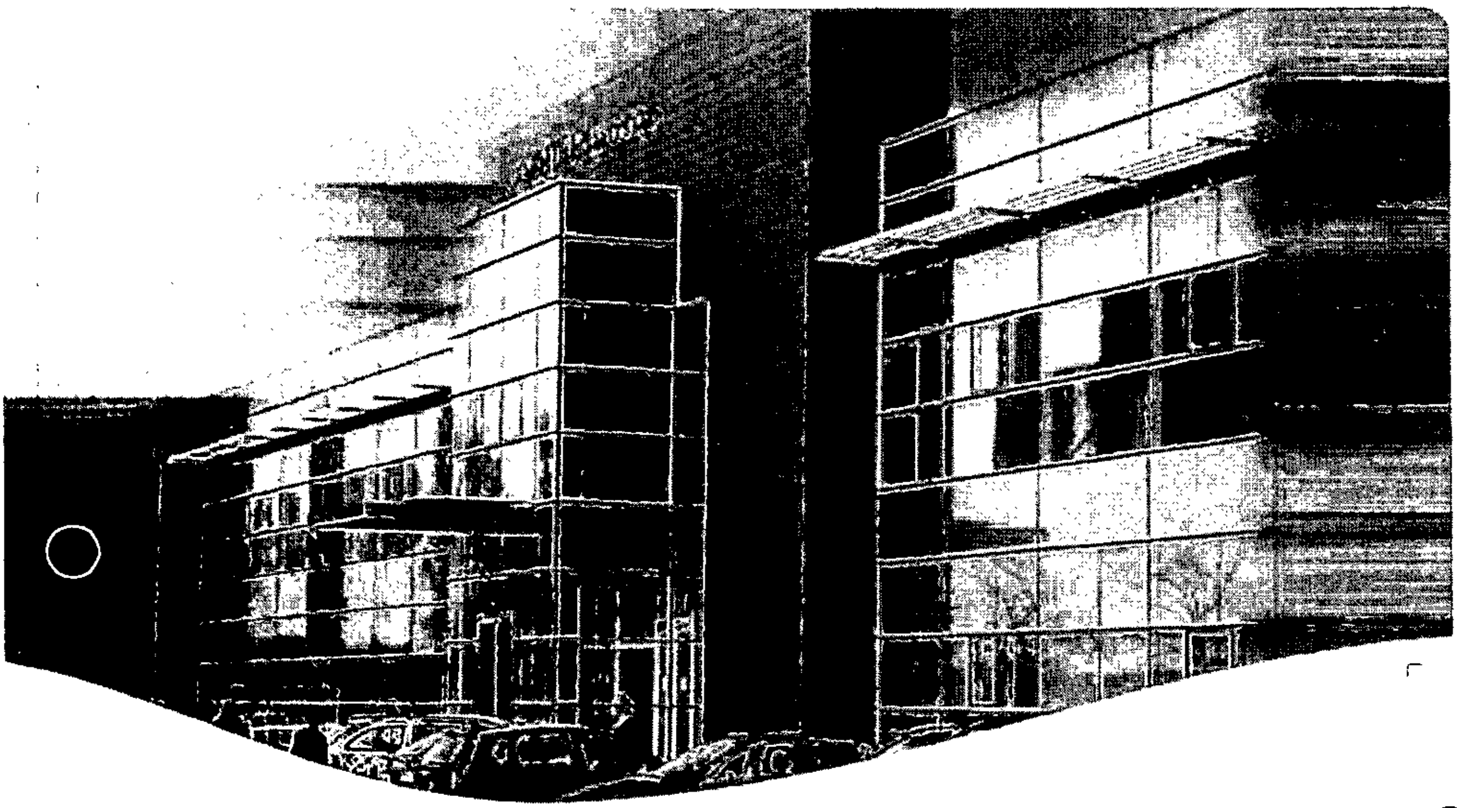
# Annual report and accounts **2006**

Capturing the growth of the pharmaceutical sector in Romania



A&D Pharma

Fully dedicated to life and health

# Contents




## Glossary

**"Company" or "A&D Pharma NV"** — A&D Pharma Holdings N.V. is a holding company incorporated in the Netherlands as of May 2006.

**"A&D Pharma Romania"** — A&D Pharma Holdings S.R.L. is the Romanian holding company incorporated in Romania as of December 2005 holding the wholesale subsidiary Mediplus Exim S.R.L. ("Mediplus") and retail subsidiary Sensiblu S.R.L. ("Sensiblu").

**"ADP" or "A&D Pharma" or the "Group"** — The Company together with its subsidiaries, Mediplus and Sensiblu, and its Romanian holding, A&D Pharma Romania

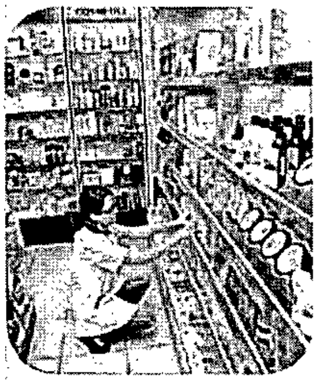
# INTRODUCTION

This document represents the final text of the Annual Report which has been revised to reflect the audited statutory financial statements of the Company for the period between 24 May 2006 and 31 December 2006 and the audit opinion issued by BDO CampsObers Audit & Assurance B.V..

The previous revised text of the Annual Report which was made available by the Company to the registered shareholders on 1 June 2007 was amended in light of certain procedural issues that had arisen in relation to the work of HLB Schippers (and their affiliated firm HLB Den Hartog), the firm of accountants that the Company had intended would audit, for Dutch statutory purposes, its consolidated and company financial statements for the period between 24 May 2006 (its date of incorporation) and 31 December 2006. The issues arising in relation to the work of HLB Schippers (and their affiliated firm HLB Den Hartog), which resulted in HLB Schippers not providing its final audit report, were procedural only and do not in any way affect the integrity of the Company's financial statements. The Company addressed the issues referred to above by removing all references to the audit work undertaken by HLB Schippers in the previous revised version of the Annual Report.

Subsequently, the Company hired BDO CampsObers Audit & Assurance B.V. as external statutory auditor of the consolidated and company financial statements for Dutch statutory purposes. This Annual Report is further revised to reflect the engagement of BDO CampsObers Audit & Assurance B.V. and certain other changes, and amends and replaces the revised annual report made available on 1 June 2007. This final Annual Report contains the consolidated financial statements of A&D Pharma Holdings SRL for the year ended 31 December 2006, the consolidated non-statutory financial statements of the Company for the period between 24 May 2006 and 31 December 2006, as audited by KPMG Romania SRL, the audited consolidated and company financial statements as prepared by the Company for Dutch statutory purposes and the audit opinion issued thereto. A&D Pharma Holdings SRL is the Romanian intermediate holding company which holds all of the Company's pharmaceutical wholesale and retail operations.

This final Annual Report was made available to shareholders for inspection at the UK Listing Authority's Document Viewing Facility at the address 25 The North Colonnade, Canary Wharf, London E14 5HSTel: +44 (0)20 7676 1000. Shareholders will be given an opportunity to discuss and adopt the final Annual Report after its publication at the extraordinary general meeting on 10 September 2007.



