cito" mode within 6 hours.

Innovative solutions

The factors forming added value of PGF Urtica include, above all, innovative approach to process management and investments in modern IT tools. The actions of the Business Support Division enabled optimization of business processes crucial for the company, increasing therefore effectiveness of work of particular teams.



Sources of competitive advantage:

- 20 years of experience on the hospital market,
- scale of conducted operations – low prices,
- expert knowledge,
- drug assortment greatest on the market,
- competitive price offer,
- modern operating structure,
- high level of logistic services (in accordance with GDP),
- investments in modern technologies.

Risk assessment programs for sale to hospitals:

- assessment of prepared tenders in terms of financial discipline of hospitals,
- current analysis of the situation on the hospital market.

Payment discipline of hospitals:

- high level of inflow of funds,
- own rating enabling safe and effective sales management.



witalno



OSĆ



Retail

Retail

We are one of the leading companies on the European market of retail distribution of pharmaceuticals.

CEPD N.V.

Corporation of European
Pharmaceutical Distributors

Letter from the President of CEPD N.V.

Ladies and Gentlemen,

The previous year 2011 was favorable for development of our pharmacy business in all countries where we conduct operations, namely in Poland, Lithuania and in the UK.

All companies, via which we conduct operations in those countries, consolidated their market position by organic growth, as well as acquisitions of other entities, operating on the market.

In Poland, the largest market of our operations, we had to face a particular challenge consisting in adjustment to new legal regulations, effective as of January 1st 2012. This adjustment involved, on one hand, additional costs, while, on the other however, it accelerated started earlier works on the creation of modern tools, ensuring pharmaceutical care as declared in the Act on pharmacy chambers of 2008. As a result of these works, patients and pharmacists from Dbam o Zdrowie Pharmacies were offered the first edition of the program of professional, documented pharmaceutical care.

I am convinced that this program will be a breakthrough on the way to restoring the significance of pharmacy as an

integral part of the health care system in Poland.

The continuation of the strategy of holding CEPD N.V., consisting in expansion into new European markets, depends on raising capital for acquisitions. Therefore, when analyzing the situation on the capital markets and possibilities of acquisition in Europe, we take into account raising capital by issue of shares and offering to the investors a minority package in CEPD N.V. or one of its subsidiaries. We plan to complete the raising capital process in 2012. Along with a continuous care for quality of everything we do, it is another step on the way to build trust of patients, and, as a consequence, increase value of the holding for our shareholders. Finally, like every year, towards shareholders and readers of the Annual Report, I would like to extend warm thanks to employees of the holding and comprising companies for good work and determination in execution of ambitious goals set by us.

Respectfully yours

Maria Wiśniewska

President of the Management Board of CEPD N.V.



Structure of CEPD N.V

CEPD N.V. is a holding company registered in the Netherlands, which strategic goal is development of retail sales network of pharmaceuticals in Europe.

The holding operates through its local subsidiaries, responsible for management of operating activities in different countries. At the end of 2011, CEPD N.V. had operating companies in three European countries: Poland, Lithuania and the UK. The holding company includes also CEPD Management Sp. z o.o., responsible for support for CEPD N.V. in execution of strategies on different markets.

National subsidiaries of CEPD N.V. conduct operating activities based on multi-channel distribution model.

Achievements in 2011

Record sales revenue PLN 2 bn

Year-on-year sales growth 17%

At the end of the year, sale of average Dbam o Zdrowie Pharmacy 9.1% more than sale of average market pharmacy

Completion of restructuring:

- centralization of business functions
- standardization of processes
- individual approach to customer

Dynamic development of the website doz.pl – nearly 3 million visits and more than 100,000 orders in the Internet pharmacy monthly



care
responsibility
innovation

An example is DOZ S.A, a Polish operating company of the holding, which offers patients the access to pharmaceuticals both through the chain of Dbam o Zdrowie Pharmacies as well as through the website www.doz.pl and SMS pharmacy. The model designed in this way enables to reach effectively all patients, offering them, at the same time, competitive prices and high standard of the services provided. A similar model has been applied in UAB NFG, a Lithuanian operating company of the holding, under which the traditional chain of pharmacies, conducted under the brands Gintarine Vaistine and Norfos Vaistine, was extended by the Internet pharmacy www.vaistine.lt, launched in June 2011. In the coming years, this model will be implemented also on other European markets, under expansion abroad, planned by CEPD N.V.

The year 2011 brought a number of changes with regard to operations of CEPD N.V. In October, the General Meeting of Shareholders of the Company made a decision on a change in the name of the holding from Central European Pharmaceutical Distribution (CEPD) N.V. to Corporation of European Pharmaceutical Distributors (CEPD) N.V. The change in the name was a consequence of the adoption by of CEPD N.V. of new strategic goals extending potential scope of operations of the holding from Central and Eastern Europe to the whole European market.

At the October Meeting, shareholders of CEPD N.V. made also a decision on acceptance of the new Company's Articles of Association, prepared according to the Dutch best practices of quoted companies. Under implementation of the provisions of new Articles of Association, in October, Supervisory Board of CEPD N.V.

Mr. Fritz Oesterle was appointed to the position Chairman of the Supervisory Board Ph. D. Mr. Jacek Sz wajcowski was appointed to the position of Deputy Chairman. The newly appointed Supervisory Board of CEPD N.V. consists also of: Ms. Sylwia Pyśkiewicz, Mr. Mark Schneiders, Mr. Zbigniew Molenda and Mr. Jacek Dauenhauer. Two from among six Members of the Supervisory Board, including Chairman, perform the so-called function of Independent Members. Under the Supervisory Board, two committees were established: Audit Committee and Appointment and Remuneration Committee.

MARKETS ON WHICH OPERATING COMPANIES OF CEPD N.V. CONDUCT OPERATIONS

Market of retail distribution of pharmaceuticals in Poland

The Polish market of retail distribution of pharmaceuticals is the largest market in Central Europe. According to the data of PharmaExpert, total sales of all pharmacies operating on the market in 2011 amounted to PLN 28.1 bn and was 5% higher than sales in 2010. This growth was influenced mainly by two factors: significant growth in sales in January caused by a large number cases of falling ill with flu, and high sales of reimbursed drugs in November and December, accompanying introduction, as of January 1st 2012, of the new act regulating prices of these drugs.





At the end of 2011, 13,860 pharmacies operated on the market. It means a growth by over 500 pharmacies in comparison to December 2010. About 20% of all entities operating on the market belong to pharmacy chains, covering both own and franchise pharmacies.

The Polish market of retail distribution of pharmaceuticals is a firmly regulated market. Legal provisions regulate, first of all, principles of running pharmaceutical activities and pharmacy advertising activities, shaping prices of drugs and reimbursement.

The main event influencing the market of retail pharmaceutical distribution in 2011 was the adoption of the new reimbursement act by the Parliament of the Republic of Poland introducing the following changes:

- fixed margins and prices for reimbursed drugs,
- obligation of the pharmacies to charge fee for the reimbursed drugs as specified in the Act,
- ban on pharmacy advertising,
- concluding by pharmacies reimbursement contracts with the National Health Fund.



Market of retail distribution of pharmaceuticals in Lithuania

The Lithuanian market of pharmaceutical distribution is one of the smallest in Europe. According to the data published by IMS Health, sale of pharmaceuticals to pharmacies amounted to LTL 1.4 bn in 2011, which means growth of nearby 2% as compared to the previous year.

One of the main features of the Lithuanian pharmaceutical distribution market is a high level of its consolidation. At the end of 2011, there were 1,442 pharmacies on the market, of which more than 70% are establishments belonging to 6 biggest chains.

Like in other CEE countries, also in Lithuania activities of the companies operating on the market of retail pharmaceutical distribution are subject to many legal regulations, including, among others, licensing and principles of running of operations, and principles of reimbursement and shaping of prices of drugs. The year 2011 did not bring significant changes with regard to legal regulations in Lithuania.

Market position of CEPD N.V.

CEPD N.V. is one of leading European companies operating in the sector of retail pharmaceutical distribution. At the end of 2011, CEPD N.V. was managing a chain of almost 3,000 pharmacies, which means growth by almost 500 entities as compared to the year 2010.



The biggest share in this number had pharmacies under the logo Dbam o Zdrowie, operating in Poland. These were together 2,494 pharmacies, including 645 pharmacies not belonging directly to the group, 488 franchise pharmacies and 1,361 partner pharmacies. It gives to the chain of Dbam o Zdrowie Pharmacies the unquestioned leading position on the Polish market, with share at the level of 18.0%, according to the number of pharmacies.

In Lithuania, CEPD N.V. sells through the chain of 485 pharmacies, including 291 own pharmacies, operating under two brands; Gintarine Vaistine and Norfos Vaistine, and 193 partner pharmacies operating under the brand of BVG. In 2011, in Lithuania, also an Internet pharmacy www.vaistine.lt and the first franchise pharmacy Gintarine Vaistine were launched. Together, in the segment of retail sale in Lithuania CEPD N.V. has nearly 33.6% of share in terms of the number of pharmacies, which gives to the company the first position on the market. The Lithuanian wholesale store Limedika belonging to the holding comes in second on the market of pharmaceutical distribution, with share at the level of 20.8%.

The chain of CEPD N.V. includes also two DOZ pharmacies, operating in London.

OPERATING ACTIVITIES OF CEPD N.V.

POLAND – DOZ S.A.

Dbam o Zdrowie Pharmacies are the largest Polish chain of pharmacies operating under the shared logo. The operator of the chain is DOZ S.A, representing a part of the international holding CEPD N.V. The pharmacies managed by DOZ S.A. serve nearly 10 million patients a month. DOZ S.A. conducts also the largest Polish Internet website dedicated to health, at www.doz.pl.

Development of the chain

In February 2011, DOZ S.A. purchased from PGF S.A. (presently Pelion S.A.) retail companies conducting operations on the territory of whole Poland. The takeover was another step under execution of the development strategy of Dbam o Zdrowie Pharmacies in Poland and made it possible to expand the chain of own pharmacies in places where DOZ S.A. had not been present so far.

The process of integration of newly taken over pharmacies with the past chain of own establishments belonging to DOZ S.A. was completed in September 2011.

The year 2011 is also a period of further development of the chain of partner and franchise pharmacies. Economic pressure and increasing operating expenses make more and more pharmacies look for assistance in professional management of their business.

The confirmation of this trend is year-on-year increase, in share of private pharmacies in loyalty programs. The second stage is to strengthen cooperation and support subsequent business areas. At the turn of 2008 and 2009, DOZ S.A. – as the first chain of pharmacies in Poland – introduced an offer of franchise cooperation, which is based on professional services in the scope of management of commercial relations, sales, marketing activities, as well as costs. The scope of services provided by DOZ S.A. guarantees to franchisees full support related to running a pharmacy, in order to improve competitiveness, which, as a result, will lead to improve business efficiency and quality of pharmaceutical care. The third year of functioning of franchise has confirmed a great interest of private pharmacists in the program. At the end of 2011, as a part of the franchise conducted under the brand Dbam o Zdrowie 488 pharmacies operated, meaning growth by 181 entities as compared to 2010.

A significant growth was recorded also in the segment of partner pharmacies. In 2011, the group of partners of DOZ S.A. was expanded by nearly 100 pharmacies.

Sales and marketing

Typical, orange pharmacies may be encountered across the whole country – in shopping precincts and on major streets of big cities as well as in small towns and villages. The scale of activities and localization of Dbam o Zdrowie Pharmacies enable to reach patients with the offer throughout Poland.

Programs addressed to particular groups of patients represent an important element of Dbam o Zdrowie Pharmacies. In 2011, DOZ S.A. was developing three sales programs introduced to the offer of Dbam o Zdrowie Pharmacies in 2010: SENIOR Program, Program "for the Mum and the Baby" and the Program 60+.



The SENIOR Program was launched in February 2010 and is dedicated to people 75 +. The personal ePRUF card of the program entitled to 25% subsidy for all prescription drugs available in Dbam o Zdrowie Pharmacies. The limit of subsidy for the patient was PLN 500 until the end of 2011. The Program covered nearly 1,200 pharmacies. At the beginning of 2012, the SENIOR Program was incorporated into the Program 60+.

The Program 60+, launched in October 2010, was prepared on the basis of experience obtained during the SENIOR Program. The Program is dedicated to persons who are more than 60 years old.

In 2011, the personal ePRUF card of the Program entitled to purchase all prescription drugs available in Dbam o Zdrowie Pharmacies at attractive prices. The limit of subsidy for the patient was PLN 750. At the end of December 2011, more than 1 million patients were registered in the Program (including patients transferred from the SENIOR Program). In 2011, the Program cards were served by nearly 1,600 pharmacies. At the beginning of 2012, under the Program 60+, several changes were introduced, aiming at even greater adjustment of the offer to the customer needs. Starting from January 1st, the Program cards entitle to special discounts on a broad range of non-reimbursed drugs, cosmetics and dietary supplements, selected especially for mature persons. Under a new presentation of the Program 60+, its participants obtained also free access to the medical helpline of the Program, package of special discounts on

rehabilitation services and nursing care, as well as the possibility of free-of-charge settlement of fees, e.g. for telephone, gas, electricity and television in Alior Bank facilities. Additionally, due to opening a free personal account "Alior bills free of charges", the Program 60+ participants receive a special gift voucher with the value of PLN 50, for purchase of drugs.

In February 2010 the chain of Dbam o Zdrowie Pharmacies launched also the Program "for the Mum and the Baby", intended for pregnant women and mums of babies aged up to 3. The Program participants receive attractive discounts on more than 100 products from three categories: cosmetics, health and care. At the end of 2011 more than 100,000 participants were registered in the Program "for the Mum and the Baby". The Program could be executed in nearly 2,000 Dbam o Zdrowie Pharmacies throughout Poland.

In 2011, DOZ S.A. continued image-product campaigns initiated in 2010. In 2011, Dbam o Zdrowie Pharmacies conducted together 3 campaigns. For all campaigns, DOZ S.A. used advertising in the mass media (TV, radio) and outdoor medium (billboards, citylights). The first two campaigns, entitled "Alergia" ("Alergy") and "Trzy kroki do lata" ("Three steps to the Summer"), were conducted in April and May. The biggest campaign organized on the occasion of the 10th anniversary of launching the loyalty program "dbam o zdrowie" was organized in the period of September-December 2011. Thanks to the campaigns,



Dbam o Zdrowie Pharmacies reached more than 30 million Poles with their advertising and significantly increased the brand recognition.

Dbam o Zdrowie Pharmacies conduct active sales policy. Every day, they offer to patients the lowest prices for a few dozen most popular drugs in the season. In 2011, the range of preparations covered by promotion was updated every month. The patients could find information on the current offer, first of all, in the promotional folder, available in all Dbam o Zdrowie Pharmacies as well as on billboards, in press and directly in own letter boxes. The promotional offer was available also on the website www.doz.pl.

