

2006 Annual Report

(01.01.2006 – 31.12.2006)



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Separate Annual Report enclosures:

- 2006 Financial Statement
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1. Historical Data

1.1. Establishment of the Company, Shareholding Structure

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

During its history, PHARMOS, a.s. has gained an important position in the sphere of wholesale distribution of pharmaceuticals to public and hospital pharmacies. The company strives to have a continuous close co-operation with its customers and to create favourable conditions for the development of pharmacies, thus contributing to a further increase of the respect towards the pharmaceutical profession in the Czech Republic. Since the moment it came into existence, PHARMOS has been a stable member of a group of companies gathered around Česká lékárnická, a.s.

Currently, Pharmos, a.s. has two major shareholders, Česká lékárnická, a. s., owning approximately 71.6 % of PHARMOS, a.s. shares, and a German shareholder Phoenix International Beteiligungs GmbH. Mannheim, owning 28 % of the shares (the shares were transferred onto this company by Stumpf AG, the original owner and a member of the Phoenix concern). The remaining 0.4 % of the shares is owned by small Czech shareholders – physical entities.

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

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

1.2. Activities, Operation of Autonomous Outlets

The main activity of PHARMOS, a.s. is the purchase of goods for sale and resale. As regards the specific items of its assortment, the company is oriented mostly towards delivering pharmaceuticals and medicinal products to public and hospital pharmacies, as well as towards delivering medical supplies and dental supplies. Besides this basic assortment, PHARMOS, a.s. supplies its customers with a complementary assortment represented by parapharmaceuticals, cosmetic products and dietary supplements.

The company has its registered office in Ostrava-Radvanice, Těšínská 1349/296. The distribution is performed using eight main company warehouses (localities: Ostrava-Radvanice, Prostějov, Brandýsek, Brno, Ústí nad Labem, Hradec Králové, České Budějovice and Lukášov) and one auxiliary warehouse designed as a consignment and customs warehouse (Jihlava locality). Since 2004, distribution under the PHARMOS brand name has been in progress within the localities of Jihlava and Plzeň.



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

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

1.3. History of Profit and Loss

The balance of profit loss of the past years may be considered as positive and contributing to the stable position of the company on the Czech market. Such assessment does not apply solely to the evaluation of the profit/loss but also to the success in the sphere of the economic policy to be applied and the overall position of the company on the market.

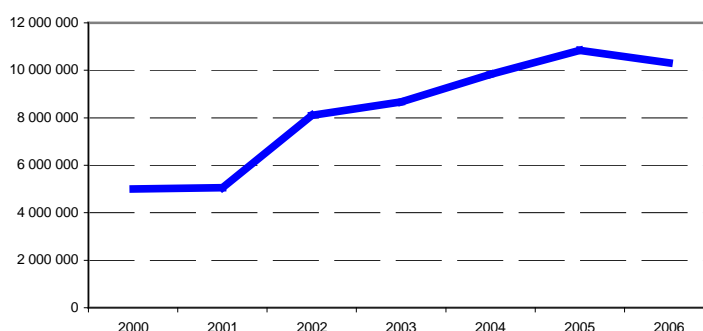
Year 2006 was significantly affected by the negative market developments as a consequence of Government measures influencing the consumption of pharmaceuticals on the Czech market. The decrease in the sales margin and the terms and conditions regarding the prescription of drugs had negative impact on our customers – pharmacies, especially public pharmacies. As a consequence of the model of degressive sales margin, the situation in this area stabilized and even later on improved from the perspective of the public pharmacies' economy. However, changes in the prescription of medicines and recipes caused further differences to develop on the market of public and hospital pharmacies (hospital pharmacies reported a significant growth). The overall negative consequences in turnover and sales margin can be characterized as follows:

- a) pressure on decrease in sales margins as a consequence of the decreased common sales margin from 32% to 29% in 1 January 2006 – 31 July 2006
- b) movement of part of the sales from public pharmacies to hospital pharmacies
- c) decreased consumption of medicines as a consequence of measures regarding prescription
- d) pressure on decrease in sales margins regarding hospital pharmacies (as regards more expensive products) as a consequence of the degressive sales margin effective as of 1 August 2006

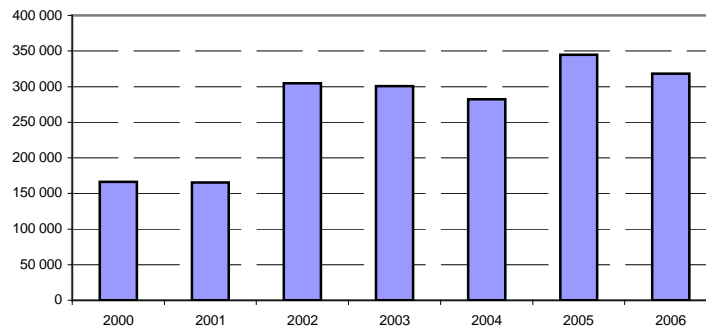
Even despite these highly negative pressures and as a consequence of the non-system changes in the health sector, PHARMOS reported positive economic results and managed to keep its position on the Czech market.

Indicator	2001	2002	2003	2004	2005	2006
Total revenue from normal operations (CZK '000)	5 050 424	8 109 214	8 675 004	9 834 677	10 838 324	10 308 792
Total sale of goods (CZK '000)	5 008 815	7 978 982	8 536 152	9 695 500	10 678 580	10 149 993
Total export of goods (CZK '000)	1 851	5 930	4 508	747	24 912	13 547
Share of supplies for export in total sale of goods (%)	0.04 %	0.07 %	0.05 %	0.01%	0.23%	0.13%
Revenue from services (CZK '000)	41 609	130 232	138 852	139 178	159 744	158 799
Share in % of revenue from total revenue from normal operations	0.82 %	1.61 %	1.60 %	1.42%	1.47%	1.54%
Gross margin in absolute figures (CZK)	165 552	304 619	300 608	282 401	344 912	318 081
Gross margin (%)	3.31 %	3.82 %	3.52 %	2.91%	3.22 %	3.13%
Business surcharge (%)	3.42 %	3.97 %	3.65 %	3.00%	3.34 %	3.24%

Total revenue from common operations (CZK '000)



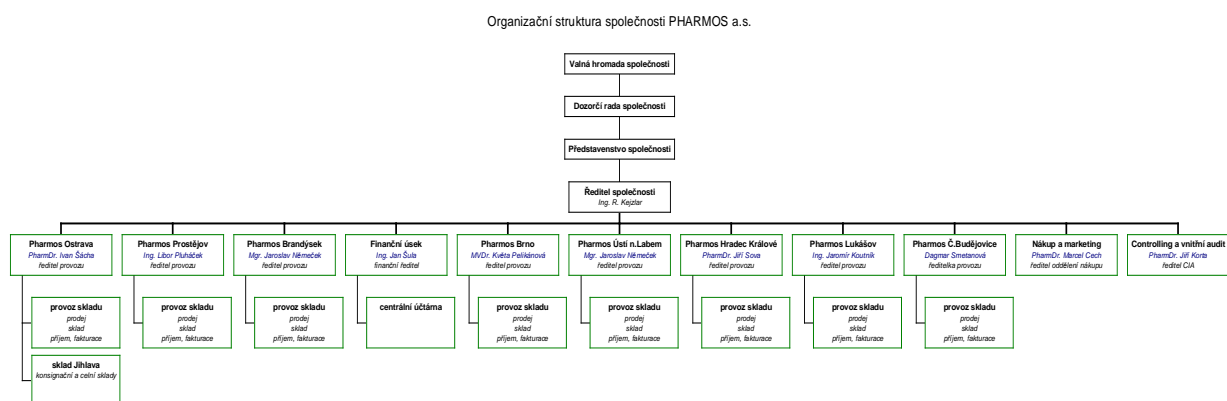
Gross margin (CZK)



2. Company Organisational Structure and Company Bodies

2.1. Company organization chart

The organisational structure of PHARMOS, a.s. did not undergo any substantial changes during the year 2006. The diagram provided below represents the situation as of 31 December 2006.



2.2. Company Bodies

Supervisory Board:

- Chairman of the Supervisory Board Helmut Kraft *)
- Member of the Supervisory Board PharmDr. Petr Nalevajka
- Member of the Supervisory Board Mgr. Ilona Mravcová
- Member of the Supervisory Board Mgr. Lea Lesáková
- Member of the Supervisory Board Ing. Oldřich Fiala
- Member of the Supervisory Board Christoph Nöhl *)

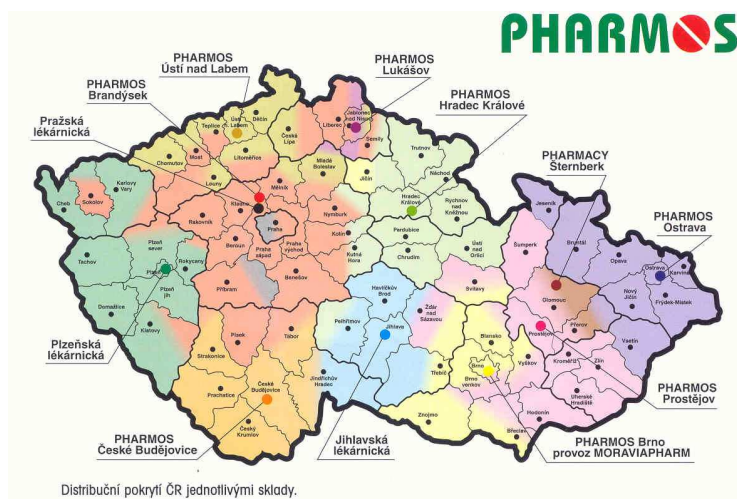
Board of Directors:

- Chairman of the Board of Directors Ing. Roman Kejzlar
- Member of the Board of Directors Ing. Jan Šula
- Member of the Board of Directors PharmDr. Marcel Cech
- Member of the Board of Directors PharmDr. Jiří Korta

*) Not entered in the Commercial Register, yet.

The data in the Notes to Financial Statements reflect the situation entered in the Commercial Register.

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



3. Company Profit and Loss

The profit and loss for the year 2006 may be assessed as positive, similarly to the past years, both from the viewpoint of the profit and from the viewpoint of the development of the company's balance sheet items.

The total volume of the revenue from goods sold amounted to CZK 10 149 993 thousand and in comparison with the same period of the last year, a 4.95% decrease was reported. The total revenue from ordinary activity amounted to CZK 10 308 792 thousand, and the sale of goods had the most important share in this revenue volume. The decisive part of the revenue from goods was represented by the supplies of pharmaceuticals and other complementary assortment to public and hospital pharmacies. The decrease in revenues, year-on-year, was reflected in the gross margin expressed both as an absolute and relative figure. The gross margin for the period of 2006 amounted to CZK 318 081 thousand, i.e. approximately 3.13% of gross margin in relative figures.