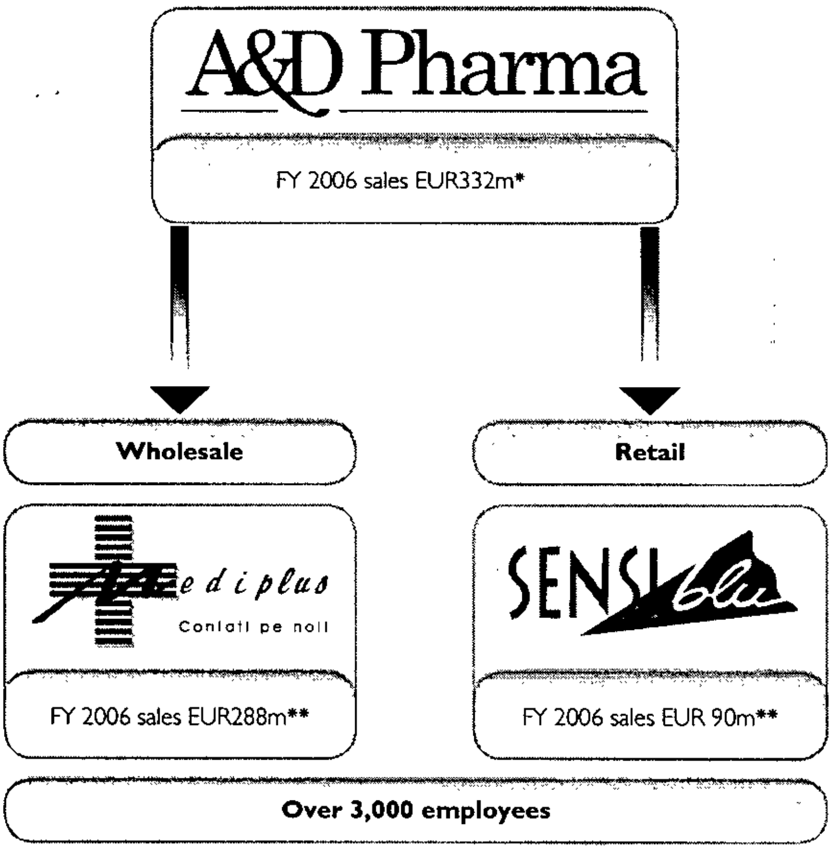
## Mission Statement

Provide access to health and beauty products in order to improve the quality of people's life by optimizing the supply chain from the factory gate to the patient

# About A&D Pharma

A&D Pharma N.V. is the Dutch holding company of the largest integrated pharmaceutical wholesale, distribution and retail business in Romania.

A&D Pharma N.V.'s GDRs have been traded on the Main Market of the London Stock Exchange since October 2006




| 1994 | 1997 | 2000 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| 1st OTC division - Plurifarm | • Full-line wholesaler - Mediplus<br>• 1st pharmacy - Sensiblu | Launch of B2B services | Sensiblu Foundation - the group CSR division | 50 Sensiblu pharmacies | • Mediplus – 20% retail market share<br>• Sensiblu – 100 pharmacies<br>• Sensiblu loyality card | First M&A step for Sensiblu (33 pharmacies acquired) | • Sensiblu – 206 outlets<br>• w/s business in R Moldova |

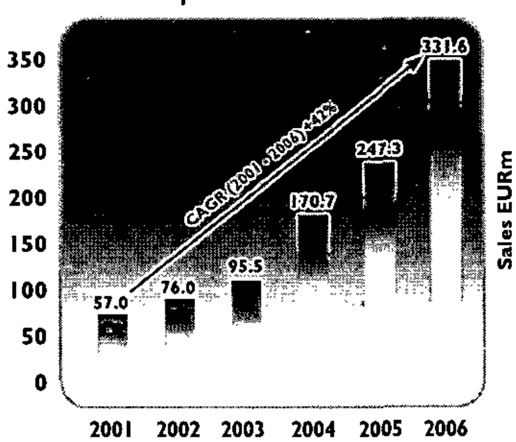
*** Consolidated sales of A&D Pharma Romania according to A&D Pharma Romania's financial statements prepared according to IFRS for the year ended 31 December 2006**

**** Unconsolidated sales figures include inter-company sales of €45.8 million from Mediplus to Sensiblu and are extracted from A&D Pharma Romania's financial statements prepared according to IFRS for the year ended 31 December 2006**

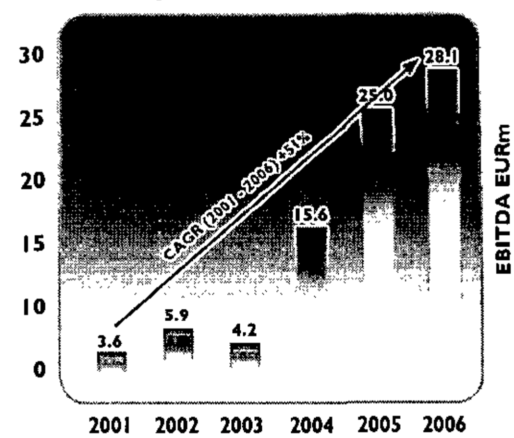
# Company at a Glance

- Integrated wholesale, distribution and retail model with operating synergies
- Clear market leader in Romania's pharmaceutical wholesale and retail sectors
- Operating in a large and fast growing economy with strong potential in the healthcare and beauty markets
- Strong growth since inception in 1994
- Experienced management team
- Solid platform for expansion in other Central & Eastern European countries

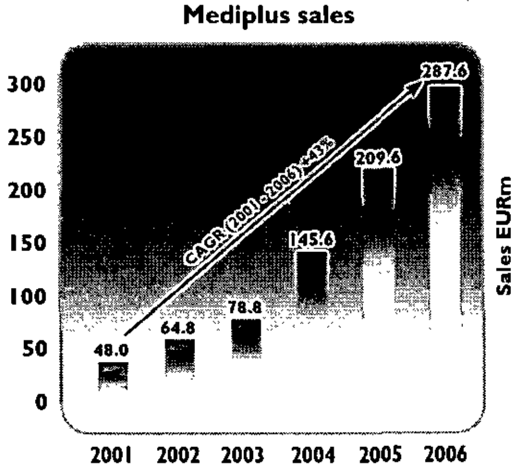
**Group consolidated sales**



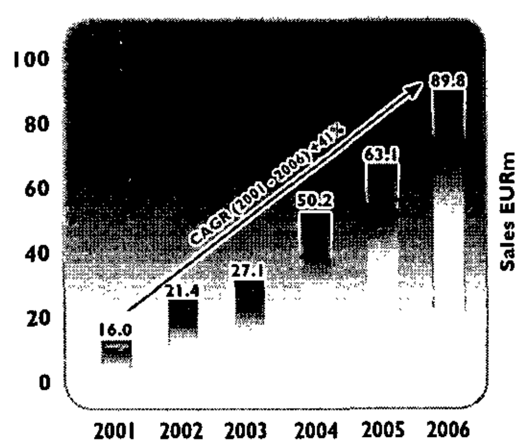

**Group consolidated EBITDA**




**Mediplus sales**




**Sensiblu sales**

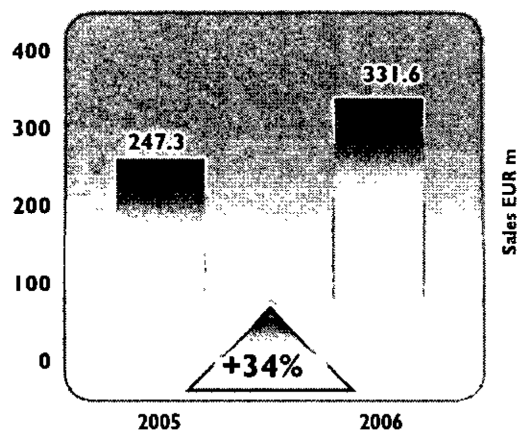


# 2006 Highlights

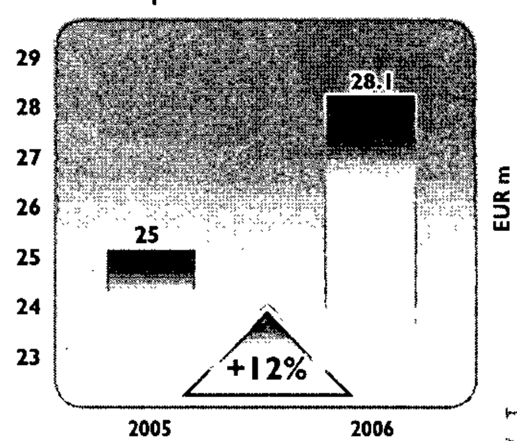
## Financial highlights

- Consolidated net sales up 34% year-on-year to €331.6 million (€247.3 million), above pharmaceutical market growth of 23%*
- Mediplus sales** up 37% year-on-year to €287.6 million (€209.6 million)
- Sensiblu sales** up 42% year-on-year to €89.8 million (€63.1 million)
- 12% year-on-year growth in consolidated EBITDA to €28.1 million (€25 million)
- 7.4% year-on-year increase in net income