DOZ S.A. issues a bimonthly magazine "Dbam o Zdrowie", promoting healthy lifestyle. The popular periodical is available free-of-charge in all Dbam o Zdrowie Pharmacies. Additionally, the magazine is sent directly to selected patients of Dbam o Zdrowie Pharmacies. Since 2010, the bimonthly has been distributed also in Empik, Relay, Inmedio and Ruch chains.

All the above described actions and tools enable even better adjustment of operations and offer of Dbam o Zdrowie Pharmacies to the needs of patients. Currently, the whole organization is focused on support of sales, which is reflected in results of the pharmacies. At the end of 2011, sales of an average own pharmacy belonging to the chain of Dbam o Zdrowie Pharmacies was 9.1% higher than sales of an average pharmacy operating on the Polish market.

 **DOZ.PL**
dbam o zdrowie



**Website www.doz.pl
and sms pharmacy 661 004 000**

DOZ S.A. is the operator of the largest Polish website dedicated to health protection, at www.doz.pl. Monthly, more than 3 million users visit the website belonging to DOZ S.A. Apart from access to a wide database and articles, the users of www.doz.pl may also order drugs, dietary supplements and cosmetics, and receive them in one of nearly 2,000 pharmacies operating across the whole country. Presently, the offer of www.doz.pl covers more than 20,000 products.

Since the costs of ordered products are not increased by shipment costs, besides the wide assortment, the website offers the patients one of the lowest prices of drugs on the market.

DOZ S.A. conducts also, launched in 2010, the sms pharmacy, at number 661 004 000. Using a mobile phone, the patients may check the price and availability of drugs, locate the nearest Dbam o Zdrowie Pharmacy and submit an order as on the website www.doz.pl.

LITHUANIA – UAB NFG

In Lithuania, CEPD N.V. operates via local operating company UAB NFG, associating together 291 own pharmacies under two brands: Gintarine Vaistine and Norfos Vaistine.

Additionally, UAB NFG serves a chain of more than 190 partner pharmacies BVG. Apart from sales in the segment of pharmacies, the company operates also in the field of distribution of pharmaceuticals to hospitals and wholesale stores. Since June 2011, under UAB NFG, also online pharmacy www.vaistine.lt has been operating.

Development of the chain

The year 2011 was intensive in terms of development of the chain of pharmacies in Lithuania. The chain Gintarine Vaistine, being a part of UAB NFG, signed in July a contract for purchase of 65 Litfarma Vaistine pharmacies. Finally, the transaction was closed in October 2011, directly after obtaining conditional consent of the Lithuanian Anti-Monopoly Office.

The completion of the process of integration of Litfarma pharmacies with the past chain Gintarine Vaistine is planned in the first quarter 2012.

Simultaneously with acquisition of Litfarma pharmacies, UAB NFG continued development of own chain by acquisition of single pharmacies and opening the new ones. In 2011, total number of own pharmacies belonging to Gintarine Vaistine and Norfos Vaistine increased by 78 facilities, with simultaneous drop in the general number of pharmacies operating on the Lithuanian market.

Apart from the development of the chain of own pharmacies, UAB NFG was also focused on launching of the franchise model, which resulted in opening the first franchise pharmacy, under the Gintarine Vaistine brand in the 4th quarter 2011. In the nearest future, UAB NFG plans further development of this cooperation model.

Sales and marketing

In 2011, UAB NFG put a great emphasis on further improvement in customer service quality in Gintarine Vaistine and Norfos Vaistine pharmacies. Under development of the offer in March 2011, the Company launched, a sales-marketing program directed to young mums called "Mazylio", modeled on the program functioning in Dbam o Zdrowie Pharmacies – "for the Mum and the Baby".

Another innovative solution is multi-partner program Milimausia, arranged by Gintarine Vaistine pharmacies together with the largest Lithuanian retail chains.

The works on preparation of the program began in 2011 and its start is planned in the first half of 2012.

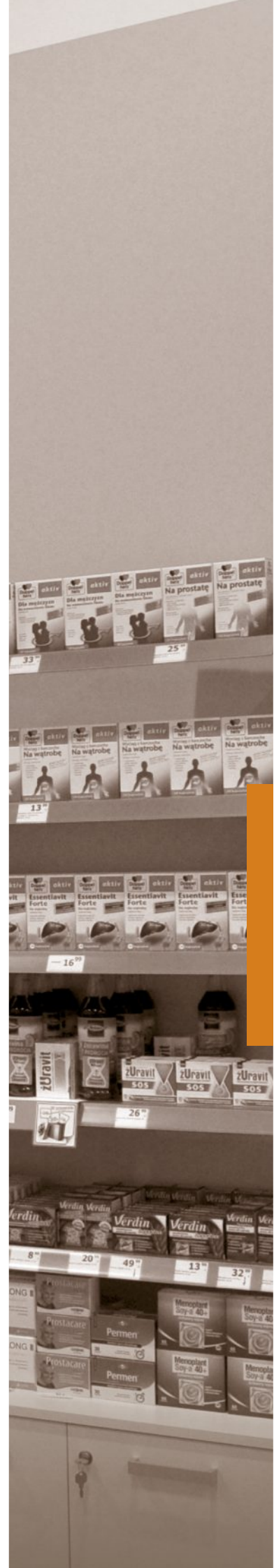


The year 2011 was also a period of continuation of intensive image-product campaigns initiated in the previous years, carried out by Gintarine Vaistine and Norfos Vaistine chains in nationwide TVs.

All the conducted marketing activities together with a further development of the chain were reflected in more than 11 percent increase in sales in both chains in 2011. Sales growth, development of the chain of own pharmacies and growth in recognition of Gintarine Vaistine and Norfos Vaistine brands enabled a significant improvement in the position of UAB NFG group in negotiations with suppliers. This, in turn, resulted in improvement in trade terms of the company.

Internet pharmacy www.vaistine.lt

In June 2011, UAB NFG launched an Internet pharmacy at www.vaistine.lt. The solutions adopted during creating the Internet pharmacy in Lithuania were, to a large extent, a copy of the mechanisms applied under the website www.doz.pl. Similarly as in Poland, the Internet pharmacy www.vaistine.lt enables to order drugs over the Internet and receive them on the next day in the selected pharmacy of Gintarine Vaistine or Norfos Vaistine chains. At the end of 2011, the customers of the Lithuanian Internet pharmacy could order drugs (also prescription drugs), dietary supplements, cosmetics selecting from more than 3,000 available products. As in the case of www.doz.pl, lack of shipment costs provide the customers of the pharmacy www.vaistine.lt the access to the one of the cheapest drugs in Lithuania.



GREAT BRITAIN – DOZ UK Ltd.

Thinking of Polish patients and their families living in the UK, two Dbam o Zdrowie Pharmacies operate in London, managed by DOZ UK Ltd. A quick access to professional pharmaceutical care, the possibility to use free consultations in native language, as well as a broad offer of Polish products facilitate life of Polish emigrants. Already a few hundred Polish families benefit from the opportunity to purchase drugs, medical products and cosmetics in pharmacies belonging to DOZ UK, in London.

Professional operation and broad assortment of products offered in pharmacies within DOZ UK was appreciated also by local inhabitants, which is reflected in good sales results of the company in 2011. An additional advantage of the British Dbam o Zdrowie Pharmacies is a systematically expanded offer of services related to health protection, largely reimbursed by the health fund.

STRATEGY OF CEPD N.V.

Outline of development strategy of the holding

The primary strategic goal of CEPD N.V. is development of retail pharmaceutical sales network in Europe. In the years to come, the company is going to focus its activities on three basic areas: further development of business on markets on which CEPD N.V. already conducts operations, international expansion into new European markets, obtaining significant synergies resulting from the effect of scale.

To enable an effective execution of the strategy of the holding, raising capital by way of issue of shares is taking into account. Within this process, new shareholders of the holding would be offered minority package in CEPD N.V. or one of its subsidiaries. In 2011, the holding started works which goal is the implementation of the newly adopted raising capital strategy.

The completion of the process and acquisition of shares by new investors is scheduled for the year 2012.

Further development of business on markets on which CEPD N.V. has been already conducting operations

One of the strategic priorities of CEPD N.V. is a significant strengthening of competitive position on the existing markets. Long-term plans of the company assume dynamic development of sales network, both on the Polish and Lithuanian market.

To meet targets in this area of the strategy, CEPD N.V. made two transactions of purchase of organized pharmacy chains in 2011 and continued to enlarge their chain of franchise pharmacies.

The strategy of operations on the previous markets includes also plans for further development of the Internet platform in Poland and in Lithuania.

International expansion into other European markets

The strategy of CEPD N.V. is based on acquisition of entities running operations in the area of retail distribution of pharmaceuticals in Europe. In 2011, CEPD N.V. updated the strategy of international development and extended the area of searches for targets from the region of CEE to all markets of the Old Continent.



Flexible approach of the Company to the issue of international expansion assumes also the possibility of merger with other entities conducting distribution in Europe and creation of joint groups of companies.

CEPD N.V. verifies its strategy of foreign development on an ongoing basis, monitoring constantly situation in different markets of the region and strictly followed the changes in macroeconomic conditions.

Obtaining significant synergies resulting from the effect of scale

A consistent expansion of the distribution network enables to achieve important synergies resulting from the effects of scale. The goal of CEPD N.V. is to maximize these benefits both in terms of income and cost.

In terms of income, the strategy of CEPD N.V. assumes gradual, but significant, strengthening of the purchasing position of the company in the future years.

Also in terms of costs the company plans to achieve measurable savings, resulting directly from the scale of conducted operations. The cost optimization may be achieved due to implementation of standard solutions related to operations of pharmacies and support functions, common programs and marketing solutions, IT solutions and uniform standards of repairs and equipment of the pharmacies. CEPD N.V. has been achieving measurable benefits in this area.

The examples of joint action in terms of exchange of marketing solutions at the level of the holding are, implemented in Lithuania, Mazylio program, being a copy of "for the Mum and the Baby", conducted by Dbam o Zdrowie Pharmacies since 2010, and the Lithuanian Internet pharmacy www.vaistine.lt, created on the basis of mechanisms applied on the Polish website www.doz.pl.







pharmalink

Services for manufacturers

Services for manufacturers

Specialized Pharmaceutical Operator.

Services for manufacturers are the newest, rapidly developing business line. Since the start of cooperation with Astra Zeneca Polska Sp. z o.o. in May 2009, Pelion companies have been conducting sales in the so-called direct distribution system, where wholesaler provides only logistic service for the manufacturer and receives for that commission, and the product supplied by them is sold on behalf of the manufacturer. In order to meet the market expectations, Pelion companies are prepared for rendering and development of this type of services throughout the country.

pharmalink

Market

Currently, we may observe on the market an increasing tendency of contracting certain tasks by pharmaceutical manufacturers to specialized logistic operators that, having own high potential, experience and measures, can offer a full range of services. Thanks to external services, the companies achieve savings in the form of reduction in costs related to rental or construction of storage areas, employment and training of staff as well as purchase of specialist transport fleet guaranteeing speed and punctuality of deliveries.

Organizational structure

Pharmalink is a specialized logistic operator providing services of management, storage and distribution of drugs in the pharmaceutical industry. The organizational structure is based on warehouses, transshipment chambers and consignment warehouses of Pharmalink and companies belonging to Pelion Group. In order to implement the projects of direct sales, involving storage and distribution of goods directly to pharmacies on behalf of and for the manufacturer, a unique solution in the form of consignment warehouses has been applied.



Strategy and mission

Pharmalink is a reliable partner offering integrated logistic services for the pharmaceutical industry. Hence, the company adopted, as the strategy, pursuit of constant improvement in quality through maintenance of continuous control of transport conditions, ensuring appropriate temperature of transport and delivery deadline.

The company focuses its actions primarily on specialized transport and operations with regard to warehousing, consignment of pharmaceuticals and medical products. It provides complex service for many business partners, managing fleet flexibly and adjusting itself, on an ongoing basis, to the market needs and requirements. Pharmalink Sp. z o.o., as independent logistic operator, runs not only warehousing and transport services, but also direct sales, offering additionally marketing services.

The services are rendered mainly for the pharmaceutical sector, which guarantees a high specialization of the business. Pharmalink Sp. z o.o. offers safe transport of drugs and medical products throughout Poland and abroad, within the European Union countries.

Achievements in 2011


Pharmalink Sp. z o.o. executes deliveries of pharmaceuticals to open pharmacies, hospital pharmacies, wholesale stores, clinics, private consulting rooms, and even to the individuals.

Achievements in 2011

Sales revenue PLN 17 m

Year-on-year sales growth 167%

Leader of transport services in the pharmaceutical industry, including the so-called cold supply chain



quality
reliability
innovation

Strong market position

Flexible approach to the needs of manufacturers and common development are foundations of the existing market success. In order to meet the market expectations, over the last year, services of safe transport drugs in constant temperature ranges were dynamically developed, in line with the requirements of the pharmaceutical law, which was reflected in obtaining the leading position on the market.

Business model

Pharmalink Sp. z o.o. operates as a logistic operator, ensuring their customers independence in conducting operations. Providing of complex services enables their counterparties to focus on main operations, namely sales, due to taking responsibilities related to warehousing, transport and widely understood logistics.

Thanks to a flexible distribution system, Pharmalink is able to reach recipients across the whole country within 24 hours, offering, at the same time, the possibility of emergency delivery and shortened delivery time to 12 hours. An extensive transport fleet ensures punctuality of deliveries of transported shipments.

The provided services of transport of thermolabile drugs, in the so-called "cold supply chain", ensure high quality and the best logistic solution in the pharmaceutical industry.

Innovative solutions

Pharmalink, as the first logistic operator on the market, transport in temperatures from 2°C to 8°C of general deliveries known as "cold supply chain", due to which it ensures high safety of transported products. The system is based on specialist vehicles with isothermal casing and heating-cooling devices maintaining the required temperature. In the system isothermal packaging and elements are not used. Multiple transports executed by Pharmalink in the cold supply chain system have proved that such form of transport provides high quality and is presently the best logistic solution for the pharmaceutical industry.

Pharmalink is also a precursor of the GPS system that has been installed in all vehicles and assumes a constant monitoring of temperature conditions during transport. The GPS monitoring is a modern and complex solution that helps perfectly to supervise the fleet, increasing safety of drivers and transported cargo. Additionally, the temperature control is performed using electronic temperature recorders. Each recorder has a certificate of calibration and own serial number, enabling its easy identification.

Upon the customer's request, there is a possibility to rent a temperature recorder that, attached by the sender to the individual shipment, registers conditions of transport on the whole route of transport, from the moment of shipping by the sender until its delivery to the final recipient.

Logistics

Pharmalink specializes in transport of drugs and medical products and dressings directly from pharmaceutical companies to recipients, offering complex logistic solutions for the pharmaceutical industry. The whole logistic system has been designed so as to comply with the requirements included in the Act of September 6th 2001 - Pharmaceutical Law and Regulation of the Minister of Health of July 26th 2002 on the Procedures of the Good Distribution Practice. Pharmalink has a flexible transport system adjusted to customer requirements. Thanks to own system of distribution, it is able to reach and deliver goods to all towns in a very short time.