In the course of 2006, the development within the framework of operating cost items was successful. The development of these was influenced in a negative manner especially by the changes in the price of some inputs, particularly an increase in the price of purchased materials and power and, last but not least, an increase in the price of workforce. In the course of the year, several partial measures were adopted in the interest of strengthening furthermore the efficiency of the entire operation of the company, and measures in the interest of further strengthening of stability and creation of conditions for further development of the company were enforced.

The most important items within the framework of operating costs (besides the costs of goods sold) include, above all, the costs of purchased services and staff costs.

As regards financial management, the Company's situation is complicated the most by the interest expenses which have a significant influence on the financial profit/loss. The interests payable slightly increased by CZK 908 thousand against 2005. This utilization of bank loans in 2006 decreased by CZK 58 265 thousand against 2005.

As of the last day of the monitored period, the fixed assets of the company reached the total amount of CZK 3 826 678 thousand, and in comparison with the balance at the end of the last fiscal year, a decrease was reported of approximately CZK 177 110 thousand. The net book value of the tangible and intangible fixed assets as of 31 December 2006, in comparison with the balance as of 31 December 2005, decreased by CZK 15 044 thousand. The current assets of the company posted an annual decrease by approximately CZK 162 689 thousand.

The company's equity increased by CZK 10 110 thousand and its total volume reached CZK 552 872 thousand. This increase has a positive effect on the ratio indicators. In 2006, the Company's registered capital did not increase.

In view of the achieved profit for 2006, the company's equity was furthermore strengthened, which stabilized the financial resources of PHARMOS, a.s. The ratio cost and income indexes related to CZK 1 000 of revenues show a generally favourable development, which evidences the effectiveness of the investments and the creation of a sufficient potential for the future development.

4. Investment Construction and Development of Activities

4.1. Investment Construction in the Past Year

The investments made in the course of the past years were focussed especially on the renewal and complementation of the Company's existing fixed assets and an overall improvement of the structure of these fixed assets. In 2006, an additional building of a storage hall in Brandýsek was carried out, with the aim of increasing the capacity of this operation. Investments were allocated for the renovation of information technology and office equipment in order to ensure their higher performance and reliability, together with the renewal of the car fleet.

4.2. Plans concerning Investment Construction and Development of Activities

Installation of despatch lines at Brandýsek and Ostrava plants, with the aim of increasing the despatching capacities of these plants and assure further savings of labour forces.

5. Selected Data from the Balance Sheet



TEXT (NET BALANCE) IN CZK '000	2001	2002	2003	2004	2005	2006
Total assets	1 416 152	2 796 091	3 164 198	3 835 757	4 003 788	3 826 678
Stock subscriptions receivable	-	-	-	-	-	-
Fixed assets	123 596	308 141	370 129	348 607	339 755	324 711
Intangible fixed assets	5 281	27 351	18 410	10 300	5 703	3 377
Tangible fixed assets	90 550	233 676	307 505	315 114	310 859	306 215
Financial investments	27 765	47 114	44 214	23 193	23 193	15 119
Current assets	1 285 933	2 486 825	2 793 310	3 485 296	3 662 702	3 500 013
Stock	335 401	672 083	759 551	974 818	1 096 882	1 081 904
Long-term debtors	69 425	108 059	104 830	101 799	48 129	54 797
Short-term debtors	850 767	1 623 409	1 877 711	2 398 210	2 482 531	2 319 073
Financial assets	30 340	83 274	51 218	10 469	35 160	44 239
Other assets – temporary asset accounts	6 623	1 125	759	1 854	1 331	1 954
Total liabilities	1 416 152	2 796 091	3 164 198	3 835 757	4 003 788	3 826 678
Equity	249 055	484 550	504 348	530 512	542 762	552 872
Registered capital	48 000	85 700	85 700	342 800	342 800	342 800
Capital funds	19 556	162 643	162 643	-	-	-
Funds from profit	67 005	82 005	125 005	135 005	145 005	176 005
Retained profit or loss from previous years	82 463	89 739	94 343	15 953	12 821	14 387
Profit or loss of current year	32 031	64 463	36 657	36 754	42 136	19 680
Liabilities	1 166 288	2 310 660	2 659 765	3 305 245	3 460 480	3 273 287
Reserves	1 352	1 860	5 710	7 700	-	6 000
Long-term liabilities	-	11 968	10 541	-	29 558	24 376
Short-term liabilities	704 849	1 173 312	1 328 908	1 435 538	1 509 832	1 380 086
Bank loans and overdrafts	460 087	1 123 520	1 314 606	1 862 007	1 921 090	1 862 825
Other liabilities - temporary liability accounts	809	881	85	-	546	519

The summary concerning all fiscal years has been processed using the 2006 methodology.

6. Selected Data from the Profit and Loss Account



TEXT (CZK '000)	2001	2002	2003	2004	2005	2006
Sales of goods purchase for resale	5 008 815	7 978 982	8 536 152	9 695 500	10 678 580	10 149 993
Cost of goods sold	4 843 263	7 674 363	8 235 544	9 413 099	10 333 668	9 831 912
Gross margin	165 552	304 619	300 608	282 401	344 912	318 081
Sale of own products and services	41 609	130 232	138 852	139 178	159 744	158 799
Consumables	9 185	22 720	19 631	21 968	25 301	26 675
Services	63 420	126 796	126 676	139 897	153 765	144 226
Added value	134 556	285 335	293 153	259 714	325 590	305 979
Wages and salaries	43 599	94 785	99 091	104 428	111 314	114 096
Social and health insurance	14 899	32 521	33 313	35 667	37 788	39 514
Social benefits	1 914	3 952	4 281	3 664	5 054	6 985
Taxes and charges	520	999	2 854	1 186	3 806	-605
Depreciation of intangible and tangible fixed assets	10 675	29 739	27 678	22 973	20 543	20 111
Sales of fixed assets and materials	209	31 406	1 568	2 377	5 727	71
Net book value of sold fixed assets and materials	161	22 942	244	376	3 825	22
Change in the reserves and adjusting entries in the area of operations and complex retained expenses	-10 504	11 633	16 814	4 116	19 525	3 528
Other operating income	4 645	6 677	10 996	9 647	6 203	9 386
Other operating expenses	11 840	6 246	23 155	10 474	18 035	26 425
Profit / loss from operations	66 306	120 601	98 287	88 854	117 630	105 360
Sales of securities and shares	-	-	6 000	21 416	-	-
Securities and shares sold	-	-	6 000	21 242	-	-
Change in the reserves and adjusting entries in the area of finance	-110	-50	-	-	-	6 000
Interest income	7 298	13 019	10 725	10 495	7 118	4 811
Interest expenses	35 130	55 686	52 260	51 484	61 337	62 245
Other financial income	13 555	37 012	30 104	28 495	22 256	17 797
Other financial expenses	4 899	20 582	30 062	28 217	28 618	21 782
Profit or loss from financial operations	-19 066	-26 187	-42 093	-40 537	-60 581	-67 419
Income tax on ordinary activities – due	13 622	30 991	21 403	10 066	15 203	13 486
Income tax on ordinary activities – deferred	1 683	-21	-841	1 806	292	4 775
Profit or loss from ordinary activities	31 935	63 444	35 632	36 445	41 554	19 680
Extraordinary income	213	1 021	1 038	400	687	-
Extraordinary expenses	117	2	13	91	105	-
Income tax on extraordinary activities – due	-	-	-	-	-	-
Extraordinary profit or loss	96	1 019	1 025	309	582	-
Profit or loss of current year	32 031	64 463	36 657	36 754	42 136	19 680
Profit or loss before taxation	47 336	95 433	57 219	48 626	57 631	37 941

The summary concerning all fiscal years has been processed using the 2006 methodology.

7. Selected Data from the Cash Flow Statement



No.	TEXT (CZK '000)	2003	2004	2005	2006
P.	Balance of funds and monetary equivalents at the beg. of the accounting period	83 274	51 218	10 469	35 160
Z.	Book profit/loss from ordinary activity before taxation	56 194	48 315	57 049	37 941
A.1.	Adjustments with non-monetary operations	43 769	65 902	85 332	87 024
A.1.1.	Depreciation of fixed assets (+) except for net book value of fixed assets sold	34 732	30 027	20 543	27 165
A.1.2.	Variation in adjustments and reserves, and variat. in temp. asset and liab. acc. (+/-)	9 760	-2 946	12 472	2 474
A.1.3.	Profit (loss) from the sale of fixed assets (-/+)	-723	-2 168	-1 902	-49
A.1.4.	Revenue from dividends and share of profit (-)	-	-	-	-
A.1.5.	Settled expense interests (+) and settled income interests (-)	-	40 989	54 219	57 434
A*	Net cash flow from oper. act. before tax., changes in work. cap. and extraord. items	99 963	114 217	142 381	124 965
A.2.	Change in the need of working capital	-24 566	-47 761	-46 334	-3 266
A.2.1.	Variation in operating activity receivables (+/-)	-253 254	-501 316	-69 575	158 887
A.2.2.	Variation in operating activity short-term liabilities (+/-)	316 383	665 639	145 916	-177 188
A.2.3.	Variation in stocks (+/-)	-87 695	-212 084	-122 675	15 035
A**	Net cash flow from operating activity before taxation and extraordinary items	75397	66 456	96 047	121 699
A.3.	Expenditure on interests paid except for capitalized interests (-)	-	-51 484	-61 337	-62 245
A.4.	Interests received (+)	-	10 495	7 118	4 811
A.5.	Tax paid on income from ordin. act. and for additional tax assess. for previous years	-39 158	-27 366	3 678	-11 548
A.6.	Receipts and expenditures related to extraordinary accounting cases	1 025	309	582	-
A***	Net cash flow from operating activity	37 264	-1 590	46 088	52 717
B.1.	Expenditures related to acquisition of fixed assets	-103 564	-30 122	-15 511	-12 168
B.2.	Income from sale of fixed assets	7 567	23 786	5 727	71
B.3.	Loans and credits for related persons	-	-	-	-
B***	Net cash flow related to investment activity	-95 997	-6 336	-9 784	-12 097
C.1.	Variation in long-term or short-term liabilities	43 573	-22 541	-2 043	-21 957
C.2.	Impact of variation in equity on funds	-16 896	-10 282	-9 570	-9 584
C.2.1.	Increase in funds and monet. equiv. due to increased reg. capital, reserve fund (+)	-	-	-	-
C.2.2.	Payment of share in equity to associates (-)	-	-	-9 570	-9 584
C.2.3.	Monet. don. and allocat. into equity and other ass.s' and shareholders' deposits (+)	-	-	-	-
C.2.4.	Settlement of loss on behalf of associates (+)	-	-	-	-
C.2.5.	Direct payments to the debit of funds (-)	-	-1 720	-	-
C.2.6.	Dividends paid including paid withholding tax (-)	-16 896	-8 562	-	-
C.3.	Received dividends (+)	-	-	-	-
C***	Net cash flow related to financial activity	26 677	-32 823	-11 613	-31 541
F.	Net increase/decrease in the balance of funds	-32 056	-40 749	24 691	9 079
R.	Balance of funds and monetary equivalents at the end of the accounting period	51 218	10 469	35 160	44 239

8. Company Supervisory Board Report

Company Supervisory Board Report Concerning 2006 Financial Statement

The Supervisory Board of PHARMOS, a.s. was duly informed about the development of the business activity of the company and fulfilled all the pertinent tasks both according to the Czech system of law and according to the Articles of Association.