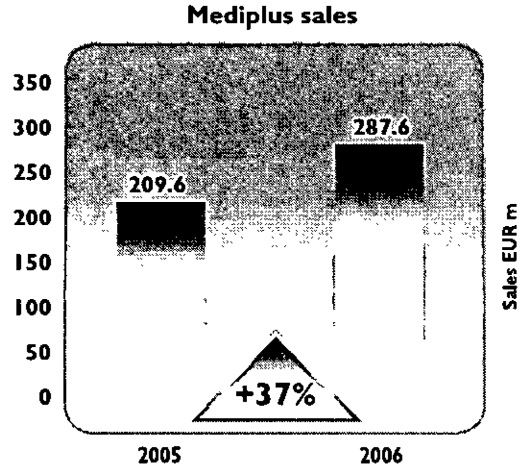
**Group consolidated sales**



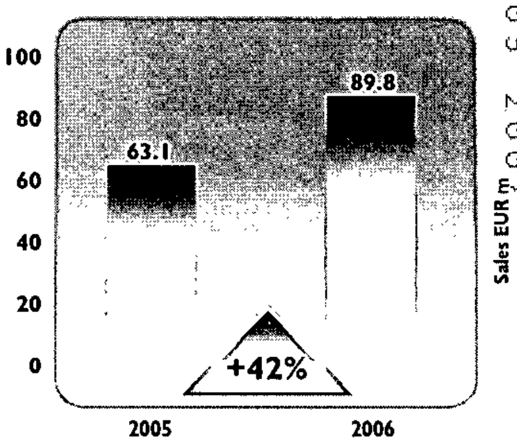

**Group consolidated EBITDA**




**Mediplus sales**




**Sensiblu sales**




* Pharmaceutical market growth computed at EUR wholesale prices

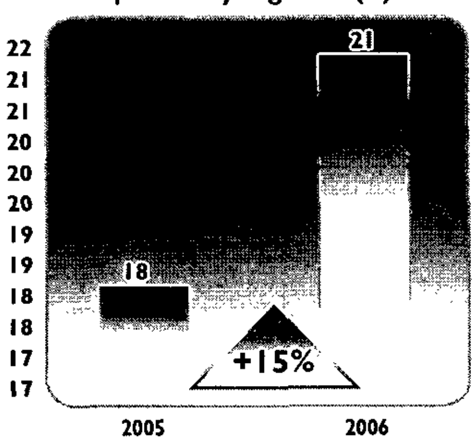
** Unconsolidated divisional sales figures include inter-company sales of €45.8 million from Mediplus to Sensiblu

# Operating highlights

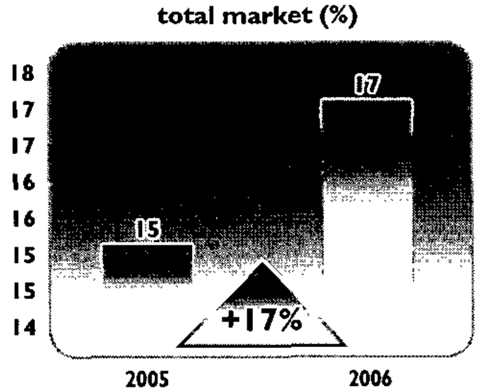
## Mediplus

- Romania's leading pharmaceutical wholesaler, supplying over 70% of all pharmacies and over 80% of all hospitals in the country
- 21% average market share of pharmaceutical sales to pharmacies over Jan-Dec 2006 compared to 18% over the same period of 2005 and approximately double the average market share of the 2nd ranked competitor (source: Cegedim)
- 17% average market share of the total pharmaceutical wholesale market (including sales to hospitals) over Jan-Dec 2006 compared to 15% over the same period of 2005 (source: Cegedim)
- Strong portfolio of brands including 135 foreign and 33 domestic manufacturers
- Enlarged portfolio of products through new strategic partnerships initiated in 2006 with GSK, Johnson&Johnson, Sandoz, Nycomed-Altana, Boehringer Ingelheim
- Expansion into R. Moldova completed in 4Q06

**Mediplus - average market share in pharmacy segment (%)**




**Mediplus - average market share in total market (%)**

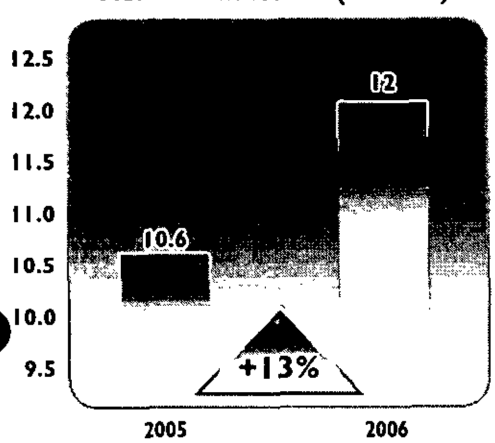


# Operating highlights

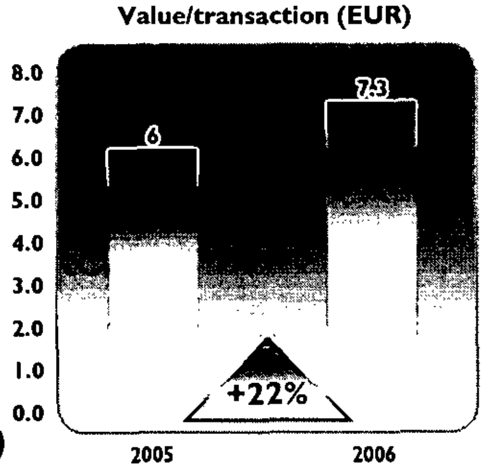
## Sensiblu

- 'Sensiblu' ranked the most valuable brand created since the 1990s in Romania (Business Week Romania, Brandient and D&D Research – December 2006)
- 13% increase in total number of transactions to 12 million transactions (10.6 million)
- 22% increase in average value per transaction to €7.3 (€6.0)
- Over 1 million loyalty card holders (card system based on a CRM platform)
- Approximately 50% of the value of transactions carried out through loyalty cards
- 31 stores opened in 2006, consolidating Sensiblu's position as Romania's largest branded pharmacy chain with a total of 206 outlets in 51 towns and cities as at 31 December 2006
- 33 acquired pharmacies (former Ideapharm pharmacies) integrated into the Sensiblu chain in 2006

No. of transactions (millions)




Value/transaction (EUR)




17-09-2007

# Chairman's statement

*"My fellow directors and I are acutely aware of the role we have undertaken, especially in ensuring that the company complies with the appropriate Dutch and UK corporate governance guidelines. It is our goal to run the company according to these best principles..."*

Dear shareholders,

On behalf of the Board of Directors of A&D Pharma Holdings NV, I would like to thank you for reading this report and if you are a current shareholder for your trust and support of our team. With the IPO of the company on the London Stock Exchange last October, we have opened a new chapter in the successful development of our company.

The first twelve years since founding have seen stormy growth under the direction of our four founder shareholders and under the leadership of our team of Executive Directors. In the 5 years pre IPO, compound annual growth in sales for the total group was 44%, with similar rates in both the Mediplus wholesale and marketing service business as well as the Sensiblu retail pharmacy business. The growth in EBITDA over the same period was even more impressive at 62%. The whole company is justifiably proud of these past achievements and highly motivated to continue the successful growth of our business both in Romania as well as selected other CEE markets in the post IPO period.

With the completion of the IPO in London, the board has been supplemented by an initial group of independent non-executive directors and I am honoured to have been elected as the Chairman of the Board for the important period following the public listing. My fellow directors and I are acutely aware of the role we have undertaken, especially in ensuring that the company complies with the appropriate Dutch and UK corporate governance guidelines. It is our goal to run the company according to these best principles, or should we decide to deviate for business reasons, clearly justify why we have done so.

In the initial period after the IPO, the board assisted the Executive Directors in formulating the key goals for 2007 and beyond. Several meetings took place until the goals were agreed. Thereafter the board assisted the Executive Directors in communicating and discussing these goals with key managers in the organisation.

In building the board of directors, we have developed a clear competency profile for both the Executive as well as the Non-Executive directors. We have engaged Russell Reynolds Associates (RRA) to support us in the identification of further Non-Executive Directors to complement the current group and intend to recommend two further such directors for nomination at the next Annual Meeting. The profile of these directors has been selected to add strength to the board to help us to face the challenges ahead in growing the company both within and outside Romania as well as to provide a coaching and mentoring resource for the senior executives within the company.

The board is also working diligently to further strengthen our Executive Directors and senior executives within the company. We recently completed an assessment centre for the top management group and I, designed to evaluate how we can work even more effectively together as a team and to identify both individual as well as group development needs. We were once again assisted by RRA in this work.

This has lead to search for an Executive Director to develop our International business who we would hope to appoint by the end of 2007. In addition we have identified key staff functions which require strengthening such as Human Resources, where we are diligently searching for a top candidate. Furthermore we have adopted an individual development plan for all of our key executive officers in order to further equip them for the challenge of managing and growing a dynamic public company such as A&D Pharma.