With regard to services offered, it proposes, among others:

- transport of general cargo in controlled temperature from 15°C to 25°C,
- transport of general cargo in the cold supply chain from 2°C to 8°C,
- full truck load transport from 15°C to 25°C and from 2°C to 8°C in Poland and abroad,
- constant temperature monitoring,
- renting of temperature recorders,
- printouts of temperatures,
- storage of goods in consignment warehouses – warehouse service,
- return delivery of documents and packaging,
- insurance of transported goods.

Experience and potential, including, a modern system of vehicle and temperature tracking in transport GPS, extensive network of transshipment points in Poland and a fleet of two-chamber vehicles, maintaining two ranges of temperatures, enable to propose a high quality of services with regard to warehousing and transport in accordance with the requirements of the pharmaceutical law and to meet expectations of the market of pharmaceutical distributors.

Loading and transport of medicinal products guarantees identification of medicinal product and identification of the sender and the recipient. Goods are protected against contamination, damage and against mutual contamination of medicinal products.

We support our partners

Pharmalink supports manufacturers conducting for their benefit activities in the scope of pharmaceutical logistics and sales-related services associated with confirmation of documents and coordination of cash back on behalf of and for the benefit of the business partner. The company also helps in marketing campaigns related to distribution of advertising materials to pharmacies, doctors and sales representatives. Pharmalink provides experience, professional advice and excellence supported by financial results and consequently – increasing interest in the offered services.







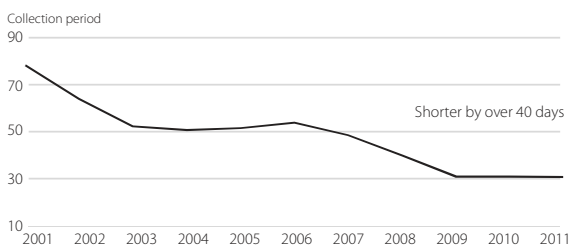
Other business

Other business

Farm-Service Sp. z o.o. was established in 2001 and performs the role of central organizational unit, specialized in the management of credit limits of pharmacies—customers of PGT-Hurt Sp. z o.o., monitoring and recovery of receivables, as well as provides services including trade receivables and granting loans for customers and entities of Pelion Healthcare Group.



Receivables turnover from pharmacies over the years



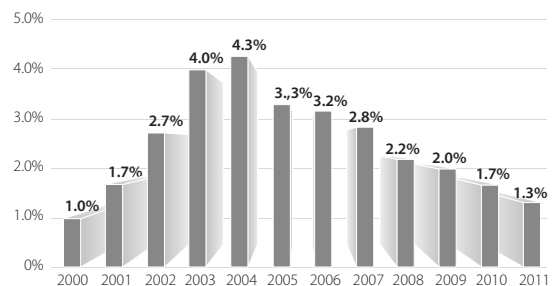
The operations of Farm-Service Sp. z o.o. focus on management of trade credit risk through assessment of this risk, granting limit and on-line limit control, as well as ongoing monitoring of receivables from private pharmacies and court recovery of receivables.

High level of receivables control is executed by:

- determination of trade limits dependent on financial assessment of customers as well as based on previous payment history,
- current monitoring of the timeliness of payments,
- issue and enforcement of interest notes (collection rate of interest at the level above 50%).

Strict control of receivables conducted by Farm-Service Sp. z o.o. has enabled, in the recent years, to reduce receivables turnover from pharmacies by 40 days and to reduce significantly write-downs of receivables in the Group.

The share of write-downs of receivables in the consolidated sales revenue of Pelion



What distinguishes us?

nationwide range and many years of experience in monitoring and recovery of pharmacy receivables

maintenance of uniform high standards of the services provided

independence and objectivity in the assessment of financial condition of customers

particular emphasis on verification of new pharmacies before granting them trade credit

care for adequate security of receivables

Achievements in 2011

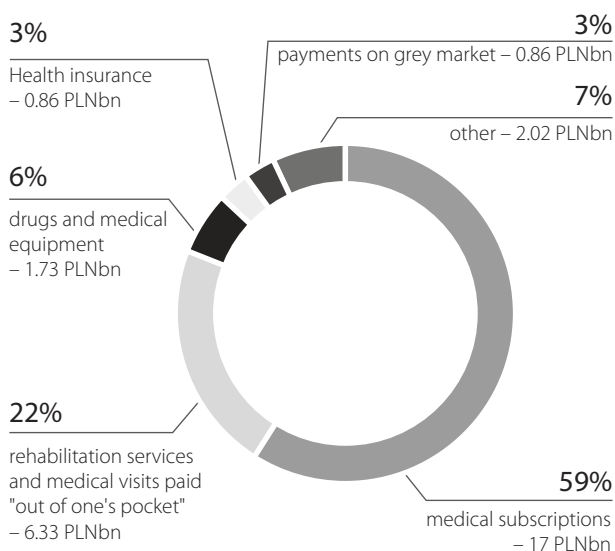
Maintenance of the level of receivables from pharmacies with a-dozen-or-so % sales dynamics

We create the first Polish private drug reimbursement system



The structure of private health expenses in Poland has remained constant for several years. According to the PMR report, published in 2011, the market of private health care in Poland is worth total PLN 28.8 bn and keeps on growing. On the market of rehabilitation services and medical visits with the value of more than PLN 6 bn, insurance products and medical subscriptions have been offered to the patients for years. Meanwhile, more than two times greater (almost PLN 17 bn) market of expenses on drugs and medical equipment does not have such solutions. ePRUF S.A., on the basis of the private drug reimbursement system, creates products exactly on this market.

The structure of private expenses on health care in Poland in 2010



Source: Report of PMR Market of Private Health Care in Poland 2011

ePRUF S.A. was founded in 2008 and its name originates from Elektroniczna Platforma Rozliczeń Usług Farmaceutycznych (Electronic Platform of Pharmaceutical Services Settlements).

The primary goal of the company is to build the first system of private drug reimbursement. The model of operation adopted by ePRUF S.A. assumes creation and management of programs facilitating private financial support for drug purchase up to the order of various entities.

Each program has reimbursement principles and list of drugs covered by reimbursement (prescription book) arranged with the reimbursing institution. The operations of ePRUF S.A. focus on organization and management of private drug reimbursement systems, created for the purposes of:

- insurance companies that offer such service under life or health insurances,
- employers that want to offer their employees, within additional non-payroll benefits, a yearly health package, including private pharmaceutical care,
- social organizations, foundations offering their beneficiaries assistance in the form of payment for drug purchase,
- natural persons (gift cards for purchase of drug www.sklep.epruf.pl).

The tool of the private drug reimbursement system is ePRUF card, serving as identifier and carrier of the encoded reimbursement principles, acknowledged in the chain of more than 2,000 pharmacies throughout Poland. The ePRUF system guarantees provision of benefits in accordance with intended use, simplifies administrative procedures, increases control and limits the possibility of errors.

Achievements in 2011

Exceeded level of PLN 1 bn of sales executed cumulatively using ePRUF cards

Your business partner.

BSS S.A. is a company offering complex services of outsourcing business process. Outsourcing provides measurable benefits to companies operating in each trade and on each scale. It is a universal tool that can be modeled flexibly, depending on resources, needs, priorities and know-how of the company. In times of market globalization intensifying competition growth, outsourcing is a strategy necessary to achieve cost reduction and dynamic development of basic operations of the company.



The Company employs more than 300 people, including high class specialists in the field of: accounting, finance, payroll, controlling, reporting and legal consulting. Knowledge and experience of the team are the basic capital of BSS S.A.

The experience obtained in the course of service of nearly 160 companies of the Group as well as the possessed knowledge enabled to offer business process service to external customers, which, in turn, enabled to enter effectively the market of outsourcing services.

The year 2011 was for BSS S.A. a particular year owing to organizational and legal changes in Pelion Group. Relocation of all business lines to independently operating companies required a number of activities in the area of accounting and financial support. It was a considerable challenge for BSS S.A., however, the company proved again that the correctly organized accounting and tax processes may support effectively and efficiently business development.



Due to cooperation with BSS S.A., the companies gain:

- strengthening resources and potential of the company; processes supporting basic operations of the company are transferred to BSS S.A., which enables more effective use of resources and makes it possible to focus on strategic tasks of the company;
- reduction in operating costs; along with reduction in the quantity of full-time positions, reduction covers costs related to remuneration, premiums to Social Security (ZUS), leave, absences, training programs as well as costs of maintenance of work positions, such as: costs of lease of office premises, energy consumption, telephone calls, purchase of equipment and license for necessary software;

- access to expert knowledge; access to know-how from different areas, support of highly-qualified specialists who provide advice and new, fresh view;
- reduction in risk; related to often forced need for interpretation of regulations; BSS S.A. takes over the risk for mistakes in books, payrolls or tax returns and Social Security (ZUS) declarations;
- improvement in safety; the company's independence from persons who have access to confidential information.

The cooperation with BSS S.A. enables to focus on basic areas of the company's operations, bringing reduction in costs and saving time and resources.

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

accounting and taxes related services and preparing reports

personnel related and payroll

financial

controlling

preparing consolidated financial statements

legal

What distinguishes us?

complexity of the services provided

high performance standards

innovative and individual approach to each customer

long-term experience in business process service

full confidentiality and safety of data and information

high quality of services provided with the use of modern technologies

experienced and carefully selected specialists

broad scope of operations



Achievements in 2011

+27 new external customers

We take care of your health, manufacturing original, safe cosmetics and pharmaceuticals with effectiveness confirmed by clinical tests.

PHARMENA

Pharmena S.A. is a dynamically expanding public company, operating in the industry of specialized medical care. The basis of the company's operations is investment in research and development. The corporate mission is development of safe, innovative cosmetics and pharmaceuticals with effectiveness confirmed by clinical tests. The most important value for the company is health of the patient and care for it through ensured safety and the highest quality of the offered products.

The main area of operations of Pharmena is development and commercialization of innovative products in dermatological and other applications, where treatment requires satisfying still unfulfilled medical needs, such as: acne, skin diseases, burns, and excessive hair loss. The full line of products for skin care and hair care of the company includes brands DERMENA® ("hair loss treatment" market leader), DERMENA Plus®, ACCOS®, ALLERCO® (dynamic growth on the market in 2011), THERMI® and REVIUM®.

Pharmena conducts also research on new drugs used in treatment of circulation disorders and other disorders, on the basis of active components used in dermatological products manufactured by the company. Currently, tests

are conducted in order to select effective drug dose (TRIA-662) in treatment of dyslipidemia – sclerotic disease characterized by disturbances in the lipid profile. TRIA-662 contains a natural substance, which has demonstrated potential possibilities of obtaining favorable treatment effects without any side effects, present in the case of application of other drugs currently available on the market.

Pharmena has the dominant position with regard to intellectual protection both for external and oral applications of particle 1-MNA and has registration applications in the USA and Canada. The company managed to obtain a number of patents concerning application of the selected pyridine salts in cardiovascular protection, including in the second quarter of 2011, it obtained the patent granted by the United States Patent and Trademark Office for application of particle 1-MNA in therapy of the lipid profile disorders.

From 2008, the company shares are quoted on the NewConnect market, and capitalization at the end of 2011 amounted to PLN 165.7 m.



Achievements in 2011

Obtaining a number of patents in Europe and in the USA

Eubioco S.A. is a holding company that runs its operations through subsidiary "Laboratory Galenare Olsztyn" Sp. z o.o. (LGO).

eubioco

Subsidiary of Eubioco - LGO is a manufacturer of galenic preparations, cosmetics, dietary supplements, operating on the basis of a permit for manufacturing of medicinal products, issued by the Main Pharmaceutical Inspector. In summer 2005, the company changed its headquarters to the newly built manufacturing plant in Dywity near Olsztyn and, at the same time, a modern plant was established, meeting all world standards concerning manufacturing of drugs, which is proved by the obtained GMP Certificates, issued by the Main Pharmaceutical Inspector. They confirm that LGO meets the requirements of the Good Manufacturing Practice included in Directive 2003/94/EC. In 2011, the headquarters of the company was expanded by new production, storage and offices.

Modern technology, wide range of products, own research and development facility, high potential of the crew and high managerial competences of the management, as well as stable financial results guarantee dynamic development of the company. The company produces pharmaceuticals in the form of spirit solutions, disinfecting solutions, warming and astringent solutions, and ointments, suppositories and pills. In 2011, it completed successfully registration of three new products in the form of pills and two in the form of gel. The other significant and developing business line is manufacturing of dermocosmetics.



Apart from manufacturing of medicinal products and cosmetics, LGO develops intensively actions with regard to packing and repacking of medicinal products and tested medicinal products, as well as carries out laboratory services.

The company performs repacking service:

- drugs from parallel import,
- medicinal products,
- packing in external packaging of tested medicinal products.

With regard to laboratory services the strength of LGO is:

- complex services – according to FP, PhEur, PN, with own or customer's methods, according to the principles of GMP and GLP,
- high-class equipment and premises,
- qualified, competent personnel,
- possibility of signing permanent contracts.

The company carries out physical and chemical and microbiological analyses:

- medicinal products, dietary supplements, food supplements,
- cosmetics, dressings, packaging,
- monitoring tests of production rooms,
- chemical compounds,
- active substances, auxiliary materials,
- tests of microbiological purity of purified water,
- tests of air purity in laminar-flow cabinets (special offer for pharmacies).

Achievements in 2011

Completion of the investment process – expansion and modernization of LGO

Corporate Governance

In 2011, Pelion S.A. complied with all rules contained in the Best Practices of WSE Listed Companies, which content was reflected in the internal regulations and actions of the Company, its governing bodies and their members.

CORPORATE GOVERNANCE PRINCIPLES

In 2011, Pelion S.A. applied corporate governance principles for quoted companies, set forth in the Appendix to Resolution no. 17/1249/2010 of the Stock Exchange Board of May 19th 2010: Best Practices of WSE Listed Companies. The content of the document is available on the official website of the Warsaw Stock Exchange dedicated to this issue (www.corp-gov.gpw.pl) and on the website of the Company, www.pelion.eu, section: "Good Practices".

Key characteristics of internal control and risk management systems

The internal control system in Pelion S.A. helps to ensure execution of tasks of the Company as well as achievement of goals of long-term profitability and maintenance reliability of financial and management reporting. It includes a whole range of control activities, division of obligations and identification and assessment of risks, which could have unfavorable impact on achievements of goals of the Company.

The internal control system in Pelion S.A. Group, in organizational aspect, covers: functional control, performed under general supervision over operations and observance of the regulations in internal units being part of the Group and in subordinated units, and institutional control performed by the internal audit department of Pelion S.A. The internal functional control is performed by the Company's Management Board, managers of entities owned by Group and employees, according to the scope of their duties.

The internal institutional control is performed by the internal audit department that fulfills its functions based on internal regulations, prepared on the basis of

International Standards of Internal Audit Professional Practice, other international standards, especially standards adopted by the Institute of Internal Auditors (IIA).