The Final Accounts and Annual Report were audited as of 31 December 2006 by AUDIT PROFESIONAL spol. s r.o., the company's auditor. The Supervisory Board has examined the Annual Report and approves of the findings contained in the Auditor's Report as of 31 December 2006.

The Supervisory Board would like to thank all the Members of the Board of Directors of PHARMOS, a.s. participating in the company's activity.

Supervisory Board

9. Auditor's Report

/AP/ ref. No. 40/2007

INDEPENDENT AUDITOR'S REPORT **concerning the verification of the 2006 Annual Report** **including the Report on the Relations between Controlling and Controlled Entities** **for PHARMOS a.s. shareholders**

Re: Annual Report

We have audited the conformity of the Annual Report of PHARMOS a.s., as of 31 December 2006, with the Financial Statement attached to this Annual Report. The statutory body of PHARMOS, a.s. is responsible for the accuracy of the Annual Report. Our objective is to issue a statement on the basis of our verification, regarding the conformity of the Annual Report with the Financial Statement.

The Financial Statement was audited in compliance with the International Auditing Standards and the relevant application clauses of the Chamber of Auditors of the Czech Republic. These regulations require that the audit is planned and performed so that the auditor gains reasonable certainty that the information presented in the Annual Report taken from the Financial Statement are in all material aspects in conformity with such a Financial Statement. We are convinced that the performed audit provides a reasonable basis for expressing the opinion.

In our opinion, the information presented in the Annual Report of PHARMOS, a.s., as of 31 December 2006, is in all material aspects in conformity with the Financial Statement specified above.

Re: Report on Relations between Controlling and Controlled Entities

We have also audited the material correctness of data disclosed in the Report on Relations between Controlling and Controlled Entities of PHARMOS a.s., as of 31 December 2006, enclosed to the Annual Report. The statutory body of PHARMOS, a.s. is responsible for the compilation of such a Report on Relations. Our objective is to issue a statement on the basis of our verification, regarding the Report on Relations.

Our verification was performed in compliance with the International Auditing Standards relating to such verification and the relevant application clauses of the Chamber of Auditors of the Czech Republic. These regulations require that the verification is planned and performed so that the auditor gains reasonable certainty that the information presented in the Report on Relations does not comprise and significant discrepancies. The verification is limited especially on queries among company staff and the analytical procedures, and random verification of the material correctness of the data. Therefore, the verification provides a lower degree of certainty than an audit. We did not perform an audit of the Report on Relations and therefore cannot render an auditor's statement.

Pursuant to our verification, we did not identify any significant material discrepancies of the data disclosed in the Report on Relations among Controlling and Controlled Entities of PHARMOS, a.s., as of 31 December 2006.

Ostrava, 18 May 2007

On behalf of **AUDIT PROFESIONAL, spol. s r.o.**
Hasičská 551/52, 700 30 Ostrava – Hrabůvka
License of the Chamber of Auditors of the Czech Republic No. 64

Ing. Miluše Vašíčková, Auditor, Certificate No. 1294
Company Executive

10. Information about Data Ascertained after 31 December 2006

As of 1 January 2007, Ing. René Butkov, Ph.D. was appointed Financial Director.

In connection with changes regarding the business operations, the personnel of individual plants changed. PharmDr. Ivan Šácha was appointed director for Moravia Region, Mgr. Jaroslav Němeček was appointed for Bohemia Region.

11. Anticipated Development of Company

Attention shall be further devoted to the growth of sales on the supplies to pharmacies, hospitals and medical product outlets throughout the Czech Republic; increased attention shall be given to regions where PHARMOS holds a market share below 20%.

In addition, logistics shall be taken care of particularly in Ostrava, Brno and Brandýsek. Efficiency measures will be gradually adopted to increase labour productivity and ensure further decrease in expenses of all sorts.

12. Activities in Research, Development and the Environment Protection

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

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

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

Ostrava, on 11 May 2007



Ing. Roman Kejzlar
Chairman of the Board of Directors



Ing. Jan Šula
Member of the Board of Directors

2006 Financial Statement

Minimum binding account of information acc. to
Decree 500/2002 Coll.

BALANCE SHEET
unabbreviated
as of 31 December 2006
(rounded to CZK '000)

ID No.
19010290

Trade name of accounting unit
PHARMOS, a.s.
.....

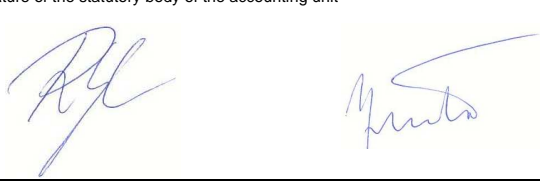
Registered office of accounting unit
Těšínská 1349/296
Ostrava - Radvanice
716 00

Identification a	ASSETS b	Current fiscal year			Previous fiscal year
		Gross 1	Correction 2	Net 3	Net 4
	TOTAL ASSETS (line 02 + 03 + 31 + 62) = line 66	4 082 980	-256 302	3 826 678	4 003 788
B.	Fixed assets (line 04 + 13 + 23)	505 888	-181 177	324 711	339 755
B. I.	Intangible fixed assets (line 05 to 12)	44 150	-40 773	3 377	5 703
3.	Software	17 608	-14 231	3 377	5 703
4.	Valuable rights	26 542	-26 542		
B. II.	Tangible fixed assets (line 14 to 22)	446 517	-140 302	306 215	310 859
B. II. 1.	Lands	15 026		15 026	14 464
2.	Structures	216 179	-37 809	178 370	174 885
3.	Machinery, tools & equipment, vehicles and fixtures	97 851	-67 225	30 626	35 972
7.	Tangible fixed assets not-in-use	10 051		10 051	7 949
8.	Prepayments for tangible fixed assets	1 607		1 607	
9.	Difference in valuation of acquired assets (+/-)	105 803	-35 268	70 535	77 589
B. III.	Long-term investments (line 24 to 30)	15 221	-102	15 119	23 193
3.	Other long-term securities and shares	221	-102	119	144
4.	Loans and credits - controlling entity, substantial effect	12 000		12 000	20 049
6.	Acquired long-term investments	3 000		3 000	3 000
C.	Current assets (line 32 + 39 + 47 + 57)	3 575 138	-75 125	3 500 013	3 662 702
C. I.	Inventories (line 33 to 38)	1 085 259	-3 355	1 081 904	1 096 882
5.	Merchandise	1 085 259	-3 355	1 081 904	1 096 528
6.	Advance payments for inventories				354
C. II.	Long-term debtors (line 40 to 46)	54 797		54 797	48 129
C. II. 1.	Receivables from trade relations	54 797		54 797	48 129
C. III.	Short-term receivables (line 48 to 56)	2 390 843	-71 770	2 319 073	2 482 531
C. III. 1.	Receivables from trade relations	1 873 050	-71 770	1 801 280	2 016 598
2.	Receivables from controlling entities	440 413		440 413	386 710
6.	Taxes receivable	1 762		1 762	8 281
7.	Short-term prepayments	3 132		3 132	2 867
8.	Estimated receivables	67 657		67 657	66 228
9.	Other receivables	4 829		4 829	1 847
C. IV.	Short-term investments (line 58 to 61)	44 239		44 239	35 160
C. IV. 1.	Cash	3 006		3 006	5 493
2.	Bank accounts	41 233		41 233	29 667
D. I.	Accruals and deferrals (line 63 to 65)	1 954		1 954	1 331
D. I. 1.	Prepaid expenses	1 155		1 155	906
3.	Accrued income	799		799	425

Identification	LIABILITIES	Current	Prior fiscal year
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a	b	fiscal year 5	6
	TOTAL LIABILITIES (line 67 + 84 + 117) = line 0013	3 826 678	4 003 788
A.	Equity (line 68 + 72 + 77 + 80 + 83)	552 872	542 762
A. I.	Registered capital (line 69 to 71)	342 800	342 800
A. I. 1.	Registered capital	342 800	342 800
A. III.	Reserve fund, indivisible fund and other funds from profit (line 78 + 79)	176 005	145 005
A. III. 1.	Statutory reserve fund / indivisible fund	140 000	120 000
	Statutory and other funds	36 005	25 005
A. IV.	Retained profit or loss from prior years (line 81 + 82)	14 387	12 821
A. IV. 1.	Retained profit of prior years	14 387	12 821
A. V.	Profit / loss of current year. (line 01 - 68 - 72 - 77 - 80 - 84 - 117) = line 60 of Profit and Loss Account, unabbreviated	19 680	42 136
B.	Liabilities (line 85 + 90 + 101 + 113)	3 273 287	3 460 480
B. I.	Reserves (line 86 to 89)	6 000	
B. I. 1.	Reserves according to the relevant legal regulations	6 000	
B. II.	Long-term payables (line 91 to 100)	24 376	29 558
	Long-term payables to associates		9 957
0.	Deferred tax liability	24 376	19 601
B. III.	Short-term payables (line 102 to 112)	1 380 086	1 509 832
B. III. 1.	Payables from trade relations	1 329 184	1 460 326
	Payables to controlling entity	12 258	15 066
	Payables to partners and consortium members	19	33
	Accounts payable to employees	6 592	5 796
	Payables from social security and health insurance	3 662	3 362
	Taxes payable and subsidies	2 265	844
	Short-term advances received	7 302	11 979
0.	Anticipated liabilities	18 404	11 231
1.	Other creditors	400	1 195
B. IV.	Bank loans and borrowings (line 114 to 116)	1 862 825	1 921 090
B. IV. 1.	Long-term bank loans	9 000	21 000
	Short-term bank loans	1 853 825	1 900 090
C. I.	Accruals and deferrals (line 118 + 119)	519	546
C. I. 1.	Accrued expenses	519	546

Note:

Compiled on: 10.05.2007	Approved on: 11.05.2007	Signature of the statutory body of the accounting unit 
Legal form: joint stock company		Subject of enterprise: Purchase of goods for sale and resale Incorporated in the Companies Register kept on file by the Regional Court in Ostrava, Section B, Insert 188

Minimum binding account of information acc. to
Decree 500/2002 Coll.