*The Board welcomes dialogue with shareholders. We look forward to discussions* as part of our presentations and road shows and at the Annual Meeting. Additionally, I as Chairman or Urs Kamber as Head of the Audit Committee and Senior Independent Director would welcome direct discussions should shareholders desire them.

*We are proud of our performance in 2006. I should like to thank all employees and the* directors for all their diligence, commitment and efforts during the past year as well as our shareholders for your support.

Dr. David Ebsworth
Chairman
29 May 2007

17-09-2007

# CEO's statement

*"Our vision is to become the Eastern European distribution, marketing and retail service provider of choice for the health care industry, patients, and governments"*

Dear shareholders,

2006 represented a milestone year for A&D Pharma. We confirmed the value and potential of our team and the viability of our business model by successfully completing our initial public offering on the London Stock Exchange and further consolidating our position as the leading integrated pharmaceutical wholesale, distribution and retail business in Romania.

We are a dynamic company operating in a fast growing market and one of the few vertically integrated models in pharmaceutical distribution and retail in Europe. Consolidated sales of Mediplus and Sensiblu continued to outperform general market growth, increasing by 34% last year and demonstrating our commitment to differentiation from our competitors through products, services and operational excellence.

Looking forward, we believe that the extension of our current business model into related healthcare services and our expansion into neighbouring countries will allow us to become a leading service integrator in the health sector in general.

We intend to continue to build on our key values centred around innovation, expertise and exploring new opportunities in order to increase the number of clients and patients we serve. To achieve these goals, we expect to focus on several major general directions:

- improve current and propose new services and innovative models to facilitate patient access to pharmaceutical products and medical services;
- help pharmacists and pharmacies better identify and satisfy their patients' needs;
- provide pharmaceutical companies and medical service suppliers with access to high quality standard services ranging from distribution to marketing and other services
- engage in dialogue to assist health authorities to efficiently manage and reform the health system.

We believe constructing a partnership and dialogue with government, and in the future with private healthcare bodies, is beneficial for the continued efforts being made towards reforming and improving the healthcare system and patient access to quality care. We have therefore dedicated special attention and focus to developing a partnership with the health authorities, mainly the Ministry of Health and the National House for Health Insurance (NHHI), through the associations where A&D Pharma is a leading member, such as the Association of Drug Importers and Wholesalers and the Association of Pharmacy Networks. Co-operation with health authorities began to show clear results in late 2006 starting with the implementation of some measures to facilitate patient access to medical therapy and continues in 2007. The primary changes impacting the sector have been:

- the elimination of some provisions in the framework contract between the NHHI and pharmacies which has helped create a more competitive environment in the retail sector;
- the transfer of dispensing oral medication for diabetic patients from hospital pharmacies to retail pharmacies;
- the initiation of an improved system for the allocation of reimbursement ceilings to pharmacies according to the speed of use of the ceilings per pharmacy.

Our 2006 performance, together with our ongoing investments and the IPO, position us well for further growth both in Romania and Central and Eastern Europe in 2007 and beyond. In line with our 2007 strategic goals, we anticipate beginning our assessment of opportunities for expansion beyond Romania while continuing to consolidate our market share in the domestic market and outperform the market by taking specific measures such as, but not limited to:

- launching the implementation of a company-wide Enterprise Resource Planning system to further facilitate synergies and processes that can be vertically integrated with immediate benefits for the business and optimization of operational costs;
- identifying and launching new projects and business lines, such as a new division to distribute OTC (CHC) products and new brands in retail under the 'Shop in Shop' concept (Boots / L'Occitane);
- opening new pharmacies and integrating the acquired chain of pharmacies, Ideapharm;
- commissioning the new Bucharest-based warehouse and moving to the new head office; the new warehouse will be one of the most modern and largest logistic centres in the pharmaceutical market in the region.

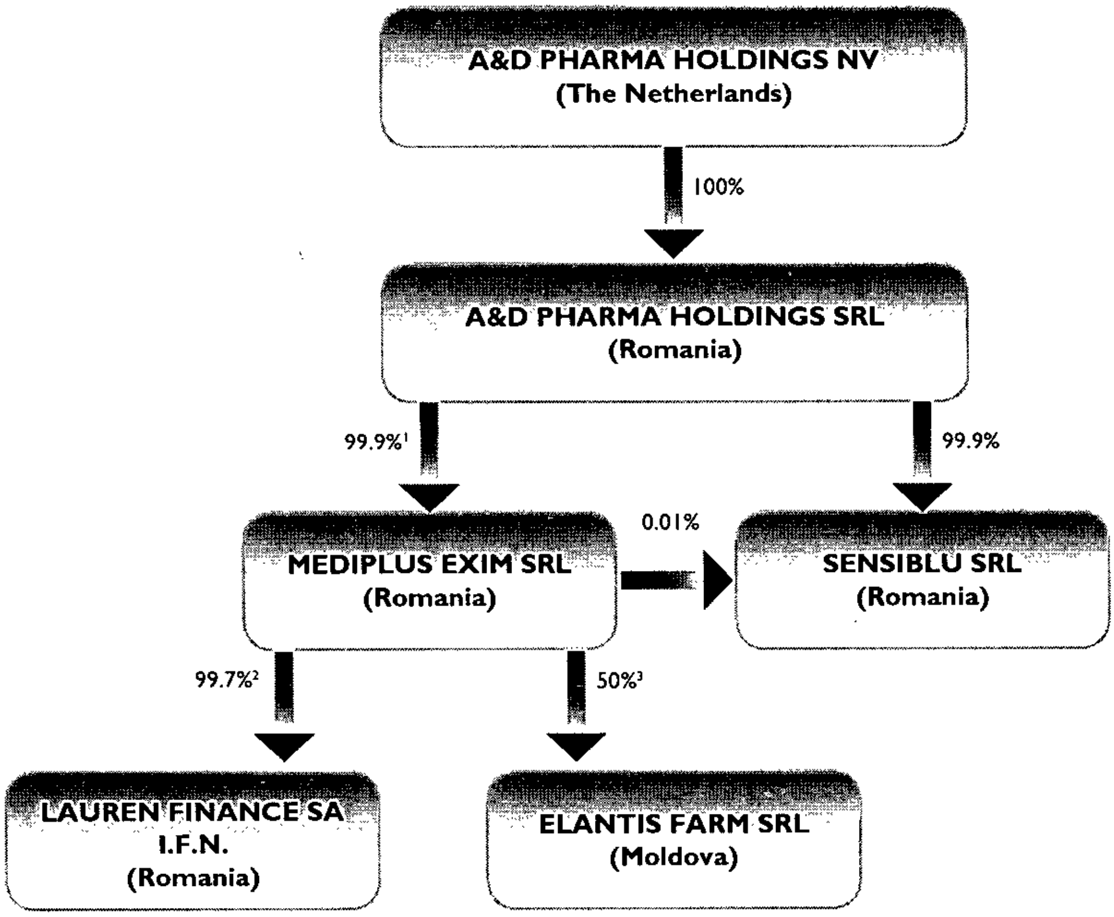
Our employees are the core component of our strategy implementation. We continue to rely on their innovative involvement and contribution as well as their willingness to work together with the management to create value for our shareholders and organisation.

Dragos Dinu
Chief Executive Officer
29 May 2007

# History and group structure

The Group was founded in 1994 by four entrepreneurs and initially focused on wholesaling OTC pharmaceutical products. In 1997, the Group entered the pharmaceutical retail market and at present operates the largest chain of pharmacies in Romania. The wholesale pharmaceutical distribution business is now operated through ADP's subsidiary, Mediplus Exim SRL ("Mediplus") and a network of pharmacies through another wholly owned subsidiary, Sensiblu SRL ("Sensiblu"). The pharmacy network operates under the Sensiblu brand.

A&D Pharma Holdings N.V. ("A&D Pharma NV") is the Group's Dutch holding entity set up in May 2006 while A&D Pharma Holdings SRL ("A&D Pharma Romania") is the Romanian holding entity of the Group set up in December 2005 and fully owned by A&D Pharma Holdings N.V.




**Note:**
(1) The Group founders own the remaining shares.
(2) The Group founders own the remaining shares to comply with the requirement under Romanian law that a joint stock company must have at least five shareholders. As at 31 May Lauren Finance SA is 99.7% owned by A&D Pharma Holdings SRL.
(3) The remaining 50 per cent is owned by two individuals who are not related to the Group.