The scope of actions of the internal audit department of the Company covers, among others, assessment of effectiveness of risk management processes and internal control mechanisms. The audit department pursues its functions through independent conduct of audit tasks in particular areas and processes of operations of organizational units and through a system of reporting and monitoring of control functions executed in the Group's organizational units (functional control /self-audit).

In the organizational structure the audit department reports to the President of the Management Board of Pelion S.A. Results and effectiveness of works of internal audit are reported both to the Management Board and to the Supervisory Board of the Company, performing the function of Audit Committee. Annual plans of internal audit tasks are subject to approval by the Supervisory Board, which may apply for their changing or supplementing. The Supervisory Board monitors also implementation of recommendations issued by the internal audit department.

The whole flow of information in the Company aims at preparing current, reliable and complete financial statements, comply with the regulations and the accounting policy adopted by the Management Board. Keeping the accounting books of the Company in 2011 and preparing financial statements and consolidated financial statements have been entrusted to one of companies of the Group – BSS S.A., which applies its own systems of control of statement preparation process.

In order to ensure effective internal control system in the Company and risk management systems in the process of financial reporting, the Company's Management Board has adopted and approved for use on an ongoing basis:

- Accounting Principles (Policy) of Pelion S.A.,
- Accounting policy compliant with IFRS for the purposes of consolidated financial statement of Pelion Group,
- Inventory-Taking Instruction,
- Documentation of IT system of accounting data processing,
- Internal control regulations along with instructions, orders and internal procedures.

Both in Pelion S.A and in BSS S.A. a number of principles are binding, concerning the system of control and identification and assessment of risks resulting from operation of the Company, such as:

- a) entering accounting records only on the basis of correctly prepared and accepted documents,
- b) control of these documents in formal, accounting and substantive terms,
- c) permanent and periodically data reconciliation (by at least 2 persons),
- d) verification of the Company's property by means of inventory-taking and valuation of assets and liabilities in the context of annual reporting,
- e) authorization system (approval and authorization of transactions within specified limits or above limits, by authorized persons),
- f) system of reconciliation (verification of transaction details, balance reconciliation),
- g) work schedules (operations according to the schedule considers possible temporary shift),
- h) multi-level character of accounting management (mitigating the moral risk during preparation of financial statements).

Accounting books are kept in the integrated IT system Oracle e-Business Suite. The Oracle system provides clear division of competences, consistency of records of operations in books and current control between books. The Oracle e-Business Suite system is protected with passwords against access by unauthorized persons and functional access restrictions.

The description of the IT system complies with the requirements of Article 10, passage 1, item 3, letter c) of the Act of September 29th 1994 on accounting. Financial reporting is conducted in the Hyperion system.

The basis for IT system management is data security, executed by the applied multi-level character of rights of system users, access control and emergency data saving. The control of access to software is conducted at every stage of preparing the financial statement, starting from entering source data, through data processing to generation of output information. The system is monitored independently and assisted by appropriate emergency solutions. The Company has procedures of backup creation and data recovery.

The internal control system enables identification of all significant risks, such as abuse, irregularities, losses and their limitation. The Company monitors, on an ongoing basis, determined parameters, follows the value of change in measures, such as inventory or receivables turnover, and analyzes processes occurring in the Company, implementing actions enabling their management.

The effectiveness of the applied procedures of control and risk management in the process of preparation of financial statements is reflected in high quality statements, confirmed by opinions of chartered auditors.

Another component of the internal control is audit of financial statements by an independent chartered auditor. The chartered auditor carries out audit of the annual statement – both separate and consolidated, and conducts review of separate and consolidated interim statement. The chartered auditor is selected by the Supervisory Board of the Company, which makes selection from among offers received from reputable auditing companies.

The full text of the Corporate Governance Statement is included in the financial statement for the year 2011, published, among others, on the Company's website (www.pelion.eu).

Corporate Social Responsibility

YESTERDAY, TODAY, TOMORROW - sustainable growth based on tradition, responding to challenges of the present and investments in the future.

Aware of the role belonging to the largest entities of the modern economy, Pelion Healthcare Group perceives social responsibility in categories of impact which its operations have on the environment. The Group makes many efforts so that the actions undertaken would generate shared value, integrating social, environmental, ethical aspects and human rights and consumer rights in all areas of daily business activity.

In order to use its economic potential and opportunities of actual impact, Pelion initiates and is involved in a number of pro-social actions. Having adopted the assumption of focusing its activity on the obtained experience, it refers, in a complex manner, to the most important challenges related to the health protection area: broadening access to treatment and active prevention. It reinforces its identity

of promoter of the highest standards in health care by cultivating traditions and disseminating the history of the Polish pharmacy.

Yesterday – strength that comes from tradition

For years, Pelion Healthcare Group has been undertaking actions aiming to save and preserve a rich heritage of the Polish pharmacy.

In 2008, in Łódź, with an active support of employees and the environment of pharmacists, the Jan Muszyński Pharmacy Museum was established.

The place gathers thousands of exhibits related to pharmacy, huge book collection and collection of historical



documents. It is also the place of meetings, seminars and scientific conferences and exhibitions dedicated to the history of pharmacy. In 2011, the visitor could see the following exhibitions: Heavenly Mother, the patron of the earth and its fruits, Prof. Jan Muszyński – Memories, Health hidden in herbs – good condition 60+, From the former recipe – Pharmaceutical aquarelles or Figures from the history of pharmacy and medicine. During the International Night of Museums, the Museum was visited by more than 7.5 thousand people.

The cultivation of pharmaceutical traditions means also the care of historical pharmacies across the whole country. The group of establishments covered by the patronage of Pelion Healthcare Group includes the oldest, operating until today, Polish pharmacy with more than 400-year-old tradition, seated in Zamość, the Pharmacy-Museum in Lublin or the Pharmacy "Pod Złotym Orłem" ("Under the Golden Eagle") in Bydgoszcz, the roots of which date back to 1616. For several years, the Group has been issuing also monographs of historical pharmaceutical establishments; In 2011, volumes were published, dedicated to the Łódź Pharmacy of Karol Ketschen of 1828 and of Pharmacy "Pod Barankiem" ("Under the Lamb"), entered into the Krakow register of monuments.

Actions of Pelion Healthcare Group for preservation of pharmacy traditions were appreciated by the Responsible Business Forum, which, in the report issued in 2011 entitled "Responsible Business in Poland. Good Practices" presented them as good CSR practice.



Today – equal access to therapies

The key group of pro-social initiatives undertaken by Pelion Healthcare Group covers actions involving leveling of barriers in the access to treatment. The achievement of this goal is supported by Foundation Dbam o Zdrowie, appointed in 2007 and operating from 2008, having the status of Public Benefit Organization. The entity offers help to people with a difficult living and material situation, through granting financial support for purchase of drugs and medical materials. The system of special valuable cards, introduced to the pharmacy for the purpose of effective and transparent spending of funds, guarantees that funds transferred to beneficiaries will be used in accordance with their intended use.

The flag project of the Foundation is the campaign "Podaruj Zdrowie" ("Give Health"), carried out for 5 years in Bydgoszcz - the first Polish initiative referring directly to the problem of non-execution of prescriptions. So far, the Foundation has organized campaigns of call for applications for assistance in purchasing drugs and has granted support in this respect to inhabitants of 17 cities in Poland.

The project was appreciated already several years ago by the Forum of Responsible Business that presented it as good CSR practice in the annual report "Responsible Business in Poland. Good Practices 2009". Under the latter edition of the campaign, which was held in April 2011 in Łódź, aid was granted to more than 300 inhabitants of Łódź.

Irrespective of the campaign "Podaruj Zdrowie", the Foundation has a group of wards who, under the project "Zostań Darczyńcą" ("Become the Donor") receive

additional support for therapy and purchase of necessary rehabilitation and medical equipment.

Apart from granting direct aid to the needy, within its statutory operations, the Foundation Dbam o Zdrowie supports a number of charity organizations. For three years, it has been helping actively, among others, houses of single mothers. Fifteen establishments where 250 women and 270 children stayed in 2011, received assistance for purchase of drugs, medical products and modified milk in the amount of nearly half million PLN. Under the project "Razem możemy więcej" ("Together we can more"), in 2011, the Foundation established cooperation also, among others, with Dzieło Pomocy Ojca Pio (Padre Pio's Work of Aid), Towarzystwo Św. Brata Alberta (St. Brother Albert's Aid Society) in Wrocław, Dębica and Sanok, Caritas Łowicz, Foundation Pomocna Dłoń (Helping Hand) from Boguszów-Gorce and Foundation Iskierka (Spark). The organization is also looking actively for new ways of raising funds for its activities. Recently, its account has been credited, among others, with the funds from the project initiated by Pelion Healthcare Group in 2011, "Leki za tonery" ("Drugs for Toners"), in which particular companies of the Group and their business partners are involved. The idea of the project is collection and sale of used toners for printers. The original concept of fundraising has been appreciated by the Forum of Responsible Business that intends to present the campaign "Leki za tonery" ("Drugs for Toners") in the most recent edition of the report entitled "Responsible Business in Poland. Good Practices 2011".

The activity of the Foundation includes also widely spread communication, paying attention to the social problem, which is resignation from purchase of drugs for financial reasons. In 2011, under the campaign 1% of tax, the social



campaign "Zostań lekiem na całe zło" ("Become a drug for the whole evil") and a cycle of happenings under the slogan "Gruby portfel na chude lata" (Thick wallet for lean years") were performed. Both projects are continuation of the previous initiatives that gained recognition in the competition Newsweek Polska (Polish magazine) and Akademia Rozwoju Filantropii (Academy of Philanthropy Development) for the best 1% campaign: campaign under the slogan "Tylko nie każ mi wybierać" ("Do not even try to make me select") obtained in 2009 award in the category nationwide poster and local press, and "Góra Leków" ("Mountain of Drugs") – for the best organized special campaign in 2010.

An equally important element of social commitment of Pelion Healthcare Group is the campaign Utrica Dzieciom (Utrica for Children) conducted by PGF Urtica Sp. z o.o. The project of support for 17 children's oncologic and hematological wards, executed for a dozen or so years, brought the total amount of over PLN 1 m. However, the value of the project is not reflected in its financial dimension, but mostly in the fact of personal commitment of the employees of the company, business partners, volunteers and people of good will, helping children suffering from cancerous diseases. Thanks to them the campaign has gained recognition and respect of young patients, their parents and doctors. In 2011, the company organized in hospitals artistic workshops "Galeria Słoneczna" ("Sunny Gallery"), aimed to mitigate negative effects of long-term hospitalization. Artistic works that were created during the classes were sold during the jubilee 15th charity auction Urtica for Children, which has become an element of the calendar of events of the pharmaceutical and business environment. The collected amount of 95,000 PLN was transferred to hospitals and

cooperating foundations for purchase of medical equipment, equipment of hospital wards and common rooms, and games, toys and artistic materials for children.

Tomorrow – run for health

On June 5th 2011, Pelion Healthcare Group organized the first "Łódź Marathon Dbam o Zdrowie". The project has been created for popularization of healthy lifestyle and physical activity, promotion of the city and the region, and of modern philanthropic activities. Under related Program Biegam – Pomagam (I run - I help), the participants could raise funds for charity goal selected by them, and all who, on the day of the marathon, appeared on the route – could benefit from free exams and medical consultations and take part in presentations of exercises and relaxing techniques. In "Łódź Marathon Dbam o Zdrowie" total about 1,500 people ran. The honorary patronage over the event was taken by the Mayor of the City of Łódź, Hanna Zdanowska, the Foundation Dbam o Zdrowie was social patron.

This exceptional undertaking was awarded by Gazeta Finansowa weekly under the 10th edition of "Report: Corporate Social Responsibility". It was also considered by the Internet website MaratonyPolskie.pl as best organized marathon run in Poland 2011.



Pelion employees

At the end of 2011, Pelion Healthcare Group had 7.5 thousand employees. The project of separation of business lines, conducted in 2011, enabled limitation in the number of employees employed in the wholesale line, whereas increase in employment, as compared to 2010, by approx. 4%, is mainly a result of incorporation into the Group of Lithuanian companies Litfarma.

Employment structure

By analogy to previous years, among the employed by Pelion Healthcare Group, women prevailed.

More than 45% of the employees had superior education, and almost 42% had secondary school education. Among the people with higher education, 57% had pharmaceutical education, crucial for the industry.

The team of Pelion Healthcare Group consists mainly of young people – nearly 46% of the employees are people below 35.

60% of the staff are employed in the sales segment, 20% in logistics, and 20% are employees of administration and on other positions.

Recruitment

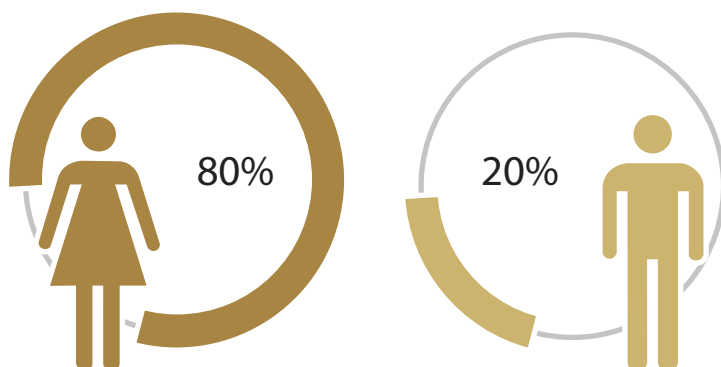
The Recruitment Policy of Pelion Healthcare Group is characterized by:

- impartiality and independence of the recruitment process – impartial selection of candidates conducted only by the qualified persons from the HR Department,
- professionalism,
- transparency – recruitment is documented in detail at each stage, feedbacks are provided to each candidate,
- clearly specified job-related requirements.

The important projects executed in 2011 included introduction of an electronic system, serving management of recruitment process, combined with the possibility of publishing the profile of the employer and job advertisements on selected websites.

An important element of the recruitment policy is the cooperation with universities.

Structure of employees according to sex



Academic cooperation

Pelion Healthcare Group, as business representative, has been pursuing the idea of cooperation with universities – Business 2 Universities, whose main aim is increase in knowledge and strengthening of relations between science and business, as well as building of the concept of effective interaction model. Under this project, Pelion has become, Partner of the Innovative Education of the University in Łódź, and encouraged to write dissertations covering issues important for operations of the Group companies ("Dissertation on the Subject").

In 2011, the program branding employer was executed, under which the Open Day for selected students of the Łódź universities was held. 20 best students, selected in a competition co-organized with the Municipal Office of Łódź, took part in the project.

Since 2011, Pelion has been executing also the project "University Ambassador", aimed at cooperation with the University of Łódź, Łódź University of Technology and the Medical University, via students of these Universities, selected by recruiting.

As in the previous years, Pelion supported the Scholarship Program of the Municipal Office of Łódź, hoping that funds granted in this way will help students to develop their interest, acquire new qualifications beyond the University and, as a target, build ties with the company.