PROFIT AND LOSS REPORT
unabbreviated
as of 31 December 2006
(rounded to CZK '000)

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

ID No.
19010290

Identification a	TEXT b	Fiscal year	
		current 1	previous 2
I.	Sales of goods purchased for resale	10 149 993	10 678 580
A.	Cost of goods sold	9 831 912	10 333 668
+	Gross margin (line 01 - 02)	318 081	344 912
II.	Production (line 05 to 07)	158 799	159 744
II. 1.	Sale of own products and services	158 799	159 744
B.	Purchased consumables and services (line 09 + 10)	170 901	179 066
B. 1.	Consumption of material and energy	26 675	25 301
B. 2.	Services	144 226	153 765
+	Added value (line 03 + 04 - 08)	305 979	325 590
C.	Staff costs (line 13 to 16)	160 595	154 156
C. 1.	Wages and salaries	114 096	111 314
C. 3.	Social security and health insurance expenses	39 514	37 788
C. 4.	Social benefits	6 985	5 054
D.	Taxes and charges	-605	3 806
E.	Depreciations of tangible and intangible fixed assets	20 111	20 543
III.	Sales of fixed assets and materials (line 20 + 21)	71	5 727
III. 1.	Sales of fixed assets	71	5 727
F.	Net book value of sold fixed assets and materials (line 23 + 24)	22	3 825
F. 1.	Net book value of sold fixed assets	22	3 825
G.	Change in reserves and adjusting entries in the area of operations and complex retained expenses (+/-)	3 528	19 525
IV.	Other operating income	9 386	6 203
H.	Other operating expenses	26 425	18 035
*	Profit / loss from operations (line 11 - 12 - 17 - 18 + 19 - 22 - (+/-25) + 26 - 27 + (-28) - (-29))	105 360	117 630
M.	Change in reserves and adjusting entries in the area of finance	6 000	
X.	Interests receivable	4 811	7 118
N.	Interests payable	62 245	61 337
XI.	Other financial income	17 797	22 256
O.	Other financial expenses	21 782	28 618
*	Financial profit or loss (line 31 - 32 + 33 + 37 - 38 + 39 - 40 - (+/-41) + 42 - 43 + 44 - 45 + (-46) - (-47))	-67 419	-60 581
Q.	Income tax on ordinary activities (line 50 + 51)	18 261	15 495
Q. 1.	- due	13 486	15 203
Q. 2.	- deferred	4 775	292
**	Profit or loss from ordinary activities (line 30 + 48 - 49)	19 680	41 554
XIII.	Extraordinary income		687
R.	Extraordinary expenses		105
*	Extraordinary profit or loss (line 53 - 54 - 55)		582
***	Profit or loss of current year (+/-)	19 680	42 136
****	Profit or loss before tax (line 52 + 58 - 59)	37 941	57 631

Note:

Compiled on: 10.05.2007	Approved on: 11.05.2007	Signature of the statutory body of the accounting unit
Legal form: joint stock company	Subject of enterprise: Purchase of goods for sale and resale Incorporated in the Companies Register kept on file by the Regional Court in Ostrava, Section B, Insert 188	

Notes to Financial Statement of PHARMOS, a.s., as of 31 December 2006

The Notes are issued in accordance with the Ministry of Finance Decree 500/2002 Coll. of 6 November 2002, implementing some provisions of Act 563/1991 Coll., concerning accountancy, as amended by subsequent regulations, for accounting units with double-entry bookkeeping. The data in the Notes are based on the bookkeeping papers of the accounting unit (accounting documents, books and other papers) and on other data available to the accounting unit. The values are expressed in thousands of CZK, unless stated otherwise.

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General data

1. Description of accounting unit (II.1)

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

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

Legal form: Joint-stock company

ID No.: 19010290

VAT No.: CZ19010290

Subject of enterprise:

- Purchase of goods for sale and resale
- Organization of cultural, sports, community and education events (except Section 3, Paragraph 9)
- Advisory services (except accounting, economic, organizational) and consultants

Major subject of enterprise:

- Purchase of goods for sale and resale

Establishment of company:

The company was established on 30 April 1991 upon its incorporation in the Commercial Register kept on file at the District Court in Ostrava, Section B, Insert 188.

BALANCE SHEET DATE 31.12.2006

DATE OF FINANCIAL STATEMENT 10.5.2007

INFORMATION CONCERNING IMPLEMENTED OR FORESEEN TRANSFORMATION OF THE COMPANY

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

INFORMATION CONCERNING CHANGES IN FISCAL YEAR

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

Incorporated registered capital:

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

Incorporated on 10 September 2004 on the basis of a decision adopted by the Shareholders' Meeting in March 2004

Shares:

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

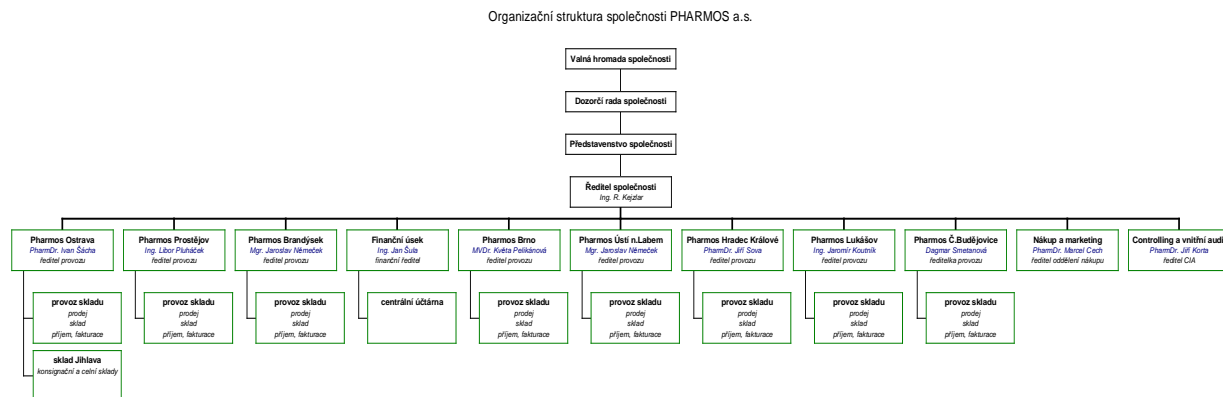
Persons holding shares in the registered capital of the accounting unit exceeding 20%:

Name of individual or trade name of corporation	Residence, registered office	Balance as of 31 Dec 2006		Balance as of 31 Dec 2005		Balance as of 31 Dec 2004	
		Share	i.e. %	Share	i.e. %	Share	i.e. %
PHOENIX International Beteiligungs GmbH	Mannheim, Germany	96 000	28.00	96 000	28.00	96 000	28.00

Česká lékárnická, a.s. Těšínská 1349/296,
71600 Ostrava-
Radvanice, Czech
Republic 245 280 71.55 245 280 71.55 245 280 71.55

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

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



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

Title	Last name	First name	Degree	Note
Chairman of the Board of Directors	Kejzlar	Roman	Ing.	
Member of the Board of Directors	Šula	Jan	Ing.	
Member of the Board of Directors	Cech	Marcel	Mgr.	
Member of the Board of Directors	Korta	Jiří	PharmDr.	
Chairman of the Supervisory Board	Näger	Lorenz	Dr.	
Member of the Supervisory Board	Nalevajka	Petr	PharmDr.	
Member of the Supervisory Board	Mravcová	Ilona	Mgr.	
Member of the Supervisory Board	Lesáková	Lea	Mgr.	
Member of the Supervisory Board	Fiala	Oldřich	Ing.	
Member of the Supervisory Board	Claudia	Brandstetter		

2. Property or contractual interests of the accounting unit in other companies (II.2)

Ownership interests exceeding 20% - none

3. Company employees, staff costs (II.3)

Item	Employees total		Of this: members of management	
	2006	2005	2006	2005
Average headcount	693	712	81	81
Wages and salaries	114.096	111.314	23.689	22.534
Social insurance	39.514	37.788	8.197	7.897
Social benefits	6.985	5.054	680	650
Staff costs, total	160.595	154.156	32.566	31.081

Remuneration to members of statutory and supervisory bodies	2006	2005
Remuneration to members of statutory bodies	900	840
Remuneration to members of supervisory bodies	160	160
Total	1.060	1.000

4. Compensations and benefits (II.4)

Description	Compensations and benefits to existing members of bodies					
	Statutory bodies		Management		Supervisory bodies	
	2006	2005	2006	2005	2006	2005
Loans and credits	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
Retirement income insurance	-	-	-	-	-	-
Free use of a company car	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

Description	Compensations and benefits to former members of bodies					
	Statutory bodies		Management		Supervisory bodies	
	2006	2005	2006	2005	2006	2005
Loans and credits	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-
Retirement income insurance	-	-	-	-	-	-
Free use of a company car	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

According to the Statutes, members of the Board of Directors are employees of PHARMOS, a.s.

Applied accounting methods, general accounting principles and methods of evaluation (III)

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

1. Method of asset evaluation (III.2.1)

1.1. Inventories

Accounting of stock (III.2.1.a)

- According to method A of stock recording

Release of stock from warehouse is accounted:

- using the FIFO method

Evaluation of stock (III.2.1.a) (III.2.3.)

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

- secondary acquisition costs:
- transport charges
- customs

1.2. Evaluation of tangible and intangible fixed assets

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

As regards tangible and intangible fixed assets acquired on the basis of a non-monetary deposit of Česká lékárnická a.s. in PHARMOS, a.s., the acquirer (i.e. PHARMOS, a.s.) continues – from the tax perspective – in the depreciations commenced by the original owner, in accordance with Section 30 Paragraph 12, Letter b) of the Income Tax Act, i.e. the entry price for the evaluation of assets in the company's books is the net book value of such assets at the depositor.

In connection with the implementation of a non-monetary deposit of Česká lékárnická, a.s., PHARMOS, a.s. registers, as of 1 January 2002, also an adjustment to the acquired assets at a total amount of CZK 105 803 thousand; this adjustment represents the differences in the accounting evaluation of the subject of the non-monetary deposit with the depositor adopted in the accountancy books of the acquirer (i.e. PHARMOS, a.s.) and the evaluation provided by 2 independent experts appointed by the court for the evaluation of the non-monetary deposit of Česká lékárnická, a.s., i.e. Ing. Petr Korč (an expert appointed by the Regional Court in Ostrava on 30 November 1983, ref. No. 4056/83, for the fields of economy, prices and assessment of real property, vehicles, machinery, devices and systems, market evaluation of enterprises; the expert's report is registered under ref. No. 22036) and Mgr. Pavel Procházka (an expert appointed by the Regional Court in Ostrava on 25 October 2001, ref. No. 3476/2001 for the fields of economy, specializing in prices and assessment of enterprises.; the expert's report is registered under ref. No. 07-05/2002). The expert report was made out in order to ascertain the actual status on the basis of the pertinent assessment methodology, as of the assessment record date, i.e. 31 December 2001. The synthesis of the methods used for the calculation of the market value (normal value calculated with the use of the substance method and normal value of the non-monetary deposit calculated with the use of the return method of discounted net flows into the company) was conducted with the use of the method of weighted average. The value of the non-monetary deposit of the depositor (Česká lékárnická, a.s.) while maintaining the going concern assumption was determined at CZK 180 787 thousand.

1.3. Evaluation of securities and ownership interests (III.2.1.c)

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

1.4. Evaluation of livestock increments (III.2.1.d)

The company does not have any assets of this category.

2. Determination of reproduction acquisition price (III.2.2)

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

3. Changes in evaluation, depreciations and accounting proceedings (III.2.4)

During the fiscal year concerned, the accounting unit reported no changes regarding the accounting methods.