# Operating review

## Overview

In 2006, A&D Pharma continued to deliver on its stated objective to consolidate its position as the leading pharmaceutical wholesale and retail business in Romania. Mediplus, the Group wholesale division, continued to strengthen its market leadership position and increased its market share significantly outpacing its competitors. Sensiblu, the Group retail division, continued to expand its network throughout Romania and to strengthen its well regarded brand. By vertically integrating its wholesale and retail operations and by continually leading quality and innovation, A&D Pharma aims to be in the best position to capture growth in the pharmaceutical sector and in consumer healthcare demand in Romania's and neighbouring dynamically growing markets.

In October 2006, A&D Pharma became the only Romanian company to list its GDRs on the Main Market of the London Stock Exchange, through a €136 million IPO, giving international investors the opportunity to benefit from the anticipated growth in the sector and the region. This significant event has contributed to raising A&D Pharma's profile, positioned the Group in an international peer group and prepared it for further expansion by providing access to international capital markets.

## The Romanian pharmaceutical market

The Romanian pharmaceutical market is expected to continue to expand rapidly due to expected growth in purchasing power and economic growth. Gross Domestic Product (GDP) is forecast to grow 7.7% in 2006 compared to a Eurozone average GDP growth of 2.7% while US$ GDP per capita in Romania more than doubled in the last five years (source: ING). The low level of pharmaceutical consumption per capita in Romania (€70 per annum in 2006 compared to €400 in France and €485 in Germany - source: IntelliNews: 'Romanian pharmaceutical report', February 2007) reinforces the significant growth potential of the market. This, combined with Romania's entry into the EU in January 2007 and favourable demographic and macro-economic trends, such as declining inflation and more flexible, transparent health regulations, points towards further growth in the market.

The pharmaceutical market in Romania grew by 23% from 2005 to 2006, reaching €1.55 billion, at wholesale prices, for the year ended 31 December 2006 (source: Cegedim).

A&D Pharma Romania again grew faster than the year-on-year growth of the market with revenues up 37% for its wholesale division, Mediplus, and 42% for its retail division, Sensiblu, for the year ended 31 December 2006, demonstrating its leading market position.

# Mediplus at a glance

## Romania's leading integrated wholesale and value added service provider

- Extensive range of value added services provided to:
  - key suppliers (including regulatory, market access, medical promotion, marketing and brand management services) leading to the conclusion of strategic partnerships with major international manufacturers
  - pharmacy clients' (including pharmacy refurbishment, merchandising advice, professional and business training, IT services) to create long-term relationships and increase loyalty of pharmacy client base
- Nation-wide supply chain capabilities:
  - c.140 vehicles
  - c.60% of deliveries in about 4 hours
  - c.20 million sales units delivered monthly
  - pre-wholesale services to 19 principals (manufacturers)

## We build long-term strategic partnerships

Bayer HealthCare
Bayer Schering Pharma

"As in any area one can become better only playing together with the best! Mediplus has the ingredients of the best player in the distribution market and represents for us a strategic partner in Romania.

Focus on clients, readiness to share valuable experience and mutual respect are common values shared by Bayer Schering Pharma and Mediplus."

Catalin Radu,
Country Division Head, Bayer Schering Pharma AG, Romania

Pfizer

"We hereby inform you that Pfizer H.C.P Corporation, the world's leading pharmaceutical company, successfully started the collaboration with Mediplus in 2000.

Mediplus is the importer and distributor of all Pfizer pharmaceutical products on the Romanian market. During this period Mediplus has proved to be a very reliable business partner, being able to sustain our growth in the pharmaceutical market through very good sales. We worked together in order to achieve the common goals that we set up for these years and we can say that we succeeded.

I strongly recommend Mediplus as a very good collaborator, a company that respects all the commitments and fulfills all business conditions and agreements.

We do really apreciate a team that is ready to grow your business and offer you best practice and operations to make it possible. We have very high regard of the fact that Mediplus is focused on customers and their needs and we trust somebody who is ready to add value to an integrated chain of distribution."

Valentin Dudau,
Trade Director, Pfizer Romania

Grup sanofi aventis
Sănătatea mai presus de orice

"We have been working together for more than 10 years and we are proud to say that we are among the leaders of the market. We successfully passed together all the challenges the market and environment created; we have grown together and also learned from each other.

It's great to say that the distribution market leader is your partner on such a dynamic market and moreover is ready to share with you its valuable experience.

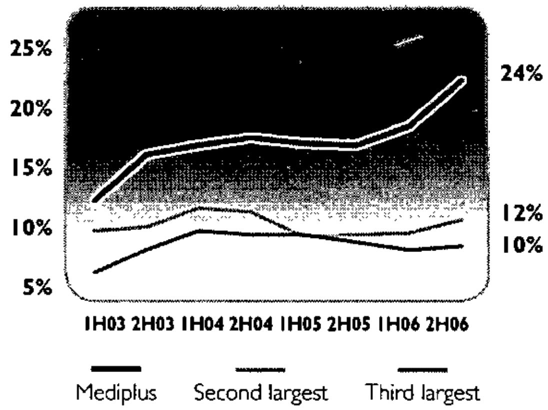
At the end, we would like to add that the business means people and congratulate Mediplus for all achievements done with its extremely valuable team."

Dr. Dan Ivan,
General Manager, Sanofi-Aventis Romania SRL

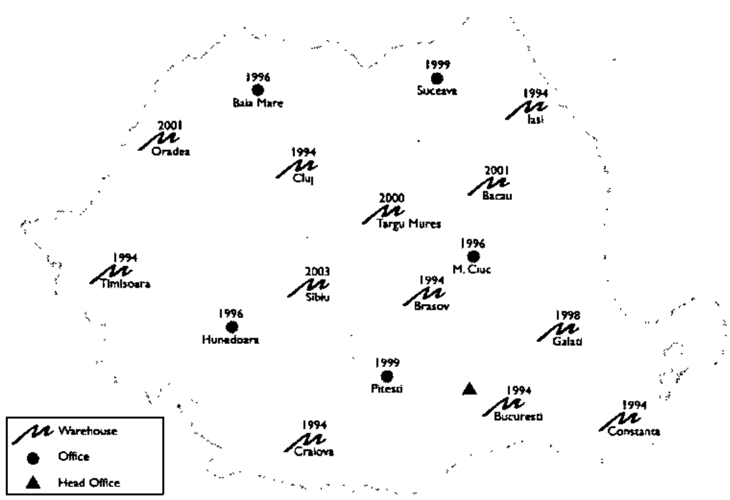
## Operating review of wholesale business

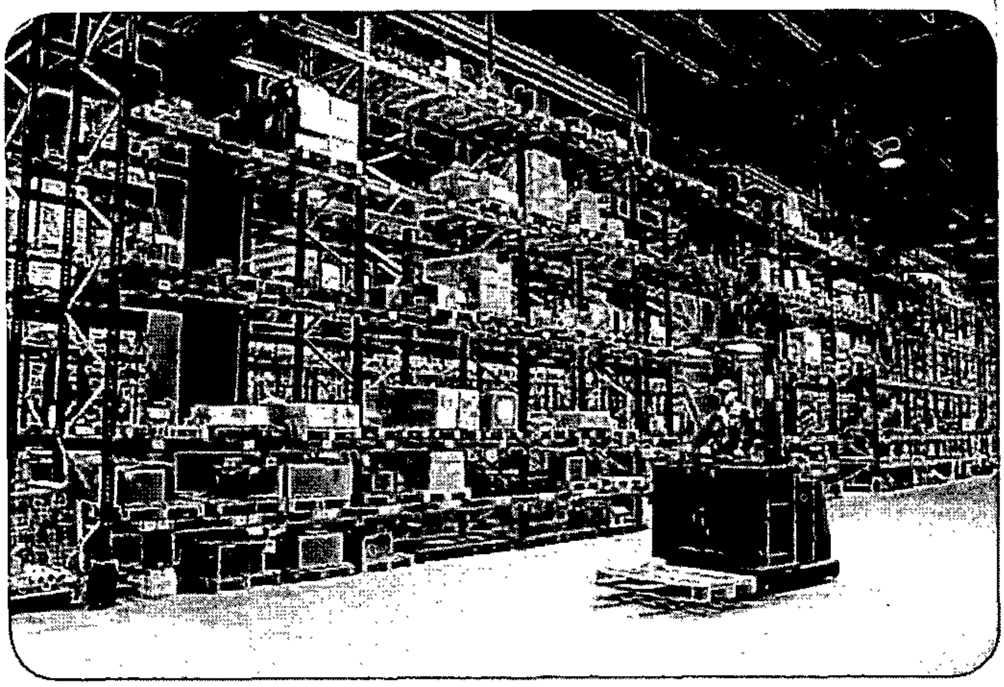
Mediplus' share of pharmaceutical sales to pharmacies in Romania continued to increase throughout 2006 and reached 24% in the month of December, compared to 18% for the same month of 2005 (source: Cegedim). This was more than the combined market share of the second and third largest wholesalers in December 2006. Mediplus' share of the total pharmaceutical wholesale market, which also includes sales to hospitals, rose from 16% in December 2005 to 19% in December 2006 (source: Cegedim), also significantly ahead of its competitors.