Professional trainings and project internships

In order to create for students and graduates the possibility to achieve first professional experiences, Pelion Healthcare Group executes the Programs of Trainings and Internships, offering:

- professional trainings and graduate internships (individually designed training programs during the academic year, executed in cooperation with universities),
- project internships (programs of payable summer internships, addressed to students of the recent years of the studies, taking account of the company's business needs):
 - Program "Career" (competition organized in cooperation with the Polish Business Council),
 - "Train in Łódź" (competition organized in cooperation with the Municipal Office of Łódź, project under the program "The Young in Łódź").

Trainings and internships are, both for the company and students, the best opportunity to get to know mutual expectations, they enable accurate assessment of competences and give an opportunity of further professional development. The most talented persons will join the team of Pelion Healthcare Group.

Open Day for students in Pelion



Development and trainings

The most important training projects executed in 2011 included implementation of the IMPACT training program, aimed to educate customer advisors and sales consultants. This program is an innovative sales system, being a flag program of the development of dealers, prepared by American company The Brooks Group. The participation in this innovative training program has developed and helped to use more effectively sales skills of advisors and brought benefits of all parties of the sales process occurring in the company.

An important element of the training policy was also the project of open trainings for all employees entitled "Holidays with Trainings in PGF". The program was aimed at raising competences of employees in the area of self-management in time, assertiveness in professional contacts and handling stress. This project will be executed also in the coming years, inspiring employees to personal development and improvement in competences.

Under development trainings, executed by internal trainer, more than 330 employees were trained.

Employees of retail sale line

In 2011, under the retail sale line, several important HR projects were executed. In the second quarter, organizational changes were made in sales regions and 133 pharmacies were incorporated to the existing chain of Dbam o Zdrowie Pharmacies. In new pharmacies the existing systems and personnel procedures were successfully implemented, in particular motivation system, planning and settlement of working time, recruitment of employees and training programs.

In newly taken over pharmacies the employment was adjusted to optimum level, determined by the number of customers, sales volume, opening hours and development opportunities of the pharmacy (implementation of the so-called "employment model"). The incorporation of 133 pharmacies was completed according to the plan and their employees are a stable staff of professional pharmacists. At the end of the year, a similar process started in Lithuania, based on knowledge obtained during incorporation of pharmacies in Poland, in the chain of Lithuanian pharmacies Litfarma.



In 2011, also improvement was continued in communication under the entire line: cyclic meetings were held in sales regions, information on plans and work results was provided regularly, "roadshow" of managerial staff including employees of new pharmacies took place. Throughout the whole year, a weekly newsletter was issued, constituting the basic source information for employees of own pharmacies as well as partner and franchise pharmacies.

Another important project was launching of e-learning trainings. In all kinds of trainings the main emphasis was put on development of the e-learning platform and reaching each employee with necessary knowledge, at place and time convenient.

6 training modules were carried out for pharmacists, related to merchandising and marketing, new workflow system, cash register instruction, and program of substitutes.

Specialized trainings, during which, in cooperation with Polish pharmaceutical universities 800, pharmacists were trained, enjoyed a great interest.

The program of knowledge exchange between employees of the Polish and Lithuanian pharmacies was executed, thanks to which the personnel of the selected pharmacies strengthened the mutual relations, recognized differences and similarities in the functioning of pharmacies, and a part of organizational solutions was implemented in own pharmacies.



Innovation as guarantee of the future

doz.pl

- leading position on the market of information knowledge about health - compendium of pharmaceutical knowledge and educational website related to health and beauty,
- the only Polish website with the possibility of ordering and receiving drugs in the pharmacy,
- free sms notifications of the possibility of receiving the order in one of Dbam o Zdrowie Pharmacies, with the shortest delivery time, without any additional costs,
- dynamic growth – more than 3 million visits each month, almost 400,000 of registered users, more than 100,000 orders a month,
- the largest base of drugs for patients available on the Internet – over 20,000 available products, including 4.7 thousand prescription drugs,
- planned further actions: extension of available assortment, introduction of new attractive forms of promotion, implementation of the platform of mobile communication.

Pharmena S.A.

- establishing of the Company as a consequence of the discovering by the scientists of the Technical University of Łódź the possibility to apply the selected pyridine salts in medicine,
- conduct of research in the USA and Canada on the application of the selected pyridine salts in order to determine, antiatherogenic drug innovative worldwide,
- production and sale of innovative dermo-cosmetics protected by patent law.

pharmbook.pl

- interactive portal of the pharmaceutical industry,
- access to the forum, chats with experts, purchasing group, news from the market, free training for educational points and up-to-date sales offers for pharmacies.



Program 60+

- price offer most attractive on the market directed to people 60+,
- unique solution permitting adjustment of the price offer to the needs of the customer,
- more than 1 million participants at the end of 2011, nearly 500,000 transactions monthly.

Drug insurance

- unique solution on the part of the market of private health care related to expenses on drugs, worth PLN 17 bn,
- the insurance is executed on the basis of a drug card entitling to receive health provision in the pharmacy against payment reduced by the amount resulting from the insurance contract.

Electronic orders

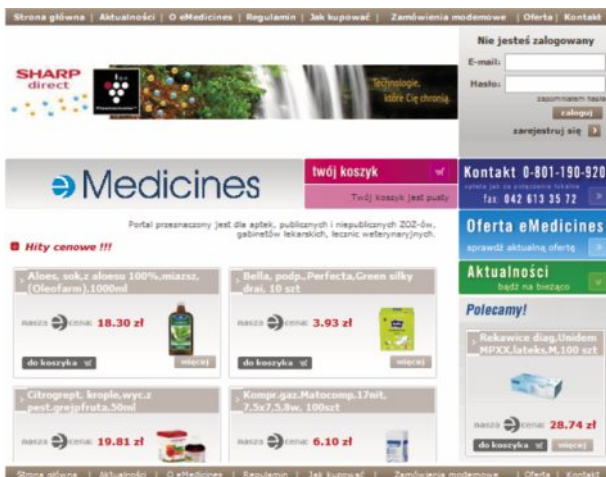
- promotion in wholesale to pharmacies the electronic solutions based on Internet technology,
- adjustment of transaction systems to handle electronically each order incoming from pharmacies with all available systems on the market,
- more than 50% of all orders transferred to wholesale stores are electronic ones.

Direct distribution

- storage and distribution of goods directly to pharmacies on behalf of and for the manufacturer,
- unique solution in the form of consignment network conducted by companies of the Group on local markets,
- procedures that guarantee compliance with the Pharmaceutical Law and the Good Distribution Practice,
- fleet of specialist vehicles serving every day the area of the whole Poland,
- cold supply chain as well as the GPS system in vehicles, enabling permanent monitoring of temperature conditions during transport.

Work-flow system

- electronic communication tool used for service of processes related to flow of documents,
- continuous implementation under the system of new projects in order to optimize working time.



Milestones in 2011

1st quarter

Continuation of retail restructuring.

In February, DOZ S.A. – subsidiary of CEPD N.V., operating on the Polish market, took over pharmacies so far belonging to PGF S.A. (presently Pelion S.A.). This event was continuation of the restructuring process of the Group and its goal was a clear separation of the retail part. The taken-over pharmacies participated in the loyalty program "Dbam o Zdrowie" and marketing programs, and accepted payment by ePRUF cards. After the takeover, these pharmacies fully benefit from standards of DOZ S.A., such as shared pricing, purchasing and marketing policy, merchandising, warehouse management.

Floating of O1 shares

In February, the members of the Management Board of PGF S.A. (presently Pelion S.A.) subscribed new issue shares:

- 23,200 O1 series shares in PGF S.A., at issue price of 20.45 PLN per share,
- 18,600 O1 series shares in PGF S.A., at issue price of 20.45 PLN per share.

The shares were issued in connection with the management options program introduced in 2006. In March, 41,800 O1 series bearer shares in PGF S.A. (presently Pelion S.A.) were floated, par value of PLN 2 each.

Merger of companies

In February, the merger of PZF Cefarm Lublin S.A. (as acquiring company) with Viola Sp. z o.o., Apteka Górczewska Sp. z o.o., Amadeus Sp. z o.o., Aurum Sp. z o.o. and SGI Sp. z o.o. (as target companies) was registered.

In the 1st quarter, there was a merger of UAB "Gintarinė vaistinė" in Vilnius and UAB "Suvalkiečių vaistinė" in Mariampol.

2nd quarter

Appointment of members of the Management Board of PGF S.A. (presently Pelion S.A.) for a new term

In April, the Supervisory Board appointed, as of May 27th 2011, to the Management Board for another term of office Mr. Jacek Sz wajcowski, to the position of President of the Management Board of the Company, and Ms. Anna Biendara, Mr. Zbigniew Molenda and Mr. Ignacy Przystalski, to the position of Vice President of the Management Board of the Company. All the appointed persons were previously Members of the Management Board of PGF S.A. (presently Pelion S.A.) and their term of office expired on the day of the General Meeting of Shareholders of the Company, i.e. on May 26th 2011. Mr. Jacek Dauenhauer was elected for a 3-year term of office in 2010.

Selection of the auditor

In April, the Supervisory Board of PGF S.A. (presently Pelion S.A.), on the basis of § 13, passage 11 of the Company's Articles of Association, decided to select Ernst & Young Audit Sp. z o.o., with registered office in Warsaw, Rondo ONZ 1 – entity authorized to audit financial statements (license no.: 130), with which a contract was concluded for audit of the financial statements for the period of 2 years.

Incorporation of the new company

In April, Pharmapoint Sp. z o.o., with registered office in Łódź, was incorporated. In December, the company was entered into the Register of Entrepreneurs of the National Court Register.



The Annual General Meeting of Shareholders approved unanimously the financial statement of the Company for the year 2010

In May, in the registered office of the Company in Łódź, the Annual General Meeting of Shareholders of PGF S.A. (presently Pelion S.A.) was held, during which the statement of the Management Board on the operations of the Company in the financial year 2010 and the financial statement for the year 2010 were approved, it was decided to allocate net profit earned in 2010 for payout of dividend for shareholders, reserve fund created for the Company's buyback of own shares for retirement, coverage of losses from previous years and for statutory reserve funds. The vote of approval was granted to the members of the authorities of the Company, members of the Supervisory Board were appointed, the Articles of Association of the Company and the Regulations of the General Meeting were amended, and it was decided to retire 168,141 of own shares in the Company reducing, at the same time, initial capital by PLN 336,882.

3rd quarter

1st edition of "Łódź Marathon Dbam o Zdrowie (I Take Care of My Health)"

In June, PGF S.A. (presently Pelion S.A.), in cooperation with Dbam o Zdrowie Pharmacies and the City of Łódź, organized the first in the history Łódź Marathon Dbam o Zdrowie. The honorary patronage over the event was taken by the Mayor of Łódź, Hanna Zdanowska. "Łódź Marathon Dbam o Zdrowie" is a special sports and social event. The goal of the event is promotion of healthy lifestyle and physical activity, as well as creation of modern charity. "Łódź Marathon Dbam o Zdrowie" is the first in Poland event of this type, during which runners can raise money for selected charity goal or public benefit organization. In the first edition of "Łódź Marathon Dbam o Zdrowie" nearly 1,500 people from Poland and abroad took part, including athletes who had participated in the biggest marathons of the world. "Gazeta Finansowa" under the 10th edition of "Report: Corporate Social Responsibility" awarded "Łódź Marathon Dbam o Zdrowie" for involvement in actions related to corporate social responsibility. The chapter recognized the Marathon as exceptional sports and social event.

CEPD N.V. leader in Lithuania

In July, in Vilnius, UAB Gintarine Vaistine, company being a part of holding CEPD NV, signed a conditional contract of the value of LTL 14.2 m (ca. PLN 16.3 m), for acquisition of UAB SAULEGRAZU VAISTINE, conducting in Lithuania the chain of 65 pharmacies under the brand of Litfarma Vaistine. After approval of the transaction by the Lithuanian Anti-Monopoly Office, which was the condition for purchase of the shares constituting 100% of capitals, UAB Nacionaline Farmacijos Group (local company of holding CEPD N.V., responsible for business development in Lithuania) reached the first position on the Lithuanian market in terms of the number of own pharmacies. The document of completion of the transaction was signed in October 2011.

Floating of O1 series and O2 shares

In July, the Members of the Parent Company's Management Board subscribed 32,500 shares of a new issue of O1 series and 92,900 O2 series shares, at issue price of PLN 20.45. The shares were issued under the management option program introduced in 2006. The shares of par value of PLN 2 each were approved for trade on the stock exchange on July 22nd 2011. They were floated on the main market on July 27th 2011.

Sale of an organized part of business

On September 29th 2011, the Extraordinary General Meeting of Shareholders of PGF S.A. decided to change the company name to "PELION" Spółka Akcyjna (Joint-Stock Company) (abbreviation "PELION" S.A.). At the same time, consent was granted to selling by the Company an organized part of business, covering organizationally and functionally separated group of intangible and tangible components allocated for operations in the wholesale, so far executed by PGF S.A., the Branch in Łódź and the Branch in Katowice, through contributing it, as contribution in kind, to cover shares in the increased share capital of the company representing 100% subsidiary of Pelion S.A. – PGF-Hurt Sp. z o.o., with registered office in Warsaw. The value of the object of contribution in kind amounted to PLN 371.95 m. PGF-Hurt Sp. z o.o., on the basis of the contribution in kind, continues operations in the wholesale of pharmaceuticals to pharmacies.

Repurchase and issue of medium-term bonds

In September, on the secondary market, 960 own bonds with total value of PLN 96,000 thousand were repurchased and retired.

The amount to be paid for repurchase of bonds together with the calculated interest amounted to PLN 97,990,000. At the same time, under the Medium-term Bond Issue Program of 2007, 330 bonds of PGF S.A. (presently Pelion S.A.) were issued, with total value of PLN 33,000,000, with the purchase term of October 30th 2012.

Contribution of an organized part of business to subsidiary

On September 30th 2011, PGF S.A. (presently Pelion S.A.) and its subsidiary "Polska Grupa Farmaceutyczna - Hurt" Sp. z o.o. a signed a contract, on the basis of which PGF S.A. (presently Pelion S.A.) transferred, as of October 1st 2011, to "Polska Grupa Farmaceutyczna - Hurt" Sp. z o.o. an organized part of the business, covering organizationally and functionally separated group of intangible and tangible components intended for conduct of operations in the wholesale of medicinal products, medical materials and pharmaceutical products (object of the contribution in kind). Increase in initial capital of "Polska Grupa Farmaceutyczna - Hurt" Sp. z o.o. was registered by the Registry Court on November 2nd 2011. On the same day, the registered office of this Company was changed. Currently, it is based in Łódź, ul. Zbąszyńska 3.

One of assets being component of an organized part of the business was trademark – the PGF brand, under which operations are continued in the field of wholesale to pharmacies by "Polska Grupa Farmaceutyczna – Hurt" Sp. z o.o. The market value of the trademark was put at PLN 195.7 m, on the basis of valuation of an independent expert .

Along with assets included in an organized part of the business, "Polska Grupa Farmaceutyczna - Hurt" Sp. z o.o. took over liabilities related to wholesale operations.