4. Adjustments to assets (III.2.5)

Adjustment	Method of determining	Source of information concerning the determining of adjustment amount
Adjustment to financial investments	% of the value of financial investment (deposit)	Registration of securities and deposits
Adjustment to stock	Stock expiring within 3 months: 50% of the stock value. Stock expiring within 6 months: 20% of the stock value.	Stock records
Adjustment to receivables	Statutory adjustments are created depending on the number of months overdue (i.e. for receivables overdue for a period exceeding 6 months, adjustments are generated in the amount of 20% For receivables for which court proceedings have been initiated, the adjustment is created as follows:	Accounts receivable ledger, book inventory and recording of legal proceedings

overdue for a period exceeding 12 months 33%
 overdue for a period exceeding 18 months 50%
 overdue for a period exceeding 24 months 66%
 overdue for a period exceeding 30 months 80%
 overdue for a period exceeding 36 months 100%
 An adjusting entry is created to receivables against companies under
 bankruptcy in the amount of 100%.

Adjustments to:	Balance as of 1 Jan		Additions		Payments		Balance as of 31 Dec	
	2005	2006	2005	2006	2005	2006	2005	2006
Tangible and intangible fixed assets	-	-	-	-	-	-	-	-
Stock	2 801	3 412	3 412	-	2 801	57	3 412	3 355
Financial investments	77	77	-	25	-	-	77	102
Receivables - statutory	55 703	75 264	75 264	-	55 703	3 494	75 264	71 770
Other receivables	-	-	-	-	-	-	-	-

5. Depreciations (III.2.6)

The depreciation plan concerning tangible fixed assets was defined by the accounting unit in its internal directives, based on the assumed wear and tear of the registered property corresponding to the standard conditions of its use; the accounting and tax depreciations are not equal.

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

In the depreciation of tangible and intangible fixed assets, there were no changes in 2006 reported compared to the previous years. Depreciation plans are compiled separately for each individual property. The accounting depreciations are defined as an even percentage during the entire service life of such tangible and intangible fixed assets. Tax depreciations of tangible fixed assets are determined according to the pertinent provisions of the Income Tax Act, as linear (i.e. equal) and accelerated depreciations. As regards tangible fixed assets, the accounting and tax depreciations are not equal.

As regards tangible and intangible fixed assets acquired on the basis of a non-monetary deposit of Česká lékárnická a.s. in PHARMOS, a.s., the acquirer (i.e. PHARMOS, a.s.) continues – from the tax perspective – in the depreciations commenced by the original owner, in accordance with Section 30 Paragraph 12, Letter b) of the Income Tax Act, i.e. the entry price for the evaluation of assets in the company's books is the net book value of such assets at the depositor.

Depreciation system of petty intangible and tangible fixed assets

Petty tangible fixed assets are reported at a separate analytical account 022028 - Petty tangible fixed assets. Tangible fixed assets can be classified as petty on condition that they do not fulfil the conditions for being classified as tangible fixed assets and this concerns office furniture (without limitation of the acquisition price lower limit), office equipment and machinery with the acquisition price exceeding the amount of CZK 3 000 excl. VAT and the service life exceeding 1 year, other separate assets with the acquisition price exceeding the amount of CZK 5 000 excl. VAT and the service life exceeding 1 year, or assets classified in listed categories according to internal directives.

Petty tangible assets falling outside the conditions above are reported as company's expenses at account 501 - Consumption of material.

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

As of 1 January 2003, petty intangible assets and petty tangible assets are depreciated over a period of 24 months.

Petty intangible assets falling outside the conditions above are reported as company's expenses at account 518 – Other services.

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

6. Conversion of foreign currency to Czech currency (III.2.7)

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

- current daily exchange rate announced by the Czech National Bank (daily exchange rates are valid for the entire following business day). As of the balance sheet date, receivables, cash and liabilities were recalculated using the CNB exchange rate valid as of 31 December 2006.

7. Determination of deferred tax

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

Item	Period	
	current year	previous year
Residual value (accounting) > residual value (tax)	-24 915	-3 282
Outstanding default interest – receivable	-2 521	-4 410
Unapplied reinvestment	-	-
Adjustments to acquired assets, by 31 Dec 2004	-84 642	-84 642
Total taxable	-112 078	-92 334
Deferred tax liability (2006 -26%)	-26 899	- 22 160
Residual value (accounting) < residual value (tax)	-	-
Adjustments to securities	102	77
Adjustment to stock	3 355	3 412
Adjustments to acquired assets	7 054	7 054
Accounting adjustments to receivables	-	-
Accounting reserves	-	-
Outstanding property transfer tax	-	-
Outstanding penalties	-	121
Unapplied reinvestment	-	-
Unapplied tax loss	-	-
Total deductibles	10 511	10 664
Deferred tax receivable (2006 -24%)	2 523	2 559
Deferred tax, total (+ receivables / - liabilities)	-24 376	-19 601

Supplementary data to Balance sheet and Profit and Loss Account (IV)

1. Data critical for the assessment of the property and financial situation of the company (IV.1)

1.1. Back income tax for previous fiscal years

No back income taxes were calculated for previous fiscal years.

1.2. Long-term bank loans

The company reported a long-term loan of CZK 60,000,000 for the purchase of a warehouse and land, situated at Hudcova 72, Brno (Certificate of Ownership No. 1389, cadastral district of Medlánky, Real Estate Registry in Brno). The monthly instalment is CZK 1 000 000 and as of 31 December 2006, the balance was CZK 21 000 000. The Contract was signed on 27 March 2003; the credit is repayable by 22 September 2008. Furthermore, the company reports short-term loans payable within 1 calendar year.

Maturity	Total loans	
	2006	2005
Payable according to a long-term schedule	21 million	33 million
TOTAL	21 million	33 million

1.3. Breakdown of subsidies accepted for investment and operating purposes

Reason for subsidy	Provider	2006	2005
		-	-
No subsidies for investment or operating purposes accepted		-	-
TOTAL		-	-

2. Important events following the Financial Statement date (IV.2)

In 2007, the stock kept at Hradec Králové, Prostějov, Ústí nad Labem, Lukášov, and České Budějovice plants were pledged, in the amount of CZK 320 000 000, in connection with a credit drawn at Commerzbank Praha.

During the first half of 2007, PharmDr. Ivan Šácha was appointed a manager of the Brno and Prostějov plants.

3. Additional information concerning tangible and intangible fixed assets

3.1. Main categories of tangible fixed assets (IV.3.1.a)

Categories	Purchase costs		Allowances		Residual price		Increase (acquisition price)	Decrease (net book price, depreciations)
	2006	2005	2006	2005	2006	2005	2006	2006
Lands	15 026	14 464	-	-	15 026	14 464	1 124	562
Buildings, halls, structures	216 179	206 221	37 809	31 336	178 370	174 885	10 308	6 823
Machinery, tools & equipment, vehicles and fixtures	97 851	94 273	67 225	58 303	30 626	35 971	5 189	10 534
- Machinery, tools & equipment,	55 021	52 632	32 097	27 910	22 924	24 722	2 948	4 746
- Vehicles	5 430	6 315	3 678	3 762	1 752	2 553	0	801
- Inventory	6 852	6 852	4 785	4 252	2 067	2 600	0	533
- Other tangible fixed assets	30 548	28 474	26 665	22 379	3 883	6 096	2 241	4 454
Tangible fixed assets in progress	10 051	7 949	-	-	10 051	7 949	17 539	15 437
Adjustments to acquired assets	105 803	105 803	35 268	28 214	70 535	77 589	0	7 054

Prepayments for tangible fixed assets as of 31 December 2006 were CZK 1 607 thousand.

3.2. Intangible fixed assets (IV.3.1.b)

Categories	Purchase costs		Allowances		Residual price		Increase (acquisition price)	Decrease (net book price, depreciations)
	2006	2005	2006	2005	2006	2005	2006	2006
Software	16 465	15 961	13 164	10 399	3 301	5 562	504	2 765
Valuable rights	26 542	26 542	26 542	26 542	-	-	0	0
Results of scientific activities	-	-	-	-	-	-	-	-
Other intangible fixed assets	1 143	1 069	1 067	928	76	141	74	139
Intangible fixed assets in progress	-	-	-	-	-	-	578	578

Prepayments for intangible fixed assets as of 31 December 2006 were CZK 0.

3.3. Tangible fixed assets acquired in the form of financial lease (IV.3.1.c)

Financial leasing with subsequent purchase of the leased item, together according to individual categories of assets, figures excl. VAT, except for passenger vehicles.

Summary of financial leasing		Total value	First instalment (prepayment)	Total instalments	Instalments paid	Instalments to be paid	
						less than 1 year	after 1 year
Current fiscal year – 2006	Passenger vehicles, utility vehicles, stock equipment	9.836	3.170	6.666	3.212	1.785	1.669
Previous fiscal year – 2005	Passenger vehicles, utility vehicles, stock equipment	9.550	3.085	6.465	4.154	1.588	723

3.4. Tangible fixed assets acquired in the form of operative lease

The company does not acquire any assets via operative lease

3.5. Total amount of off-balance assets (IV.3.1.e)

The accounting unit reports no such assets as of the balance sheet date.

3.6. Breakdown of tangible fixed assets subject to right of lien (IV.3.1.f)

Current year – 2006

Property	Book value	Security	Objective	Duration	Liability
Warehouse complex Ostrava-Radvanice (building and land)	Buildings - approximately CZK 216 million in acquisition price	Entry of right of lien to Certificate of Ownership registered by the Real Estate Registry.	021000-Buildings, halls, structures 031000 - Lands	During the period of the credit contract according to the credit and security agreement	Based on credit contracts entered into with financial institutions.
Warehouse complex Prostějov (building and land)	(approximately CZK 178 million in net book prices)				
Warehouse complex Brandýsek (building and land)	Land - approximately CZK 14 million in acquisition prices.				
Warehouse complex Ostrava-Švabinského (building and land)					
Warehouse complex Hradec Králové (building and land)					
Warehouse complex Brno (building and land)					

Previous year – 2005

Property	Book value	Security	Objective	Duration	Liability
Warehouse complex Ostrava-Radvanice (building and land)	Buildings - approximately CZK 206 million in acquisition price	Entry of right of lien to Certificate of Ownership registered by the Real Estate Registry.	021000-Buildings, halls, structures 031000 - Lands	During the period of the credit contract according to the credit and security agreement	Based on credit contracts entered into with financial institutions.
Warehouse complex Prostějov (building and land)	(approximately CZK 175 million in net book prices)				
Warehouse complex Brandýsek (building and land)	Land - approximately CZK 14 million in acquisition prices.				
Building and land in Prague - Suchbátov (building and land)					
Warehouse complex Lukášov (building and land)					
Warehouse complex Ostrava-Švabinského (building and land)					
Warehouse complex Hradec Králové (building and land)					
Warehouse complex Brno (building and land)					

3.7. Summary of assets with significant differences between market and book values (IV.3.1.g)

Assets	Book value	Market value
Terminated leasing agreements (before 31 Dec 2006 incl. prior years)	129	3.162
Terminated leasing agreements (before 31 Dec 2006 incl. prior years)	123	2.699