**Mediplus - a clear market leader (market share in pharmacy segment)**




**Nation-wide logistics system**



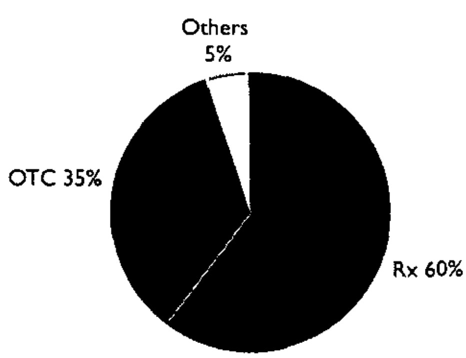


As at 31 December 2006, Mediplus operated a nationwide logistics system comprising approximately 18,000m² of warehousing capacity in 12 warehouses. Mediplus distributes a portfolio of approximately 5,000 products to over 3,500 pharmacies throughout Romania, representing more than 70% of the total number of pharmacies in the country as well as 310 hospitals. The pharmacy or retail segment represents 95% of Mediplus' turnover, reflecting an increase by 1% in hospital sales as a proportion of total sales. Sensiblu is Mediplus' largest client, accounting for 16% of Mediplus' turnover in 2006, a slight decline compared to 17% in 2005.

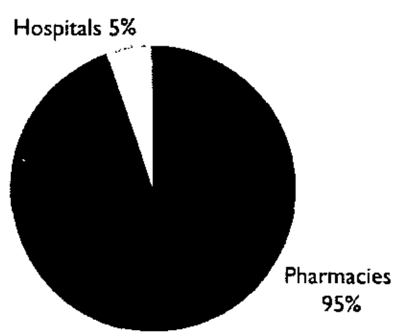
Approximately 60% of Mediplus' turnover comes from prescribed pharmaceutical products. Mediplus has the largest portfolio of pharmaceutical products among its competitors in Romania. The remaining 40% of Mediplus' turnover comes from consumer healthcare products, including OTC products (35%) and other products such as dermo-cosmetics, cosmetics and para-pharmaceuticals (5%).



**A balanced portfolio**



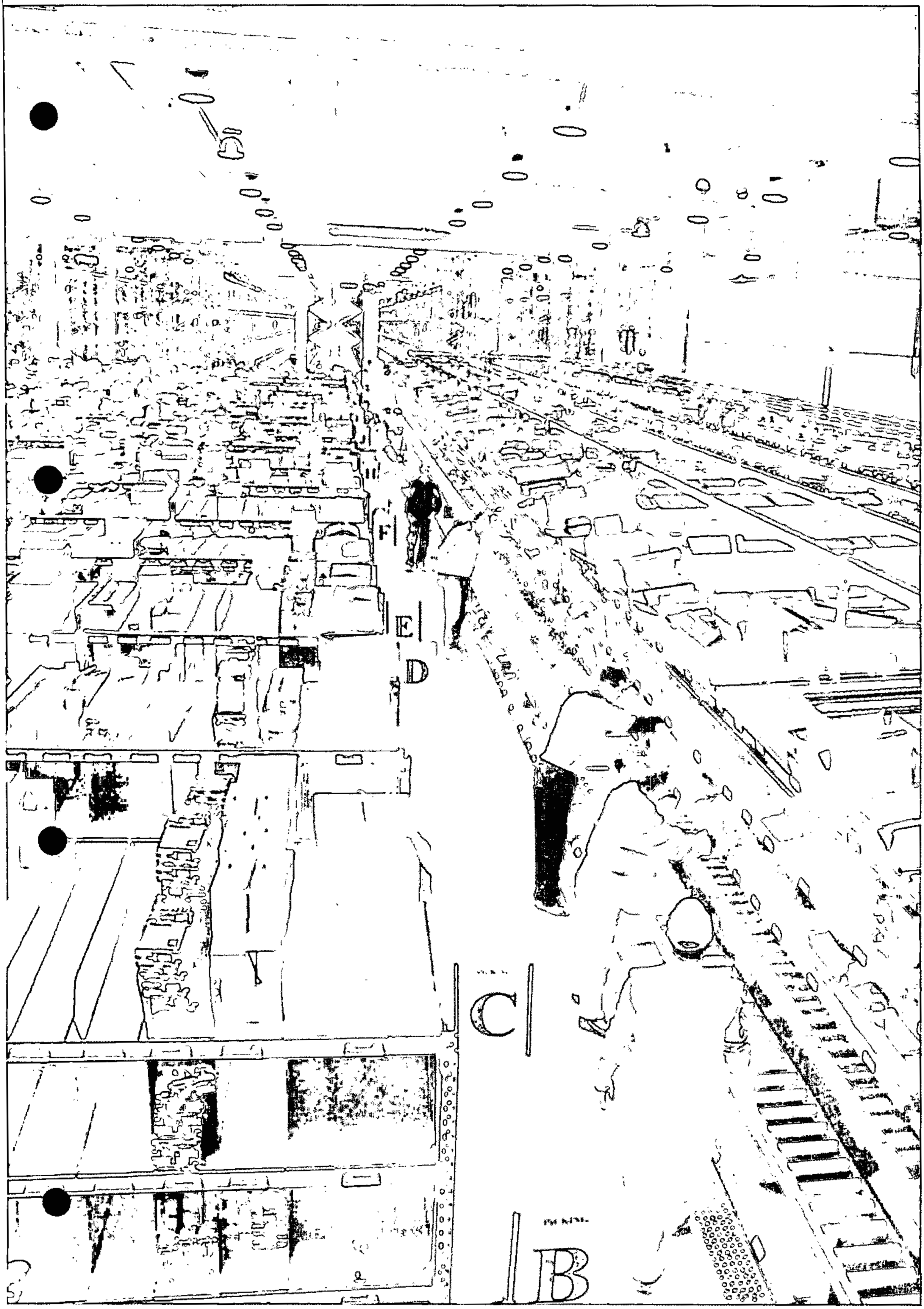

**Pharmacies are the dominant distribution channel**



Mediplus imports a large part of all imported branded OTC products sold in Romania and it is the clear market leader in the wholesale sector. This not only enables it to negotiate favourable commercial terms and conditions with its suppliers but also positions Mediplus to become a long-term strategic partner with major international producers. Mediplus enlarged its product portfolio in 2006 by distributing the products of three major international suppliers: Johnson&Johnson, Nycomed-Altana and Sandoz and initiated a strategic partnership with Boehringer Ingelheim. In 2006 Mediplus and GlaxoSmithKline (GSK) concluded a strategic partnership for the distribution of GSK vitamins and analgesics in Romania by Mediplus.

In addition to its distribution services, Mediplus has been offering a range of value-added services, including marketing and brand management to key suppliers. Mediplus has been offering to its pharmacy customers various value-added services like pharmacy refurbishment, merchandising advice, and professional and business training, that help it create long-term relationships with the majority of its pharmacy client base. These value-added services differentiate Mediplus from its competitors and enable it to generate higher gross margins than traditional wholesale businesses.