Merger of companies

In September, subsidiaries of the Group merged – DOZ S.A. (acquiring company) and NDS DEPO S.A. (target company). NDS DEPO S.A. was dissolved without liquidation proceedings. All rights and liabilities were taken over by DOZ S.A.

4th quarter

Appointment of a new Member of the Management Board

The Supervisory Board appointed, as of October 1st 2011, Ms. Sylwia Pyśkiewicz to the Management Board of Pelion S.A., to the position of Vice President of the Management Board for development and new technologies.

Pelion – Partner of the Year 2011

In November, in Warsaw, during a solemn ceremony, the Editorial Staff of Economic Magazine "Home&Market" awarded to Pelion Healthcare Group the title of the Best Partner in Business in the category "Partner of the Year". The chapter awarded Pelion for a constructive restructuring of the Group, an element of which is the last reorganization and change in the name of PGF to Pelion. According to the chapter, these changes prove a new stage of international development of the Group.



Pelion Great Pearl of the Polish Economy

In November, during a solemn ceremony in the Grand Theatre in Warsaw, the economic magazine "Polish Market" and the Institute of Economic Sciences of the Polish Academy of Sciences awarded to Pelion Healthcare Group the title of Great Pearl of the Polish Economy, in recognition of the consistently implemented corporate policy and strategy, and the leading position among the most dynamic and most effective companies in Poland.

First million of seniors in the Program 60+

At the end of November 2011, a millionth participant joined the Program 60+ executed in Dbam o Zdrowie Pharmacies. The goal of the project, addressed to persons 60+, is to level barriers in the access to treatment. The program was created on the initiative of Dbam o Zdrowie pharmacists, who, every day, observe the occurrence of resignation from purchase of drugs: according to statistics, even every 3rd ill does not purchase pharmaceuticals prescribed by a doctor or interrupts treatment, for financial reasons. The personal card entitled the Program 60+ participants to purchase at preferential prices more than 7,000 prescribed preparations available in the chain of 1,600 pharmacies throughout Poland.



Merger of companies

In October, the merger of Nowy Chelm Sp. z o.o., with registered office in Gdańsk (acquiring company), with Apteka Wałowa Sp. z o.o., with registered office in Gdańsk (target company), was registered. The merger was conducted on the basis of Article 492, § 1, item 1 of the Code of Commercial Companies, i.e. through transfer of all assets of Apteka Wałowa Sp. z o.o., with registered office in Gdańsk, to Nowy Chelm Sp. z o.o., with registered office in Gdańsk (merger by takeover). On November 2nd 2011, all entries for Apteka Wałowa Sp. z o.o. were deleted from the KRS (National Court Register). Nowy Chelm Sp. z o.o. changed its name to Apteka Wałowa Sp. z o.o.

In October, also the merger of PZF Cefarm Lublin S.A. (acquiring company) with companies Apteki Polskie S.A., with registered office in Krakow, Bofarm Sp. z o.o., with registered office in Kartuzy, Oktet Sp. z o.o., with registered office in Krakow, ATG Sp. z o.o., with registered office in Łódź, Apteka Pod Ratuszem Sp. z o.o., with registered office in Środa Śląska, Na Kościelnej Sp. z o.o., with registered office in Łódź, Tarnowska Sp. z o.o., with registered office in Tarnów, Apteka Rodzinna Sp. z o.o., with registered office in Łódź, (as target companies) was registered.

Registration of the name Pelion S.A.

On November 17th 2011, the District Court for Łódź-Śródmieście in Łódź, 20th Commercial Department of the National Court Register, registered change in the name Polska Grupa Farmaceutyczna S.A. to Pelion S.A. In connection with the change in the name, from December 1st 2011, the Company shares on the Stock Exchange in Warsaw under the simplified name "PELION" and symbol "PEL".

Incorporation of the new company

In December, Pharmauto Sp. z o.o., with registered office in Łódź, ul. Zbąszyńska 3, was incorporated. On January 2nd 2012, the company was entered in the Register of Entrepreneurs of the National Court Register.

Financial data and their analysis

ANALYSIS OF THE FINANCIAL RESULT

The year 2011 was full of events, including completion of the process of reorganization of the Group as well as preparation for the new reimbursement act, valid from January 1st 2012 in Poland. Due to effectiveness of the adopted strategy, Pelion strengthened its market position, recording growth above the market in sales in all business lines. In the segment of wholesale to pharmacies and hospitals in Poland, sales growth amounted to 12.1% and was significantly higher than dynamics of the pharmaceutical market, equal to 5.1%⁽¹⁾. The share of the Group in the domestic wholesale distribution market in the 4th quarter 2011 amounted to 21%⁽¹⁾, and from the geographic analysis it can be concluded that in several regions of the country the leading position of wholesale was maintained, with market share exceeding 25%. Also in the retail segment the Group was developing faster than market growth - at the end of the year on the market of retail distribution of pharmaceuticals in Poland, sale of average Dbam o Zdrowie Pharmacy was 9.1% higher than sale of an average pharmacy on the market. Market-oriented costs incurred in 2011, related to preparation for legal changes from 2012 and constituting investment in the future, should be reflected positively in the future results of Pelion Group.

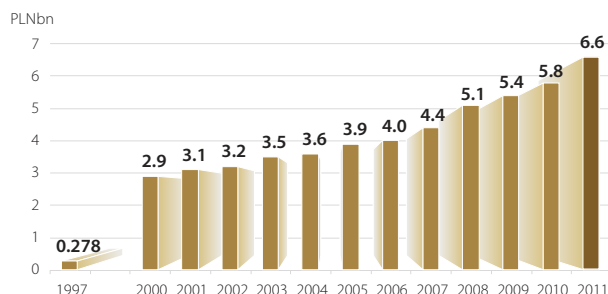
⁽¹⁾Source – on the basis of IMS Health data

Sales revenue

In 2011, Pelion Group obtained sales revenue record high in the history, i.e. PLN 6.6 bn, reaching one of the highest year-on-year sales dynamics over last years, +13.3%.

For many years, sales trend has been increasing. It is an effect related to a constant development of the Group as well as regular growth of the pharmaceutical market in Poland.

Sales revenue in PLNbn



Gross profit

Gross profit in 2011 amounted to PLN 797.6 m, which, as compared to the amount of PLN 754.4 m, recorded for the year 2010, gives increase by 5.7%. Gross margin amounted to 12.1% and was lower, as compared to 2010, by 0.9 p.p., which was influenced by, among others intensified market-oriented actions, the purpose of which was constant increase in the number of customers, including patients of own and partner pharmacies.

Gross margin = gross profit / sales revenue

Distribution costs and general and administrative expenses

Distribution costs and general and administrative expenses amounted to PLN 701.8 m and increased, as compared to the previous year, by 8.6%.

Ratio of the above costs developed at the level of 10.7%, i.e. 0.4 p.p. less as compared to 2010.

Distribution costs and general and administrative expenses ratio = (distribution costs + general and administrative expenses) / sales revenue

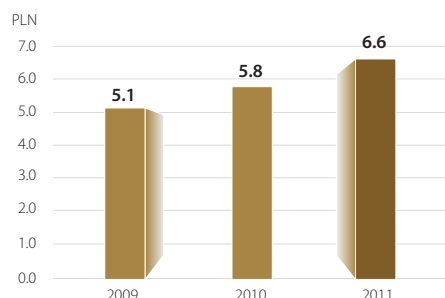
Financial income and costs

In the presented period, Pelion Group posted PLN 19.7 m of financial income and PLN 51.2 m of financial costs. Financial income included mainly interest obtained (nearly 73.3%) and financial costs – interest on financial liabilities (more than 85.1%).

Surplus of financial costs over financial income in Pelion Group in the years 2009-2011 (in PLNm)

	2009	2010	2011
Financial income	27.0	21.2	19.7
Financial costs	52.0	49.5	51.2
Surplus of financial costs over income	25.0	28.3	31.5

Earnings per ordinary share (PLN)



EBIT and EBITDA

In 2011, Pelion Group obtained positive balance of other operating income and expenses that increased operating profit (EBIT) by PLN 0.3 m (in the previous year it amounted to PLN 4.5 m).

Profit on operating activities amounted to PLN 96.4 m, and EBIT profitability to 1.5 %, i.e. 0.4 p.p. less as compared to the previous year.

The result at the level of EBITDA for the year 2011 amounted to PLN 128.7 m, which, as compared to 2010 when it was at the level of PLN 142.9 m, means a decrease by 9.9%. Excluding one-offs events in 2010, decrease in EBITDA amounted to 5.7%. Reduction in EBITDA year-on-year was influenced, to the greatest extent, by increase in market-oriented costs and lower than assumed results achieved in the retail part in Poland.

Pre-tax profit and net profit

In 2011, pre-tax profit of Pelion Group amounted to PLN 65.5 m, and pre-tax margin – to 1.0%. Net profit attributable to owners of the Parent amounted to PLN 80.2 m and was higher by 13.5% as compared to the result for the year 2010 (PLN 70.7 m). It means that the assumed two-digit dynamics of net profit was achieved. Net profitability was held at the same level as compared to 2010, and amounted to 1.2%.

Earnings per ordinary share

In 2011, earnings per share ratio, as compared to 2010, increased by 13.8%, from the amount of PLN 5.8 to PLN 6.6, and is the highest in the history of the Group.

Profitability ratios

	2009	2010	2011
gross margin	12.8%	13.0%	12.1%
distribution costs and general and administrative expenses ratio	11.5%	11.1%	10.7%
EBITDA profitability	2.7%	2.5%	2.0%
EBIT profitability	2.1%	1.9%	1.5%
pre-tax profitability	1.7%	1.5%	1.0%
net profitability	1.2%	1.2%	1.2%

gross margin = gross profit / sales revenue
EBITDA profitability = EBITDA / sales revenue

EBIT profitability = operating profit / sales revenue
pre-tax profitability = gross profit / sales revenue
net profitability = net profit / sales revenue

The structure of assets of Pelion Group and sources of financing structure

Value	as at 01.01.2010	as at 31.12.2010	as at 31.12.2011
Non-current assets	34.8%	34.4%	37.2%
Current assets, including:	64.5%	65.3%	62.2%
- inventories	28.4%	33.0%	25.7%
- current receivables	27.1%	25.7%	28.6%
Non-current assets held for sale	0.7%	0.3%	0.6%
TOTAL ASSETS	100.0%	100.0%	100.0%
Equity attributable to owners of the Parent	18.3%	19.4%	21.7%
Non-current liabilities	11.9%	20.7%	14.7%
Current liabilities	69.3%	59.4%	63.5%
Non-controlling interests	0.5%	0.5%	0.1%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%	100.0%

ANALYSIS OF ASSETS POSITION

There were no major changes in asset structure in 2011: current assets continued to prevail over non-current assets.

Non-current assets

As at 31.12.2011, the share of non-current assets in the balance sheet total was 37.2% (as at the date of 31.12.2010 - 34.4%).

Main items of non-current assets are goodwill (23.1% of total assets), property, plant and equipment (7.5% of total assets), deferred tax assets (2.0% of total assets) and intangible assets (1.9% of total assets).

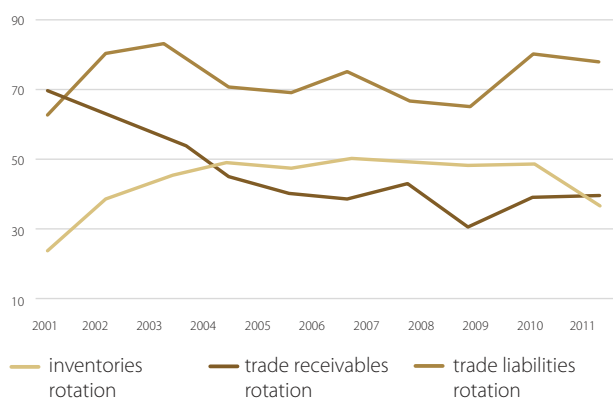
Non-current financial assets are, first of all, loans granted and interest on loans, which constitute 0.7% of value of assets.

Current assets

The share of current assets in total assets as at 31.12.2011 decreased and amounted to 62.2% (at the end of 2010 - 65.3%). The main component of current assets were trade payables and inventories. At the end of the year 2011, the Group managed to decrease significantly inventories rotation and balance, as compared to the previous year. The value of inventories was reduced by PLN 137.1 m (from PLN 771.9 m at the end of 2010 – to PLN 634.8 m at the end of 2011), and inventories rotation as at the balance sheet date amounted to 35 days and was shorter by 14 days than as at 31.12.2010. Inventories constituted 25.7% of property of Pelion Group and their share in assets decreased by 7.3 p.p. as compared to share in inventories as at 31.12.2010.

Current assets

Rotation indicators 2001-2011 (in days)



Rotation indicators 2011 vs 2010

Indicator (in days)	2010	2011	y-o-y
Inventories rotation	49	35	-14
Trade receivables and other receivables rotation	38	39	1
Trade liabilities and other liabilities rotation	80	78	-2
Working capital rotation	7	-4	-11

*Inventories rotation = inventories as at 31.12.2011 / total sales revenue * 365 days*

At the end of 2011, trade receivables and other receivables amounted to PLN 698.8 m and were higher by PLN 98.0 m than as at 31.12.2010. Trade receivables and other receivables rotation as at 31.12.2011 amounted to 39 days and was longer by 1 day than in the previous year.

*Trade receivables and other receivables rotation = trade receivables and other receivables as at 31.12.2011 / total sales revenue * 365 days*

Current financial assets in the amount of PLN 31.4 m comprised mainly granted loans and interest on loans with a total amount of PLN 31.0 m.

Liabilities and provisions

Total liabilities and provisions in the amount of PLN 1,934.2 m consisted mainly of trade liabilities and other liabilities in the amount of PLN 1,396.5 m, constituting 56.4% of the balance sheet total (as at 31.12.2010, 54.3% respectively).

Trade liabilities and other liabilities rotation as at 31.12.2011 amounted to 78 days and was 2 days shorter than as at 31.12.2010.

*Trade liabilities and other liabilities rotation = trade liabilities and other liabilities as at 31.12.2011 / total sales revenue * 365 days*

STRUCTURE OF SOURCES OF FINANCING ASSETS

As at 31.12.2011, assets were financed with equity of the parent entity in 21.7%. Liabilities and non-controlling shares constituted 78.3% of liabilities, i.e. 2.3 p.p. less than at the end of the last year.

Financial liabilities

Financial liabilities of Pelion Group	As at 01.01.2010	Share in the balance sheet total	As at 31.12.2010	Share in the balance sheet total	As at 31.12.2011	Share in the balance sheet total
	PLNm	%	PLNm	%	PLNm	%
non-current	249.8	11.4	469.3	20.1	348.6	14.1
current	257.2	11.7	85.9	3.7	143.6	5.8
Total	507.0	23.1	555.2	23.8	492.2	19.9

Financial liabilities

Financial liabilities as at 31.12.2011 amounted to PLN 492.2 m (as at 31.12.2010, PLN 555.2 m), including non-current liabilities in the amount of PLN 348.6 m constituted 14.1% of the balance sheet total.