3.8. Long-term investments – securities and ownership interests (IV.3.1.h)

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

Current year – 2006

Trade name	Registered office	Purchase costs	Share (%)	Adjustment	Dividends	Profit / Loss of current year
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AGB Praha a.s.	Prague, CR	102		102	-	-
Lekis s.r.o.	Ostrava, CR	119	17.7 %	-	-	-

*) non-audited annual results

Previous year – 2005

Trade name	Registered office	Purchase costs	Share (%)	Adjustment	Dividends	Profit / Loss of current year
AGB Praha a.s.	Prague, CR	102		77	-	-
Lekis s.r.o.	Ostrava, CR	119	17.7 %	-	-	-354*

*) non-audited annual results

4. Equity (IV.3.3)-

4.1. Increase or decrease in equity (IV.3.3.a,b)

	Balance as of 31 Dec 2006	Balance as of 31 Dec 2005
Registered capital	342 800	342 800
Changes in registered capital	0	0
Statutory reserve fund	140 000	120 000
Capital funds – share premium	0	0
Statutory and other funds	36 005	25 005
Retained profit of prior years	14 387	12 821
Accumulated loss from previous years	-	-
Profit or loss of current year	19 680	42 136
Equity, total	552 872	542 762

Pursuant to a decision of the Shareholders' Meeting, the profit generated in 2005 was divided as follows:

Allocation for dividends (gross dividend)	8 570
Allocation to royalties for statutory and supervisory bodies	1 000
Allocation to reserve fund	20 000
Allocation to statutory and other funds	11 000
Transfer to retained profit from previous years	1 566
Allocation to increase in registered capital	-
Profit / loss for 2005, total	42 136

Proposal for the distribution of profit generated during current year:

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

4.2. Registered capital (IV.3.3.c)

Current year – 2006

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

Previous year – 2005

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

5. Receivables and liabilities (IV.3.2, 3.4)

5.1. Overdue receivables (IV.3.2.a)

Number of days	Balance as of 31 Dec 2006		Balance as of 31 Dec 2005	
	Trade creditors	Other	Trade creditors	Other

Less than 30	288 112	-	278 691	-
30 – 60	39 786	-	64 683	-
60 – 90	15 690	-	32 690	-
90 – 180	14 084	-	15 516	-
180 +	104 948	-	169 022	-

5.2. Overdue liabilities (IV.3.4.a)

Number of days	Balance as of 31 Dec 2006		Balance as of 31 Dec 2005	
	Trade creditors	Other	Trade creditors	Other
Less than 30	273 720	-	377 881	-
30 – 60	42 636	-	25 566	-
60 – 90	8 007	-	18 344	-
90 – 180	171	-	-549	-
80 +	-6 847	-	4 856	-

5.3. Receivables and liabilities with regard to group members (IV.3.4.b)

Debtor	Receivables from consortium members			
	Balance as of 31 Dec 2006		Balance as of 31 Dec 2005	
	Total	Overdue	Total	Overdue
Plzeňská lékárnická s.r.o. (IČ:25238213)	130 915	50 433	119 481	-
Česká lékárnická a.s. (IC: 63080877)	52	-	1 488	23
Pražská lékárnická s.r.o. (IČ: 25633741)	100 212	14 580	87 346	9 363
Jihlavská lékárnická s.r.o. (IČ: 25534459)	51 955	6 076	67 335	10 827
Lekis s.r.o. (IČ: 25356089)	134	-	77	-
PHARMACY-distribuce léčiv s.r.o.(IČ: 65139577)	150 604	46 339	107 782	39
THERÁPON 98, a.s. (IČ: 25399195)	162	130	3 035	2 719
GALMED a.s. (IČ:47672145)	381	155	166	9
Lektrans s.r.o. (IČ:27779271)	114	-	-	-
Pharmos, a.s. Sk. (IČ:35974559)	168	-	-	-

As of 31 December 2006, we register the following loans:

Therapón 98, a.s.	12 000 thousand CZK
Galmed a.s.	2 146 thousand CZK
Česká lékárnická, a.s.	2 572 thousand CZK
Lekis s.r.o.	1 000 thousand CZK

These loans have exceeded the maturity period.

Creditor	Liabilities to consortium members			
	Balance as of 31 Dec 2006		Balance as of 31 Dec 2005	
	Total	Overdue	Total	Overdue
Plzeňská lékárnická s.r.o. (IČ:25238213)	667	-	-	-
Česká lékárnická a.s. (IC: 63080877)	1 420	-	10 593	3 140
Pražská lékárnická s.r.o. (IČ: 25633741)	-	-	-	-
Jihlavská lékárnická s.r.o. (IČ: 25534459)	-	-	193	-
Lekis s.r.o. (IČ: 25356089)	995	-	1 083	2
PHARMACY-distribuce léčiv s.r.o.(IČ: 65139577)	-	-	-	-
THERÁPON 98, a.s. (IČ: 25399195)	-	-	-	-
GALMED a.s. (IČ:47672145)	9 042	6 970	3 197	528
Lektrans s.r.o. (IČ:27779271)	1 090	-	-	-
Pharmos, a.s. Sk. (IČ: 35974559)	-	-	-	-

5.4. Receivables and liabilities based on application of right of lien and security (IV.3.2.c, 3.4.c)

	Balance as of 31 Dec 2006	Balance as of 31 Dec 2005
Receivables covered with right of lien	258 245	256 003
Liabilities covered with right of lien	2 063 120	1 921 090
Other liabilities (monetary and non-monetary)	-	-

5.5. Liabilities not included in books and off-balance liabilities (IV.3.4.d)

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

Type of guarantee	Balance as of 31 Dec 2006	Balance as of 31 Dec 2005
Bank guarantees provided to entities – Stavovská s.r.o.	3.375	10.000
Bank guarantees provided to entities – Lekis s.r.o.	3.000	-

5.6. Accruing of important groups of other receivables

Interest-bearing loans to customers represent an important group of receivables reported within the account 315 –Other receivables (trade debtors).

Of the total volume granted in 2006, the most important part is represented by loans for the financing of receivables (a form of an interest-bearing timetable for repayment) and short-term bridging loans for a period of approximately 3-5 months (total share in the total volume of approximately 72 %). The remaining part is represented by the financial interest-bearing loans for assistance in the solution of business plans concerning the development of pharmacies. Each contract is provided with securing instruments (bills, right of lien on real estates, contract for assignment of claims, etc.).

	Total amount	Payable within 1 year	Payable later than within 1 year
Total	179 005	38 204	67 324
of this Financial loans	76 631	18 833	19 168
Interest-bearing timetables for repayment	99 474	16 471	48 156
Short-term bridging loans	2 900	2 900	0

As of the Balance Sheet Date, interest-bearing instalment schedules are reported with the maturity date exceeded, in the amount of CZK 23 185 thousand.

Provided loans and balance of interest-bearing timetables for repayment of debts

	Total	Payable within 1 year	Payable later than within 1 year
As of 31 Dec 2006 (current year)	179 005	38 204	67 324
As of 31 Dec 2005 (previous year)	143 447	72 133	48 129

We further register receivables of CZK 3 225 thousand:

378000 – Other receivables – sale of shares in Česká lékárnická, a.s. on the basis of a Contract of Sale.

These receivables have not exceeded the maturity period.

OTHER PAYABLES

We register an amount of CZK 16 183 000 on the account 325 – Other liabilities, of which CZK 10 056 000 represents accepted interest-running loans from individuals. These liabilities have not exceeded the maturity period.

RECEIVABLES WITH TERM OF PAYMENT EXCEEDING FIVE YEARS

None.

LIABILITIES WITH TERM OF PAYMENT EXCEEDING FIVE YEARS

None.

5.7. Receivables and liabilities in foreign currency

RECEIVABLES IN FOREIGN CURRENCY

Currency	EUR 1.000 /CZK 27.495	SKK 1.000 / CZK 0.7986	USD 1.000 / CZK 20.876
Receivables in currency	51/1.402	-19/-15	34/710

LIABILITIES IN FOREIGN CURRENCY

Currency	USD 1.000 / CZK 20.876	EUR 1.000 /CZK 27.495	DKK 1.000 / CZK 3.688	SKK 1.000 / CZK 0.7986
Liabilities in currency	2.483/51.835	605/16.634	196/723	1.842/1.471

5.8. Liabilities to state authorities

AMOUNTS PAYABLE ON SOCIAL INSURANCE

- no payable overdue liabilities

AMOUNTS PAYABLE ON PUBLIC HEALTH INSURANCE

- no payable overdue liabilities

TAX ARREARS TOWARDS REVENUE AUTHORITIES

- no tax arrears

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

Description	Affecting factors	Estimated financial impact
None known	-	-

On 13 March 2007, Pharmos, a.s. was delivered a payment demand from Braddock Finance & Capital Ltd., Stoper House, Weber Street 15, London SE1 0RE, represented by Mgr. Marek Vojáček, attorney, with registered office at Týn 1049/3, 110 00 Prague 1 in the amount of CZK 100 000 000, including interests on late payments accruing by 5.5% until the date of payment. Pharmos, a.s. filed an objection against this payment demand on 13 March 2007 and suggested that the petition is rejected in full.

6. Reserves (IV.3.5)

On 14 December 2006, Pharmos, a.s. was given a fine by the Office for the Protection of Economic Competition in Brno, in the amount of CZK 18 638 000 for the suspension of the supplies of pharmaceuticals to three university hospitals and the shortening of maturity periods. These were the following hospitals – Fakultní Thomayerova nemocnice s poliklinikou Praha, Fakultní nemocnice na Bulovce Praha, Fakultní nemocnice u sv. Anny v Brně. The fine was payable after the date of legal force. Pharmos, a.s. filed an appeal on 21 December 2006 against this decision, via a legal representative - Law Firm of JUDr. Ivan Rott. The matter is still pending. For this reason, a reserve was created in 2006 for the fine, in the amount of CZK 6 000 000.

Description of reserve	Previous year – 2005			Current year – 2006		
	Additions	Use	Balance	Additions	Use	Balance
Statutory reserves	-	7 700	-	-	-	-
- Reserve on repairs	-	7 700	-	-	-	-
- Other reserves	-	0	-	-	-	-
- Reserves on exchange rate loss	-	-	-	-	-	-
- Reserve on audit	-	-	-	-	-	-
-Reserve on accumulated leave and benefits	-	-	-	-	-	-
- Reserve on fine	-	-	-	6 000	-	6 000

7.Revenues from current activities (IV.3.6)

	Current year – 2006	Previous year – 2005
Income from ordinary activities	10 308 792	10 838 324
of this: Sales of goods purchased for resale	10 149 993	10 678 580
of this: Sales of goods on export	13 547	24 912
Sales of services	158 799	159 744
Contractual penalties	4 144	-
Exchange rate differences	16 690	-


Other income		11 231	41 991
Total		10 340 857	10 880 315

8. Expenses incurred during fiscal year on research and development (IV.3.7)

Current year - 2006		Previous year – 2005	
Research activities	Expenses	Research activities	Expenses
None reported	-	None reported	-
-	-	-	-

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

No changes were effected to the form of reporting.