Elantis Moldova, which was established in the neighbouring Republic of Moldova in August 2006 under a joint venture agreement, became operational in the fourth quarter of 2006. This first expansion outside of Romania reflects the Group ambition to replicate its successful business model in selected CEE countries and become a leading player in the region.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# Sensiblu at a glance

## Romania's leading branded pharmacy chain

- Constantly leading in innovation:
    - First branded pharmacy chain
    - First open layout pharmacy stores
    - First to introduce the combined retail concept: pharmacy/drugstore/beauty shop/ 'shop in shop' concept
    - First branded pharmacy chain with national coverage
    - First to introduce a loyalty card system
    - First pharmacy chain launching a TV campaign
    - First pharmacy chain to launch a website, monthly magazine, and call centre
- Largest national branded pharmacy chain with 206 outlets as of 31 December 2006
- More than 1,000,000 households with loyalty cards
- Corporate Social Responsibility program through Sensiblu Foundation

## We strive for excellence and quality

Your health & beauty expert

"Boots has completed an encouraging first year of business with A&D Pharma.

The implant of Boots brands has been extended to over 120 Sensiblu stores, and we are in the process of adding further content, with the launch of new brands such as our leading suncare range, Soltan. Our performance has been in line with expectations, supported by our partner's high standard of marketing delivery. Boots looks forwards to continuing its relationship in 2007".

Michael Caves,
Regional Country Manager, Boots Retail International

A True Story.
L'OCCITANE
EN PROVENCE

"L'Occitane's worldwide success has now lasted for more than 30 years and, since its very beginning, L'Occitane has created natural and authentic products, manufactured with qualitative ingredients. L'Occitane has now been offering its Provençal atmosphere and its well-being Home & Body products in Romania for almost 2 years.

Sensiblu started a cooperation with L'Occitane in 2005 to develop the brand in Romania. Sensiblu's knowledge of cosmetics and of the Romanian market have been precious tools to distribute L'Occitane.

The Romanian retail market in general but also its cosmetic market, have been recently facing a great development, and L'Occitane has had the advantage of this positive and dynamic evolution.

Romanians are sensitive to healthy and natural products, which Sensiblu and L'Occitane are together offering and promoting. Sensiblu and L'Occitane have planned a further expansion of the brand in the country for the next coming years by opening flagship shops.

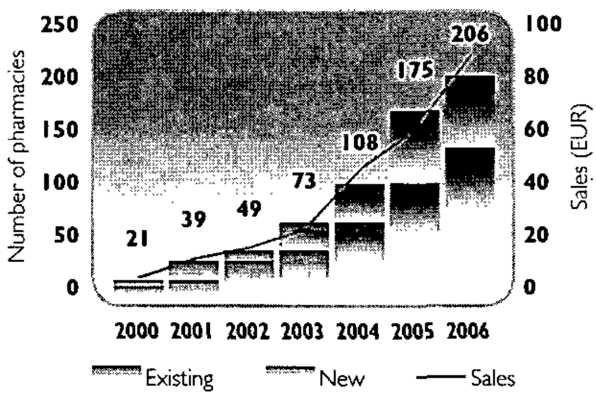
Sensiblu and L'Occitane will continue their good cooperation to keep on making Romanians' dream true about Provence and its authentic products in every L'Occitane shop."

Alia Hawa,
Export Manager, L'Occitane en Provence

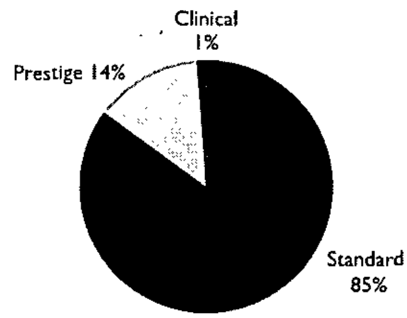
## Operating review of retail business

Sensiblu, which is the largest pharmacy chain of its kind in Romania, also continued to strengthen its market position during 2006 by adding a further 31 outlets. In addition to the newly added outlets, Sensiblu continued its integration of Ideapharm, the chain of 33 pharmacies in 18 towns that was acquired in December 2005. Sensiblu's network comprised a total of 206 outlets in 51 Romanian towns and cities by the end of 2006.

**Sensiblu fast growing pharmacy network**




**Focused pharmacy approach**



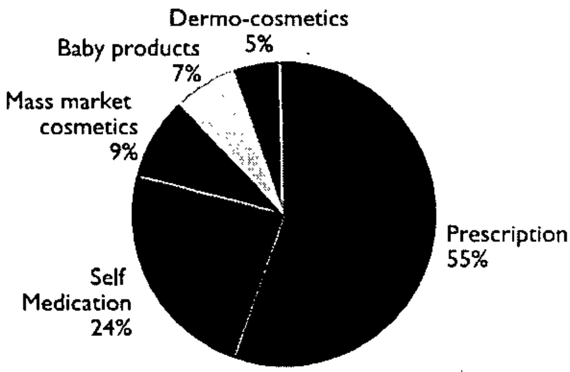

Sensiblu pharmacies are differentiated from traditional pharmacies in Romania through their open plan format, own-brand products and the shop-in-shop concept (Boots and L'Occitane). Sensiblu operates four types of pharmacy: prestige pharmacies, standard pharmacies, clinical pharmacies and rural pharmacies, differentiated by location, portfolio and customer target. As at 31 December 2006, Sensiblu operated 183 standard pharmacies across Romania, 18 prestige pharmacies, two clinical pharmacies and one rural pharmacy as well as two L'Occitane stores. Standard pharmacies generated 85% of Sensiblu's turnover in 2006, prestige pharmacies 14% and clinical pharmacies generated less than 1%.

As a result of its national presence and innovative pharmacy concept, the Sensiblu brand has become increasingly associated with health and beauty, high quality services and a healthy lifestyle. A study from ISRA Center conducted from January 2006 to January 2007 demonstrated the remarkable year-on-year growth in brand awareness among the Romanian population, with 44% (vs 35%) top of mind brand awareness and 94% (vs 88%) aided brand awareness among surveyed participants. In December 2006, Sensiblu was ranked the most valuable pharmaceutical brand and the most valuable brand created after the 1990s in Romania in a comprehensive, independent ranking of national brands published by Business Week Romania, in association with Brandient and D&D Research.

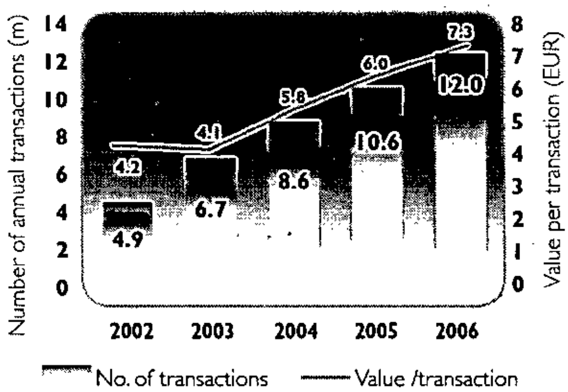
Sensiblu currently serves more than one million customers per month, offering them over 25,000 products in six categories: prescription drugs, self medication, mass-cosmetics, dermo-cosmetics, baby products and others. The sales of prescribed medication represented 55% of Sensiblu's 2006 revenue, followed by self medication (24%), mass market cosmetics (9%), baby products (7%) and dermo-cosmetics (5%). In 2006, Sensiblu had 21 own-brand products launched under the Herbology, Dermalin, and Sensiblu brands.

The number of total transactions at Sensiblu pharmacies increased significantly from 10.6 million in 2005 to over 12 million in 2006, an increase of 13%. The average value of each transaction also went up from €6 in 2005 to €7.3 in 2006, an increase of 22%. Both numbers reflect the growth trends specific to the Romanian market, its early phase of development and relatively low current medication consumption per capita.

**Diversified product mix**




**Fast growth in number and value of transactions**




Sensiblu operates a loyalty card system based on a Client Relationship Management (CRM) system. The loyalty card scheme helps Sensiblu build customer loyalty, increasing transaction value and acts as a highly useful market research tool. By 31 December 2006, Sensiblu had more than 1 million loyalty card holders and approximately 50% of the value of transactions in Sensiblu pharmacies was carried out through loyalty cards in 2006.