The Group managed to decrease financial liabilities by PLN 63.0 m at the end of the year 2011, as compared to the balance at the end of the year 2010. Financial liabilities as at 31.12.2011 constituted 19.9% of the balance sheet total (at the end at 2010 - 23.8% respectively).

At the end of the year 2011, Pelion executed plans of net debt reduction, reaching the level of PLN 332.0 m, i.e. PLN 127.0 m less than at the end of 2010.

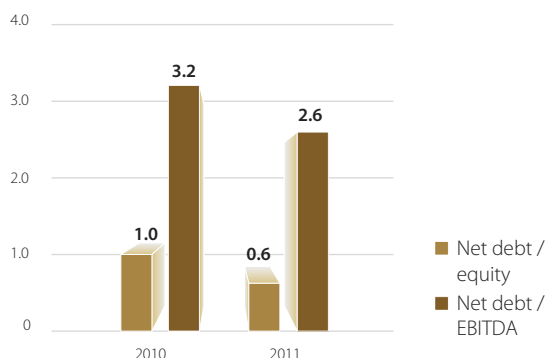
Such a significant decrease caused reduction in net debt /equity ratio, from 1.0 at the end of the year 2010 to 0.6 at the end of the year 2011, and in net debt /EBITDA, from 3.2 to 2.6 respectively.

The Group has stable and well diversified sources of external financing.

FINANCIAL LIQUIDITY

Liquidity ratios remain stable and do not differ significantly from the levels obtained by entities operating in the industry, which use external financing.

Debt ratios



CASH FLOWS

In 2011, Pelion Group generated positive flows from operating activities in the amount of PLN 256.7 m, namely PLN 199.9 m more than in 2010. It was an effect of improvement in working capital management, including significant reduction in inventories. Working capital rotation in 2011 was 11 days shorter than in 2010. Cash flows from investment activities were negative and amounted to PLN 46.7 m. The level was influenced mainly by purchase of intangible assets and property, plant and equipment acquisition of subsidiaries and loans granted.

Negative flows generated in the course of financial activities were at the level of PLN 146.1 m.

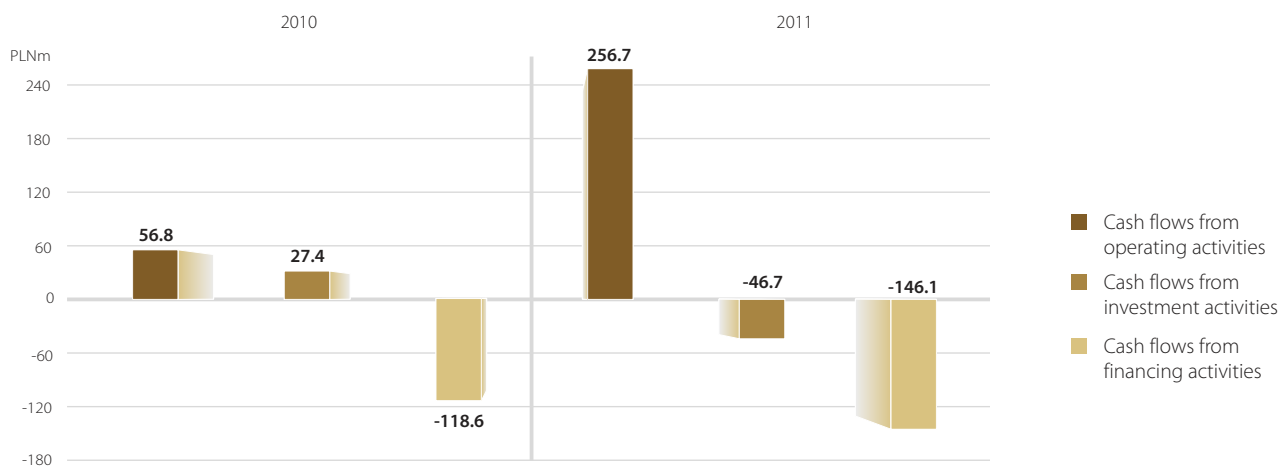
In 2011, net cash flows reached the level of PLN 64.0 m, and the balance of cash at the end of period was PLN 160.2 m.

SHARE BUYBACK

In 2011, Pelion continued to buy back of own shares, pursuant to resolution of the General Meeting of Shareholders of June 23rd 2010, which established and adopted for implementation a program of buy back of own shares by the Company, for the purpose of their retirement and decrease in initial capital. The fixed date of completion of the program is May 31st 2013, no longer, however, than until funds allocated for purchase of shares used up. Under purchase of shares, Pelion S.A., until 31.12.2011, bought back total 715,381 of own shares for the amount of PLN 33.4 m, of which, in 2010, retirement covered 360,974 shares of par value of PLN 0.7 m, and in 2011 retirement covered 168,141 shares of face value of PLN 0.3 m. As at 31.12.2011, the Company had 186,266 own shares purchased for the purpose of their retirement.

In 2012, until the date of preparation of the annual consolidated statement for the year 2011, Pelion S.A. purchased total 134,728 own shares for the amount of PLN 4.3 m. The Company had together 320,994 own shares of par value of PLN 0.6 m and value at purchase price of PLN 11.0 m. These shares constituted 2.6208% of initial capital of Pelion S.A. and gave 1.6596% of votes at the General Meeting of Shareholders.

Cash flows



INVESTMENTS AND DEVELOPMENT

In 2011, investment expenses in Pelion Group amounted to PLN 97.7 m, of which tangible investments amounted to PLN 72.1 m, and capital investments amounted to PLN 25.6 m.

The largest investments in property, plant and equipment were related to construction and modernization of buildings and structures where Pelion S.A. and other companies of the Group conduct business operations, including construction of real estate and equipment of Laboratorium Galenowe (Galenic Laboratory) Olsztyn Sp. z o.o. and modernization of pharmacy premises.

Capital investments are mainly expenses related to purchase of shares from minority shareholders in PZF Cefarm Kraków S.A., in the amount of PLN 7.1 m, PGF Aptekarz Sp. z o.o. (option execution) in the amount of PLN 1.9 m, and purchase of a new group of retail companies in Lithuania (in the amount of PLN 15.2 m).

Investments were funded from own and external sources of financing.

PLANNED INVESTMENTS

In the period of the next 12 months, Pelion Group intends to spend PLN 38.5 m on financing tangible investments. The planned investments include, first of all, expansion and modernization of logistic base, modernization of buildings and structures, purchase of IT hardware and software.

In 2012, investments will be financed mainly from own sources. The execution of the above intentions is not at risk.

Pelion Group, as at the date of preparation of the financial statement, does not plan any significant capital investments in purchase of shares in other companies. However, owing to the changing situation on the local pharmaceutical market, a decision on making such investments in the future cannot be excluded.

Liquidity ratios

Ratio	as at 01.01.2010	as at 31.12.2010	as at 31.12.2011
current liquidity ratio	0.9	1.1	1.0
quick liquidity ratio	0.5	0.6	0.6

current liquidity ratio = current assets / current liabilities and provisions

quick liquidity ratio = (current assets – inventory) / current liabilities and provisions

DEVELOPMENT DIRECTIONS

Pelion S.A., along with its subsidiaries, as the company with already over twenty-year tradition, is aware of increasing requirements and expectations from the world of business. In its daily activities, it makes efforts to be a professional and innovative company. In the years to come, Pelion will be searching for innovative solutions through implementation of innovative projects and development of websites (like Pharmbook.pl), directed to professionals from the pharmaceutical industry.

In 2012, Pelion Group will be focused on higher sales mostly through organic growth. The Group will strive to increase in competitive advantage through the best service offered to the patients, pharmacies and other customers, and through an attractive offer on the market.

It will keep on focusing on improvement of margin and optimization of operating expenses.

Owing to the unsatisfactory results obtained by the retail segment in Poland, the Management Board of Pelion S.A. will make immediately any necessary actions for the purpose of faster achievement of the goals adopted by this segment. Thanks to the described activities, Pelion intends to improve the level of operating profitability and net profitability. Actions aiming to keep the trend of debt reduction, further improvement in financial liquidity and inventories optimization as well as strict control over collection of receivables will be continued.

Financial information ('000 PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Dec 31 2011	Dec 31 2010 (restated)
Assets		
NON-CURRENT ASSETS	919,826	803,882
Goodwill	572,582	536,006
Intangible assets	46,104	32,746
Property, plant and equipment	186,178	167,319
Investment property	19,849	18,965
Investments accounted for with equity method	1,675	1,436
Other non-current financial assets	16,533	1,630
Non-current receivables	24,734	24,728
Deferred tax assets	50,464	19,196
Other non-current assets	1,707	1,856
CURRENT ASSETS	1,540,065	1,526,825
Inventories	634,749	771,899
Other current financial assets	31,409	51,130
Current receivables	708,285	601,444
Trade and other receivables	698,795	600,772
Current tax receivable	9,490	672
Cash and cash equivalents	160,155	96,189
Other current assets	5,467	6,163
NON-CURRENT ASSETS HELD FOR SALE	14,596	8,489
Total assets	2,474,487	2,339,196
Equity and liabilities		
TOTAL EQUITY	540,276	466,077
Equity attributable to owners of the Parent	537,620	454,835
Share capital	24,834	24,836
Statutory reserve funds	390,857	330,694
Treasury shares	(6,749)	(2,555)
Other capital reserves	82,113	70,001
Exchange differences on translation of subordinated entities	32,827	7,788
Retained earnings/ (deficit)	13,738	24,071
- profit/ (loss) brought forward	(66,493)	(46,592)
- net profit	80,231	70,663
Non-controlling interests	2,656	11,242
NON-CURRENT LIABILITIES	362,478	483,809
Non-current liabilities and provisions	359,277	482,106
Other financial liabilities	348,555	469,296
Liabilities under options to purchase non-controlling interests	-	1,740
Deferred tax liabilities	8,434	8,999
Long-term provisions	2,288	2,071
Deferred income	3,201	1,703
CURRENT LIABILITIES	1,571,733	1,389,310
Current liabilities and provisions	1,544,607	1,368,230
Other financial liabilities	143,626	85,877
Liabilities under options to purchase non-controlling interests	127	1,550
Short-term provisions	3,304	1,843
Trade and other payables	1,396,538	1,270,441
Current tax payable	1,012	8,519
Accruals and deferred income	27,126	21,080
Total equity and liabilities	2,474,487	2,339,196

CONSOLIDATED INCOME STATEMENT

	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010 (restated)
CONTINUING OPERATIONS		
Revenue	6,569,927	5,799,423
Cost of sales	(5,772,334)	(5,045,055)
Gross profit	797,593	754,368
Distribution costs	(591,656)	(539,881)
General and administrative expenses	(110,127)	(106,306)
Other operating income	9,528	15,813
Other operating expenses	(9,236)	(11,336)
Share in net profit/ (loss) of associates and joint ventures accounted for with equity method	266	54
Operating profit	96,368	112,712
Gain/(loss) on investments	656	(16)
Finance income	19,718	21,165
Finance costs	(51,240)	(49,479)
Pre-tax profit	65,502	84,382
Income tax	15,629	(12,711)
Net profit on continuing operations	81,131	71,671
DISCONTINUED OPERATIONS		
Net loss on discontinued operations		
Total net profit	81,131	71,671
Attributable to:		
Owners of the Parent	80,231	70,663
Non-controlling interests	900	1,008
Weighted average number of ordinary shares	12,144,028	12,272,922
Diluted weighted average number of ordinary shares	12,436,895	12,509,872
Continuing and discontinued operations		
Earnings per ordinary share		
- basic	6.61	5.76
- diluted	6.45	5.65

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2011	Total equity	Equity attributable to owners of the Parent	Share capital
At beginning of the period: Jan 1 2011	466,077	454,835	24,836
Net comprehensive income	106,173	105,261	-
- net profit/ (loss) for period	81,131	80,231	-
- net other comprehensive income	25,042	25,030	-
Other increases in equity	78,438	78,438	334
- share issue	334	334	334
- share premium	3,061	3,061	-
- distribution of profit	86,003	86,003	-
- change in shareholder structure	1,627	1,627	-
- buyback of own shares	(13,071)	(13,071)	-
- management stock options	380	380	-
- other increase	104	104	-
Other decreases in equity	110,412	100,914	336
- dividend	15,756	14,911	-
- change in shareholder structure	8,653	-	-
- retirement of shares	-	-	336
- profit distribution / covered loss	86,003	86,003	-
At end of the period: Dec 31 2011	540,276	537,620	24,834

2010 (restated)	Total equity	Equity attributable to owners of the Parent	Share capital
At beginning of the period: Jan 1 2010	412,280	402,045	25,521
Net comprehensive income	64,746	63,743	-
- net profit/ (loss) for period	71,671	70,663	-
- net other comprehensive income	(6,925)	(6,920)	-
Other increases in equity	54,276	54,120	37
- share issue	37	37	37
- share premium	336	336	-
- distribution of profit	65,073	65,073	-
- change in shareholder structure	(169)	(290)	-
- share buyback	(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)	-
Other decreases in equity	65,225	65,073	722
- dividend	152	-	-
- retirement of shares	-	-	722
- profit distribution / covered loss	65,073	65,073	-
At end of the period: Dec 31 2010	466,077	454,835	24,836

Statutory reserve funds	Treasury shares	Other capital reserves	Exchange differences on translation of subordinated entities	Retained earnings/ (deficit)	Non-controlling interests
330,694	(2,555)	70,001	7,788	24,071	11,242
-	-	-	25,030	80,231	912
-	-	-	-	80,231	900
-	-	-	25,030	-	12
64,477	(13,071)	20,653	9	6,036	-
-	-	-	-	-	-
3,061	-	-	-	-	-
61,416	-	20,273	-	4,314	-
-	-	-	-	1,627	-
-	(13,071)	-	-	-	-
-	-	380	-	-	-
-	-	-	9	95	-
4,314	(8,877)	8,541	-	96,600	9,498
-	-	-	-	14,911	845
-	-	-	-	-	8,653
-	(8,877)	8,541	-	-	-
4,314	-	-	-	81,689	-
390,857	(6,749)	82,113	32,827	13,738	2,656

Statutory reserve funds	Treasury shares	Other capital reserves	Exchange differences on translation of subordinated entities	Retained earnings/ (deficit)	Non-controlling interests
333,540	(7,662)	75,828	14,708	(39,890)	10,235
-	-	-	(6,920)	70,663	1,003
-	-	-	-	70,663	1,008
-	-	-	(6,920)	-	(5)
26,290	(12,675)	11,233	-	29,235	156
-	-	-	-	-	-
336	-	-	-	-	-
25,954	-	9,983	-	29,136	-
-	-	-	-	(290)	121
-	(12,675)	-	-	-	-
-	-	-	-	408	35
-	-	1,250	-	-	-
-	-	-	-	(19)	-
29,136	(17,782)	17,060	-	35,937	152
-	-	-	-	-	152
-	(17,782)	17,060	-	-	-
29,136	-	-	-	35,937	-
330,694	(2,555)	70,001	7,788	24,071	11,242