Compiled on: 10 May 2007	Compiled by:	Signature of statutory representative:
Approved on:	Ing. Renáta Hřebáčková	
		Ing. Roman Kejzlar, Chairman of the Board Ing. Jan Šula, Member of the Board

REPORT OF CHANGES IN EQUITY

Trade name

Minimum binding account of information acc. to Decree 500/2002 Coll.

PHARMOS, a.s.

as of (date) **31.12.2006**

Registered office of accounting unit

(rounded to CZK '000)


Těšínská 1349/296

Ostrava-Radvanice

716 00

YEAR	Mont h	ID No.									
2006	1	2	1	9	0	1	0	2	9	0	

Identification a	Text b	Line No. c	Registered capital (account 411) 01	Other capital funds (account 413) 02	Reserve fund (account 421) 05	Other funds (account 427) 06	Previous year (account 428/429) 07	Current year (account 431) 09	Equity, total 10
Previous fiscal year									
A. I.	Opening balance, as of 1 January	01	342 800		110 000	25 005	15 953	36 754	530 512
A. II. 1.	Allocation to reserve fund	02			10 000			-10 000	
2.	Allocation to statutory and other funds	03							
3.	Allocation for dividend payment (gross dividend)	04						-8 572	- 8 572
4.	Allocation for royalty payment (gross royalties)	05						-1 000	-1 000
5.	Increase in registered capital	06							
6.	Transfer to retained profit from previous years	07					17 182	-17 182	
7.	Profit / loss of 2005	08						42 136	42 136
8.	Clearance of deferred tax	09					-20 314		-20 314
A. III.	Closing balance, as of 31 December	10	342 800		120 000	25 005	12 821	42 136	542 762
Current fiscal year									
B. I.	Opening balance, as of 1 January	11	342 800		120 000	25 005	12 821	42 136	542 762
B. II. 1.	Allocation to reserve fund	12			20 000			-20 000	
2.	Allocation to statutory and other funds	13				11 000		-11 000	
3.	Allocation for dividend payment (gross dividend)	14						-8 570	-8 570
4.	Allocation for royalty payment (gross royalties)	15						-1 000	-1 000
5.	Increase in registered capital	16							
6.	Transfer to retained profit from previous years	17					1 566	-1 566	
7.	Profit / loss of 2006	18						19 680	19 680
8.	Clearance of deferred tax	19							
9.		20							
B. III.	Closing balance, as of 31 December	21	342 800		140 000	36 005	14 387	19 680	552 872

Compiled on: 10.05.2007	Approved on: 11.05.2007	Signature of the statutory body of the accounting unit 
Legal form Joint-stock company	Subject of enterprise Purchase of goods for sale and resale	Seal:

Cash Flow Statement

(cash-flow) (indirect method)

as of (date) 31.12.2006

(rounded to CZK '000)

YEAR	Month	ID No.
2006	1 2	1 9 0 1 0 1 0 2 9 0

Trade name

PHARMOS, a.s.

Registered office of
accounting unit

Těšínská 1349/296

Ostrava - Radvanice

716 00

Identificatio n a	T E X T b	Line No. c	Fiscal year	
			current 1	previous 2
P-	Cash and cash equivalents at the end of the accounting period	01	35 160	10 469
Cash flows from ordinary activities				
Z-	Profit/(loss) from ordinary activities before tax	03	37 941	57 049
A- 4-	Adjustments for non-monetary operations	04	87 024	85 332
A- 4#	Depreciation of fixed assets(+) excluding book value of fixed assets sold, receivables write offs (+), amortization of goodwill	05	27 165	20 543
A- 4z	Change in reserves and adjusting entries	06	2 474	12 472
A- 4z	Profit (loss) from the sale of fixed assets (-/+)	07	-49	-1 902
A- 4-	Revenue from dividends and share of profit (-)	08		
A- 4#	Interest expense (+) excluding capitalised interest and interest income (-)	09	57 434	54 219
A- 4#	Adjustments for other non-monetary operations	10		
A- 4-	Net cash flow from operating activities before tax, movements in working capital and extraordinary items	11	124 965	142 381
A- 4-	Change in non-monetary elements of working capital	12	-3 266	-46 334
A- 4#	Change in receivables from operating activities, including active accounts of temporary and anticipated assets (+/-)	13	158 887	-69 575
A- 4#	Change to short-term liabilities from operating activities (+/-), passive accounts of temporary and anticipated liabilities	14	-177 188	145 916
A- 4#	Variation in stocks (+/-)	15	15 035	-122 675
A- 4-	Change in short-term investments not falling under cash and cash equivalents	16		
A- 4-	Net cash flow from operating activities before tax and extraordinary items	17	121 699	96 047
A- 4#	Interests paid except for capitalized interests (-)	19	-62 245	-61 337
A- 4#	Interests received (+)	19	4 811	7 118
A- 4#	Income tax paid for operating activities, additional tax paid for previous periods (-)	20	-11 548	3 678
A- 4#	Receipts and expenditures relating to extraordinary activities, which create extraordinary profit or loss, including income tax paid from extraordinary activities	21		582
A- 4#	Revenue from dividends and share of profit (+)	22		
A- 4#	Net cash flow from operating activity	23	52 717	46 088
Cash flow from investment activity				
B- 4-	Expenditures related to acquisition of fixed assets	25	-12 168	-15 511
B- 4-	Receipts from fixed assets sold	26	71	5 727
B- 4-	Loans and credits for related persons	27		
B- 4-	Net cash flow related to investment activity	28	-12 097	-9 784
Cash flow from financial activities				
C- 4-	Change in long-term liabilities, or short-term liabilities falling in the area of financial activities to cash and equivalents	30	-21 957	-2 043
C- 4-	Impact of variation in equity on cash and cash equivalents	31	-9 584	-9 570
C- 4-	Decrease of cash and cash equivalents due to change in registered capital, share premium or reserve fund, including prepayments made for this increase (+)	32		
C- 4-	Payment of share in equity to associates (-)	33	-9 584	-9 570
C- 4-	Other monetary deposits by partners and shareholders (+)	34		
C- 4-	Settlement of loss by partners (+)	35		
C- 4-	Direct payments to the debit of funds (-)	36		
C- 4-	Dividends or shares in profits, royalties (incl. withdrawal tax) relating to such claims	37		
C- 4-	Net cash flow related to financial activity	38	-31 541	-11 613
F-	Net increase or decrease of cash and cash equivalents	39	9 079	24 691
R-	Cash and cash equivalents at the end of the accounting period	40	44 239	35 160

Compiled on: 10 May 2007 Approved on: 11 May 2007	Signature of the statutory body of the accounting unit
Legal form Joint-stock company	Subject of enterprise Purchase of goods for sale and resale
	Seal

Report on the Relationships between Controlling and Controlled Entity issued pursuant to the provisions of Section 66a(9) of the Commercial Code

PHARMOS, a.s., with registered office at Těšínská 1349/296, Ostrava-Radvanice, Postcode: 71600, IČ (ID No.): 19010290, incorporated in the Companies Register kept on file at the Regional Court in Ostrava, Section B, Insert 188 (hereinafter the "**Submitter**"). As regards the provisions of Section 66a) of Act 513/1991 Coll. - the Commercial Code, as amended, the Company is a member of a business group (trust) in which the following relationships have been established between the Submitter and the entities controlled by the same controlling entities (hereinafter the "**Affiliated Entities**").

This Report regarding the relationships among the entities specified below was issued in accordance with the provisions of Section 66a Paragraph 9 of Act 513/1991 Coll., the Commercial Code (hereinafter the ComCo), as amended, during the fiscal year from 1 January 2006 to 31 December 2006 (hereinafter the "**Fiscal Year**").

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

A. CONTROLLING ENTITIES

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

Česká lékárnická, a.s. with its registered office at Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID No.): 63080877

Phoenix International Beteiligungs GmbH, with its registered office at Mannheim, Germany

Relationship to the Company: controlling entity

B. OTHER AFFILIATED ENTITIES

a) Companies controlled by the Submitter

Lekis, s.r.o. with its registered office at Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID No.): 25356089

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

Pražská lékárnická s.r.o., with its registered office at Theodor 28, 273 08 Pchery, IČO (Company ID Number): 25633741

Jihlavská lékárnická s.r.o., with its registered office at Pávovská 3136/73, Jihlava-Bedřichov, IČO (Company ID Number): 25534459

Plzeňská lékárnická s.r.o., with its registered office at Domažlická 65, 318 00 Plzeň, IČO (Company ID Number): 25238213

PHARMACY-distribuce léčiv s.r.o., with its registered office at Dvorská 960/13, 785 01 Šternberk, IČO (Company ID Number): 65139577

Lekis s.r.o. with its registered office at Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID Number): 25356089

THERÁPON 98, a.s. with its registered office at Štefánikova 1301, 742 21 Kopřivnice, IČO (Company ID Number): 25399195

GALMED a.s., Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID Number): 47672145

LEKTRANS, s.r.o., Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID Number): 27779271

Pharmos, a.s., with its registered office at Odbojárov 340/29, 955 01 Topolčany, Slovakia

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

None.

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

None.

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

1. Contracts

1.1. Sales

1.1.1. Fixed assets

As regards sales, there were no business relationships established and implemented as of the date of this Report in 2006 within the group with respect to the controlled entity or the affiliated entities within the same Group, regarding the sale of fixed assets, other assets, material and products.

The Submitter does not lease out any assets/.

1.1.2. Merchandise

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

Description	Parties	Description	Price	Detriment (if any)	Advantages / Disadvantages
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Usual</i>	<i>-</i>	<i>-</i>

<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Usual</i>	-	-
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Usual</i>	-	-
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Pražská lékárnická, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Usual</i>	-	-
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Phoenix lékárenský velkoobchod, a.s.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Usual</i>	-	-

1.1.3. Services

The Submitter entered into contracts during the fiscal year, pursuant to which the Submitter rendered services during the fiscal year with respect to the controlling entity or affiliated entities within the same Group.

Description	Parties	Description	Price	Detriment (if any)	Advantages / Disadvantages
<i>Software Lease Agreement, according to invoices</i>	<i>Česká lékárnická, a.s.</i>	<i>Lease of accounting IS NORIS 27</i>	<i>Usual</i>	-	-
<i>Non-residential Premises Tenancy Contract</i>	<i>Česká lékárnická, a.s.</i>	<i>Non-residential premises at Těšínská 1349/296 Ostrava-Radvanice</i>	<i>Usual</i>		
<i>Software Lease Agreement, according to invoices</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Lease of accounting IS NORIS</i>	<i>Usual</i>	-	-
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Re-invoicing of services – promotional events, advertising objects, data services and fire prevention</i>	<i>Usual</i>		
<i>Software Lease Agreement, according to invoices</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Lease of accounting IS NORIS</i>	<i>Usual</i>	-	-
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Re-invoicing of services – promotional events, advertising objects, data services and fire prevention</i>	<i>Usual</i>		
<i>Software Lease Agreement, according to invoices</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Lease of accounting IS NORIS</i>	<i>Usual</i>	-	-
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Re-invoicing of services – promotional events, advertising objects, data services and fire prevention</i>	<i>Usual</i>		
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Re-invoicing of marketing bonuses</i>	<i>Usual</i>		
<i>Software Lease Agreement, according</i>	<i>Pražská lékárnická,</i>	<i>Lease of accounting IS NORIS</i>	<i>Usual</i>	-	-

<i>to invoices</i>	<i>s.r.o.</i>				
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Pražská lékárnická, s.r.o.</i>	<i>Re-invoicing of services – promotional events, advertising objects, data services and fire prevention</i>	Usual		
<i>Contract for transportation of goods</i>	<i>Pražská lékárnická, s.r.o.</i>	<i>Compensation for transportation of goods</i>	Usual		
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Therapón 98, a.s.</i>	<i>Re-invoicing of leasing expenses</i>	Usual	-	-
<i>Software Lease Agreement, according to invoices</i>	<i>Galmed a.s.</i>	<i>Rental for leased items and energy</i>	Usual	-	-
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Galmed a.s.</i>	<i>Re-invoicing of services, fuels, telephone fees, data services, etc.</i>	Usual		
<i>Contract for Management of Consignment Stock</i>	<i>Galmed a.s.</i>	<i>Consignment stock management in Hradec Králové</i>	Usual		
<i>Separate deliveries – according to invoices</i>	<i>Lekis s.r.o.</i>	<i>Rental, communication, lease services</i>	Usual		
<i>Non-residential Premises Tenancy Contract</i>	<i>LEKTRANS, s.r.o.</i>	<i>Non-residential premises at Těšínská 1349/296 Ostrava-Radvanice</i>	Usual		

1.1.4. Other Contractual Relationships

PHARMOS, a.s. provided the following companies with the following interest-bearing loans

<i>Description</i>	<i>Parties</i>	<i>Balance as of 31 Dec 2006</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Loan Agreement</i>	<i>THERAPON 98, a.s.</i>	<i>12 000 000</i>	<i>Loan</i>	<i>Usual</i>	-	-
<i>Loan Agreement</i>	<i>Galmed a.s.</i>	<i>2 146 000</i>	<i>Loan</i>	<i>Usual</i>	-	-
<i>Loan Agreement</i>	<i>Česká lékárnická, a.s.</i>	<i>2 572 000</i>	<i>Loan</i>	<i>Usual</i>	-	-
<i>Loan Agreement</i>	<i>Lekis s.r.o.</i>	<i>1 000 000</i>	<i>Loan</i>	<i>Usual</i>	-	-

Česká lékárnická, a.s. provided PHARMOS, a.s. with a guarantee for the loan for operations in the amount of CZK 80 million.

<i>Description</i>	<i>Parties</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Guarantee Agreement</i>	<i>Česká lékárnická, a.s.</i>	<i>Payment guarantee</i>	<i>Usual</i>	-	-

Pharmos, a.s. provided Lekis, s.r.o. with a guarantee for the loan for operations in the amount of CZK 3 million.

<i>Description</i>	<i>Parties</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Guarantee Agreement</i>	<i>Lekis s.r.o.</i>	<i>Payment guarantee</i>	<i>Usual</i>	-	-

1.2. Purchases

As regards purchasing, the following purchase relationships were established and implemented as of the date of this Report in 2006 within the group with respect to the controlled entity or the affiliated entities within the same Group, regarding fixed assets, other assets and material.

1.2.1. Services (except for leasing)

The Submitter entered into contracts during the fiscal year, pursuant to which the following services were rendered during the fiscal year:

Description	Parties	Description	Price	Detriment (if any)	Advantages / Disadvantages
Separate deliveries, according to invoices	Česká lékárnická, a.s.	Intermediation services	Usual	-	-
Service Agreement	Lekis s.r.o.	Installation of network modems	Agreed		
Service Agreement	Lekis s.r.o.	HW, SW service	Agreed	-	-
Separate deliveries – according to invoices	Lekis s.r.o.	Repairs of IT equipment, installation	Agreed	-	-
Re-invoicing of services – separate contract	Jihlavská lékárnická, a.s.	Re-invoicing of parts of lease for the use of non-residential premises	Usual	-	-
Re-invoicing of services – separate contract	Jihlavská lékárnická, a.s.	Re-invoicing of the purchase of services and material	Agreed		
Re-invoicing of services – separate contract	Pražská lékárnická, s.r.o.	Re-invoicing of the lease of the Pchery warehouse	Agreed		
Re-invoicing of services – separate contract	Plzeňská lékárnická, s.r.o.	Re-invoicing of transportation, marketing campaigns, data communication, expenses, etc. Edukafarm	Usual		
Re-invoicing of services – separate contracts according to invoices	Phoenix, a.s.	Services associated with the customs clearance of products - re-invoicing	Usual	-	-
Contract for provision of expert consultancy	Galmed a.s.	Consultancy services regarding tender procedures for the supplies of pharmaceuticals	Usual		
Marketing cooperation agreement	Česká lékárnická, a.s.	Marketing cooperation	Usual		
Contract for transportation of distributed goods	LEKTRANS, s.r.o.	Arrangement for transportation of goods	Usual		
Contract for lease of space on commercial vehicles	LEKTRANS, s.r.o.	Lease of spaces for the placing of logos	Usual		

1.2.2. Purchase of material

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

Description	Parties	Description	Price	Detriment (if any)	Advantages / Disadvantages
Separate deliveries – according to invoices	Lekis s.r.o.	Consumables – paper, toners, disks.	Usual	-	-

1.2.3 Purchase of goods

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

<i>Description</i>	<i>Parties</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate deliveries – according to invoices</i>	<i>Galmed a.s.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Usual</i>	-	-
<i>Separate deliveries – according to invoices</i>	<i>Phoenix lékárenský velkoobchod, a.s.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Usual</i>	-	-

1.2.4. Purchase of fixed assets

The Submitter entered into agreements during the fiscal year, pursuant to which the Submitter purchased fixed assets from the controlling entity or the affiliated entities within the same Group.

<i>Description</i>	<i>Parties</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate deliveries – according to invoices</i>	<i>Lekis s.r.o.</i>	<i>Hardware – PCs, printers, components</i>	<i>Usual</i>	-	-

1.2.5. Other contractual relationships

None

Other legal operations

None

Other measures

None

Declaration

The statutory body hereby declares, pursuant to the provisions of Section 66a) Paragraph 15 of the Commercial Code that the statutory body guarantees jointly and severally the fulfilment of

liabilities regarding the indemnification of the company and its partners as a consequence of a failure to specify agreements or other transactions within this Report from which the Company suffered detriment provided that such detriment was not compensated or that no agreement for its compensation has been entered into.

Ostrava, 30 March 2007

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Ing. Roman Kejzlar, Chairman of the Board

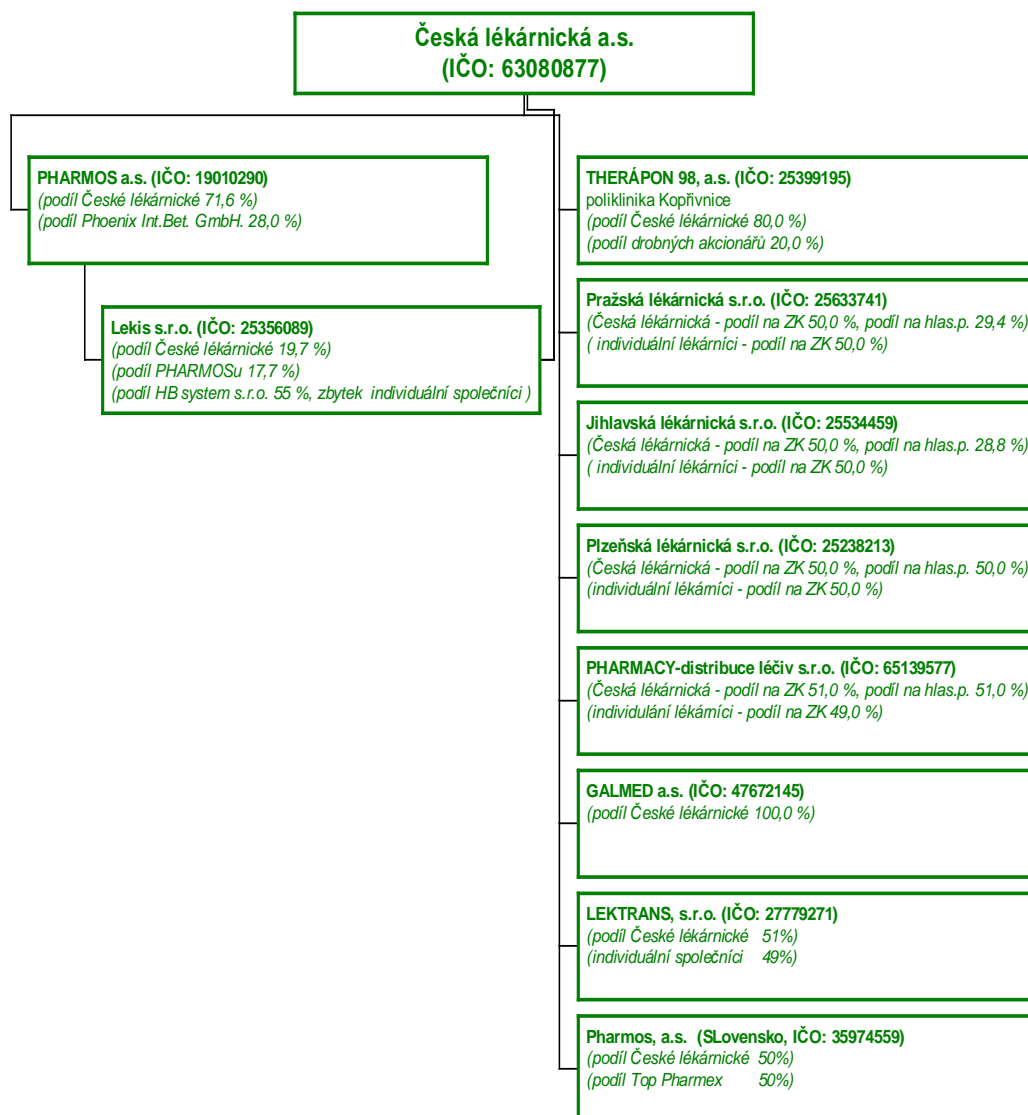


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Ing. Jan Šula, Member of the Board

Annex 1 to Report on the Relationships between Controlling and Controlled Entity issued pursuant to the provisions of Section 66a(9) of the Commercial Code

Organizational structure **(as of 31 Dec 2006)**

Organizační struktura celku - uspořádání firem (stav k 31.12.2006)



Organizační struktura celku - personální propojení (dle zapsaného stavu v Obchodním rejstříku k datu sestavení výroční zprávy)