CONSOLIDATED STATEMENT OF CASH FLOWS

	Dec 31 2011	Dec 31 2010 (restated)
(indirect method)		
A. Cash flows from operating activities		
I. Profit (loss) before tax	65,502	84,382
II. Total adjustments	191,236	(27,623)
1. Share in net (profit) loss of subordinated entities accounted for with equity method	(266)	(54)
2. Depreciation and amortisation	32,325	30,158
3. Foreign exchange (gains)/losses	3,689	(693)
4. Interest and profit distributions (dividends)	33,282	19,934
5. (Gain)/loss on disposal of non-current assets	(1,566)	2,456
6. Change in inventories	152,728	(145,066)
7. Change in receivables	(87,748)	(71,444)
8. Change in current liabilities (net of borrowings and other debt instruments)	91,963	150,528
9. Income tax paid	(32,342)	(12,866)
10. Other adjustments, net	(829)	(576)
III. Net cash provided by/(used in) operating activities (I +/- II)	256,738	56,759
B. Cash flows from investing activities		
I. Cash provided by financing activities	131,844	159,574
1. Sale of intangible assets and property, plant and equipment	30,472	30,092
2. Disposal of subsidiary entities (net of cash disposed of)	505	61,384
3. Acquisition of subsidiary entities (net of cash acquired)	-	685
4. Disposal of other financial assets	31,907	636
5. Dividends and other profit distributions	-	145
6. Repayment of loans advanced	65,356	62,599
7. Interest paid	3,604	3,523
8. Other net cash provided by investing activities	-	510
II. Cash used in investing activities	(178,520)	(132,224)
1. Acquisition of intangible assets and property, plant and equipment	(57,812)	(38,691)
2. Acquisition of subsidiary entities (net of cash acquired)	(18,231)	-
3. Acquisition of other financial assets	(10,617)	(15,883)
4. Increase in loans advanced	(80,787)	(74,878)
5. Other cash used in investing activities, net	(11,073)	(2,772)
III. Net cash provided by/(used in) investing activities (I - II)	(46,676)	27,350
C. Cash flows from financing activities		
I. Cash provided by financing activities	308,450	354,154
1. Net proceeds from issue of shares, other equity instruments and additional contributions to equity	3,395	373
2. Increase in borrowings and other debt instruments	305,055	353,781
II. Cash used in investing activities	(454,546)	(472,777)
1. Acquisition of own shares	(13,071)	(12,675)
2. Purchase of shares from non-controlling interests	(9,395)	(127,098)
3. Dividends and other distributions to owners	(14,911)	-
4. Dividends and other distributions from profit paid out to non-controlling interests	(845)	(152)
5. Repayment of borrowings and other debt instruments	(373,209)	(298,127)
6. Other financial liabilities	(5,692)	(613)
7. Interest paid	(37,423)	(34,112)
III. Net cash provided by/(used in) financing activities (I - II)	(146,096)	(118,623)
D. Total net cash flow (A.III +/- B.III +/- C.III)	63,966	(34,514)
E. Balance-sheet change in cash, including:	63,966	(34,514)
- change in cash resulting from foreign exchange differences	3,763	(692)
F. Cash at beginning of the period	96,189	130,703
G. Cash at end of the period (F +/- D)	160,155	96,189

SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

	Dec 31 2011	Dec 31 2010 (restated)
GOODWILL		
1. Gross goodwill		
a) gross goodwill at beginning of the period	536,242	509,195
b) increase, including:	36,576	31,201
- acquisition of subsidiary entities	22,480	29,344
- settlement of options to purchase shares *	321	1,857
- foreign exchange differences	13,775	-
c) decrease, including:	-	4,154
- foreign exchange differences	-	4,154
d) gross goodwill at end of the period	572,818	536,242
2. Cumulative impairment losses		
a) impairment losses on goodwill at beginning of the period	236	236
b) impairment losses on goodwill at end of the period	236	236
3. Net goodwill at end of the period	572,582	536,006

	Dec 31 2011	Dec 31 2010 (restated)
INTANGIBLE ASSETS		
development expenses	703	-
perpetual usufruct rights to land	3,194	2,385
acquired permits, patents, licences and similar assets, including:	11,144	9,574
- software	4,046	4,699
other intangible assets	29,776	20,562
intangible assets under construction	1,287	225
Total intangible assets	46,104	32,746

	Dec 31 2011	Dec 31 2010 (restated)
PROPERTY, PLANT AND EQUIPMENT (BY TYPE)		
land	10,674	9,831
buildings and structures	90,050	85,117
plant and equipment	47,678	29,411
vehicles	11,699	10,651
other property, plant and equipment	20,953	20,289
tangible assets under construction	5,124	12,020
Total property, plant and equipment	186,178	167,319

SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

	Dec 31 2011	Dec 31 2010 (restated)
NON-CURRENT RECEIVABLES		
1. Security deposits	24,734	24,728
Total net non-current receivables	24,734	24,728
a) impairment losses	33	-
Total gross non-current receivables	24,767	24,728
CURRENT TRADE AND OTHER RECEIVABLES		
1. Trade receivables	640,691	565,758
2. Tax, subsidy, customs duty, social security, health insurance and other receivables (without income tax)	34,384	22,465
3. Receivables under sale of shares	-	360
4. Other receivables	22,732	12,189
5. Disputed receivables	988	-
Total net current receivables	698,795	600,772
a) impairment losses on receivables	88,265	97,590
Total gross current receivables	787,060	698,362
TRADE RECEIVABLES (MATURITY STRUCTURE AS FROM THE BALANCE-SHEET DATE)		
a) up to 1 month	374,459	307,823
b) over 1 to 3 months	88,906	91,306
c) over 3 to 6 months	37,609	58,027
d) over 6 months to 1 year	1,041	2,891
e) over 1 year	2,041	2,629
f) past due	214,513	187,669
Total gross trade receivables	718,569	650,345
PAST DUE TRADE RECEIVABLES (BY PERIOD OF DELAY)		
a) up to 1 month	80,856	71,223
b) over 1 to 3 months	40,561	25,859
c) over 3 to 6 months	11,889	5,126
d) over 6 months to 1 year	5,503	2,416
e) over 1 year	75,704	83,045
Total gross past due trade receivables	214,513	187,669

SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

	Dec 31 2011	Dec 31 2010 (restated)
OTHER ASSETS		
1. Other non-current assets	1,707	1,856
a) prepayments, including:	471	629
- paid property insurance	5	5
- IT service	83	7
- pre-paid rent	110	160
- lease payments	178	211
- other	95	246
b) other prepayments and accrued income, including:	1,236	1,227
- discount on security deposit	574	789
- other	662	438
2. Other current assets	5,467	6,163
a) prepayments, including:	4,860	5,303
- paid property insurance	1,265	1,416
- subscriptions	31	27
- IT service	1,047	769
- rent, energy, telephone bills	1,290	1,260
- cost related to issue of shares	14	12
- visual identity of pharmacies	133	349
- registration of drugs and pharmaceutical substances	800	674
- other costs paid in advance	280	796
b) other prepayments and accrued income, including:	607	860
- discount on promissory notes	76	167
- discount on security deposit	160	236
- other	371	457

	Dec 31 2011	Dec 31 2010 (restated)
INVENTORIES		
a) materials	2,369	2,229
b) semi-finished products and work in progress	2	-
c) finished products	1,147	924
d) merchandise	631,231	768,746
Total net inventories	634,749	771,899
Impairment losses on:	5,468	5,883
a) materials	7	142
b) merchandise	5,461	5,741
Total gross inventories	640,217	777,782

SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

	Dec 31 2011	Dec 31 2010 (restated)
NON-CURRENT ASSETS HELD FOR SALE (BY TYPE)		
Net non-current assets held for sale at beginning of the period	8,489	16,153
1. 1. Initial value	-	-
a) gross non-current assets held for sale at beginning of the 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) increase, including:	8,394	113
- land	205	113
- perpetual usufruct rights to land	1,884	-
- buildings and structures	6,170	-
- shares	135	-
c) decrease, including:	2,287	7,848
- land	16	393
- perpetual usufruct rights to land	333	77
- buildings and structures	1,938	2,551
- plant and equipment	-	87
- shares	-	4,740
d) gross non-current assets held for sale at end of the period	14,596	8,489
- land	318	129
- perpetual usufruct rights to land	2,281	730
- buildings and structures	11,862	7,630
- shares	135	-
2. Impairment	-	-
a) impairment losses on investments in associates at beginning of the period	-	71
- decrease	-	71
b) impairment losses on investment property at end of the period	-	-
4. Net non-current assets held for sale at end of the period	14,596	8,489

	Dec 31 2011	Dec 31 2010 (restated)
OTHER NON-CURRENT FINANCIAL LIABILITIES		
a) borrowings and other debt instruments	346,598	287,892
b) debt securities in issue – notes/bonds	-	180,940
c) other financial liabilities – finance lease liabilities	1,957	464
Total other non-current financial liabilities	348,555	469,296

	Dec 31 2011	Dec 31 2010 (restated)
OTHER CURRENT FINANCIAL LIABILITIES		
a) borrowings and other debt instruments	12,878	51,324
b) debt securities in issue – notes/bonds	130,147	31,522
c) other financial liabilities, including:	601	3,031
- finance lease liabilities	565	372
- liabilities under dividends	34	14
- liabilities under financial derivatives	2	634
- liabilities under acquisition of shares	-	1,977
- liabilities under cash pooling	-	34
Total other current financial liabilities	143,626	85,877

SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

	Dec 31 2011	Dec 31 2010 (restated)
OTHER EQUITY AND LIABILITIES		
1. Other non-current equity and liabilities	3,201	1,703
a) non-current deferred income	3,201	1,703
- non-current non-financial assets received free of charge	39	101
- property, plant and equipment financed from State and Company Funds for the Disabled and from the prevention fund	2,914	1,598
- other	248	4
b) non-current accrued expenses	-	-
2. Other current equity and liabilities	27,126	21,080
a) current accrued expenses relating to provisions for:	23,611	18,940
- unused holidays	5,953	10,055
- bonuses and retirement severance pays	11,890	6,317
- costs of services provided but not invoiced	4,950	32
- gifts under loyalty programmes	17	2,380
- other costs	801	156
b) current deferred income	3,515	2,140
- property, plant and equipment financed from State and Company Funds for the Disabled	180	202
- prepaid interest on loans	143	353
- discount on promissory notes	593	480
- prepayments for services and real property	613	15
- non-current non-financial assets received free of charge	62	67
- loyalty programmes	1,753	896
- other	171	127
REVENUE		
1) merchandise	6,319,223	5,591,699
2) materials	625	789
3) products	4,312	2,805
4) services	245,767	204,130
Total net revenue	6,569,927	5,799,423
COST OF MERCHANDISE AND MATERIALS SOLD		
a) cost of merchandise sold	5,689,527	4,978,889
b) cost of materials sold	464	834
Total cost of merchandise and materials sold	5,689,991	4,979,723

SELECTED NOTES FROM CONSOLIDATED FINANCIAL STATEMENT

	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010 (restated)
COSTS BY TYPE		
a) depreciation and amortisation	32,321	30,142
b) materials and energy used	36,719	35,443
c) services	224,452	204,142
d) taxes and charges	11,984	11,409
e) staff costs	401,628	372,065
f) other costs by type, including:	73,274	56,312
- business trips	1,313	986
- marketing costs	59,587	40,594
- costs of advertising and entertainment	7,555	9,913
- property insurance	2,815	2,359
- other costs	2,004	2,460
Total costs by type	780,378	709,513
Change in inventories, products, accruals and deferrals	3,749	1,635
Cost of products for own needs (negative value)	(1)	371
Distribution costs (negative value)	(591,656)	(539,881)
General and administrative expenses (negative value)	(110,127)	(106,306)
Cost of products sold	82,343	65,332

	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010 (restated)
PERSONNEL COSTS		
a) salaries and wages	339,823	311,258
b) social security contributions	57,839	52,820
c) other employee benefits	9,945	9,617
Total personnel costs	407,607	373,695

	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010 (restated)
OTHER OPERATING INCOME		
a) gain on disposal of non-current non-financial assets	-	6,357
b) subsidies	5,791	5,159
c) released provisions	64	233
- for future and other liabilities	64	233
d) other, including:	3,673	4,064
- donations receive	6	3
- cost of bank guarantees	132	199
- reversed impairment losses on property, plant and equipment	68	7
- reimbursed court fees and cost of enforcement proceedings	113	143
- compensations under insurance policies	888	1,032
- accrued/deferred income written off	165	133
- costs refunded from the Company Fund for the Disabled and by the District Labour Office	282	155
- liabilities written off	301	185
- other	1,718	2,207
Total other operating income	9,528	15,813

Jan 1–Dec 31 2011

Jan 1–Dec 31 2010
(restated)**OTHER OPERATING EXPENSES**

a) loss on disposal of non-current non-financial assets	559	-
b) revaluation of assets	2,065	2,237
- property, plant and equipment	2	82
- receivables	2,050	1,971
- intangible assets	13	184
c) recognised provisions	541	154
- future liabilities	541	154
d) other, including:	6,071	8,945
- donations granted	1,019	1,321
- compensations paid	393	748
- cost of damage removal	694	602
- cost of bank guarantees	380	483
- receivables cancelled and written off	657	1,721
- court fees and cost of enforcement proceedings	603	558
- membership fees	298	224
- other	2,027	3,288
Total other operating expenses	9,236	11,336

FINANCE INCOME

1. Interest:	14,444	15,418
a) on loans advanced	2,788	4,257
b) on discount of promissory notes	4,313	2,702
c) on bank deposits	890	1,808
d) on receivables and other interest	6,453	6,651
2. Other finance income	4,126	4,123
a) reversed impairment losses on interest on receivables	1,150	1,173
b) reversed impairment losses on purchased receivables	1,432	2,156
c) net foreign exchange gains	8	-
d) settlement of options to purchase shares from non-controlling interests	1,270	-
e) other	266	794
3. Revaluation of financial assets	1,148	1,624
Total finance income	19,718	21,165

FINANCE COSTS

1. Interest accrued on:	43,627	38,050
a) bank borrowings	24,954	20,211
b) notes/bonds	9,194	11,179
c) liabilities	121	501
d) finance lease	185	107
e) other	9,173	6,052
2. Revaluation of financial assets	168	463
a) loans advanced	10	355
b) interest on loans advanced	158	74
c) receivables under finance lease	-	34
3. Other finance costs	7,445	10,966
a) impairment losses on interest on receivables	1,944	1,922
b) impairment losses on receivables	8	30
c) balance-sheet valuation of financial derivatives	178	384
d) bank fees and commissions	3,397	3,127
e) loss on sale of receivables	1,052	533
f) share capital increase and share issue costs	13	177
g) provision for finance costs	-	192
h) net foreign exchange losses	-	720
i) discount on obligations under options to purchase shares	72	3,093
j) other	781	788
Total finance costs	51,240	49,479

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