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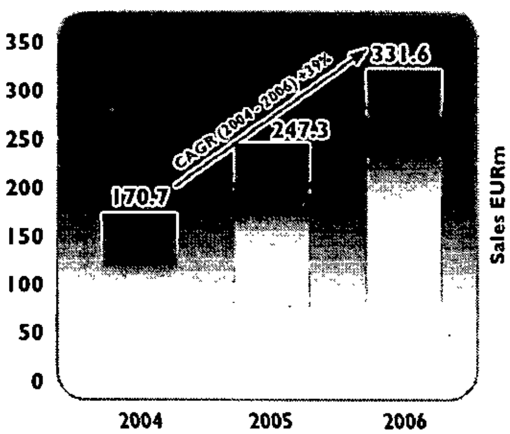
# Financial review*

## INCOME STATEMENT

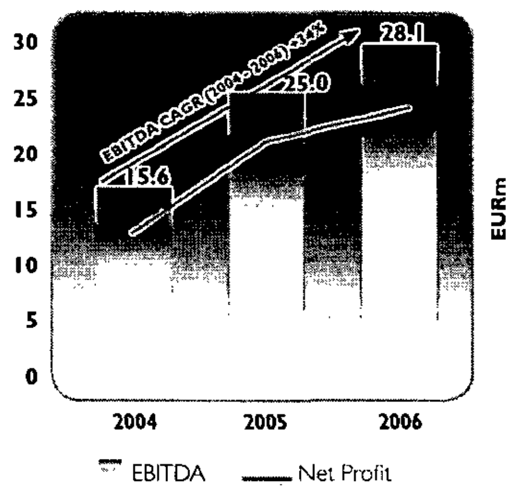
### Sales

A&D Pharma Romania's consolidated sales for the twelve months ended 31 December 2006 were €331.6 million, an increase of €84.3 million or 34% from €247.3 million for the twelve months ended 31 December 2005. This growth in sales was the combined result of the underlying growth of the pharmaceutical market in Romania, which grew by 23% in 2006, expressed in Euro distributor prices, and A&D Pharma Romania's stronger performance compared to its competitors. Although sales growth declined slightly in 2006 compared to 2005, A&D Pharma Romania's performance continues to be above general market growth and in line with management expectations.

**Consolidated Sales**




**Consolidated EBITDA and Net Profit**



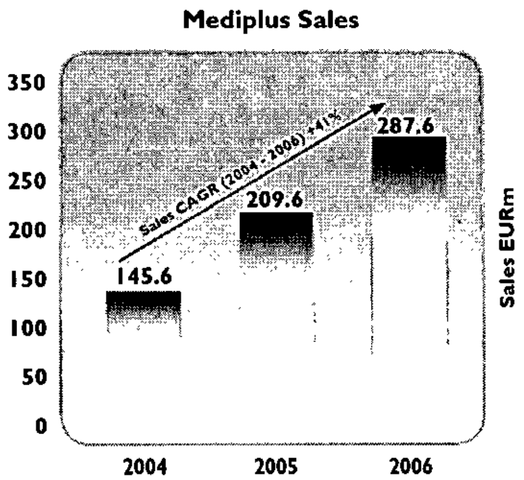

Mediplus' sales for the twelve months ended 31 December 2006 were €287.6 million, a year on-year increase of €78 million or 37% from €209.6 million in 2005. Sensiblu's sales for the twelve months ended 31 December 2006 were €89.8 million, a year-on-year increase of €26.7 million or 42% from €63.1 million in 2005. These unconsolidated divisional sales figures include inter-company sales from Mediplus to Sensiblu. Eliminations arising from inter-company sales amounted to €45.8 million in 2006.

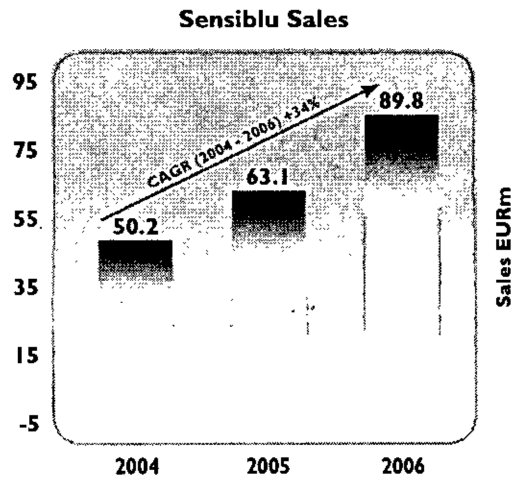


* This Financial Review refers to figures derived from the consolidated financial statements prepared according to IFRS for the year ended 31 December 2006 for A&D Pharma Romania, as we believe these figures are a better comparable with the results of the former group A&D Pharma Holdings NV, Netherlands Antilles ("ADP Antilles") provided in the IPO prospectus than the results of the listed entity, A&D Pharma N.V., which cover only the 7-month period since its incorporation until the end of the year (May-December 2006).

Our analysis of the financial performance of the business provided in the "Financial Review" section refers to the 12-month audited results of A&D Pharma Romania. The "Financial Review" section should be read in conjunction with the notes of the audited financial accounts included in the consolidated financial statements for the year ended 31 December 2006 for A&D Pharma Romania. Therefore, we believe that these figures provide more meaningful insight into the financial position and results of the Group.

However, an analysis of A&D Pharma Holdings NV's financial performance can be found at the end of the section 'Financial Review' and it should be read in conjunction with sub-section C of the section 'Financial Statements".




## Operating costs

Total operating costs for the twelve months ended 31 December 2006 were €308.3 million, an increase of €82.8 million or 37% from €225.5 million for the twelve months ended 31 December 2005. As a percentage of sales, operating costs increased to 93% in 2006 compared to 91% in 2005 and 92% in 2004.

Cost of sales for 2006 was €243.4 million up from €175.8 million in 2005, and represents a 38% increase, slightly lower than the 39% increase in cost of sales in 2005 compared to 2004. Gross margin for the twelve months ended 31 December 2006 was 26.8% compared to 28.9% for the year ended 31 December 2005 and 26% for the year ended 31 December 2004. The increase in gross margin in 2005 compared to 2004 was the result of specific isolated market circumstances, such as the delay by health authorities in updating the regulated prices of medication on the basis of the appreciation of the Romanian currency against the US$ and Euro during the first half of 2005 which benefited the gross margin of the wholesale business. Compared to 2004, which had no exceptional market circumstances, the gross margin slightly improved from 26% to 26.8% in 2006, despite the increasing pressure from competition which led to a more aggressive discount policy to clients in 2006.

Other operating costs (mainly including staff costs, rent and administrative expenses and third party services, excluding depreciation and amortisation) increased by 29% in 2006 to €60.1 million from €46.5 million in the previous year. However, this increase is significantly lower than the 61% increase in the previous year. The increase in other operating costs in 2006 was experienced both in the wholesale and retail businesses. While the increase in cost in the wholesale business primarily reflects the growth in its business activities, resulting in higher logistics and warehousing costs, sales force and an increasing demand for promotional activities, the retail business suffered from sharp increases in real estate prices in Romania, leading to high increases in rent for the existing locations.

## EBITDA margin

A&D Pharma Romania's consolidated EBITDA for 2006 was €28.1 million, up 12% from €25.0 million in 2005. Mediplus' EBITDA in the twelve months to 31 December 2006 was €29.4 million, up 9% from €26.9 million the year before. In the retail segment, the National House for Health Insurance's (NHHI) method of allocating the re-imbursement budgets to pharmacies, which is to Sensiblu's disadvantage, and the sustained opening of new Sensiblu outlets, led to an EBITDA loss for Sensiblu of €1.9 million in 2006, compared to an EBITDA loss of €1.8 million in 2005.

| Wholesale | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Sales** | **287,582** | **209,603** | **145,631** |
| **EBITDA*** | **29,356** | **26,928** | **13,539** |
| EBITDA margin (%) | 10.2% | 12.8% | 9.3% |

| Retail | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Sales** | **89,780** | **63,147** | **50,241** |
| **EBITDA*** | **(1,858)** | **(1,765)** | **1,639** |
| EBITDA margin (%) | (2.1%) | (2.8%) | 3.3% |

*Calculations based on audited numbers

Consolidated EBITDA margin for 2006 was 8.5%, compared to 10.1% for 2005 and 9.1% for 2004. Mediplus' EBITDA margin was 10.2% for 2006, compared to 12.8% for the previous year, when the high margin was impacted by the market circumstances explained above, and to 9.3% for 2004. Sensiblu's operating margin reported an improvement since the negative margin reduced from (2.8%) in 2005 to (2.1%) in 2006, despite the strong growth in the number of outlets and the integration of Ideapharm pharmacies into the Sensiblu chain, which put a strain on costs in 2006.

## Net profit margin

Net profit amounted to €17.8 million for 2006 compared to €16.6 million for 2005 while net margin for the twelve months ended 31 December 2006 decreased to 5.4% from 6.7% for the twelve months ended 31 December 2005.

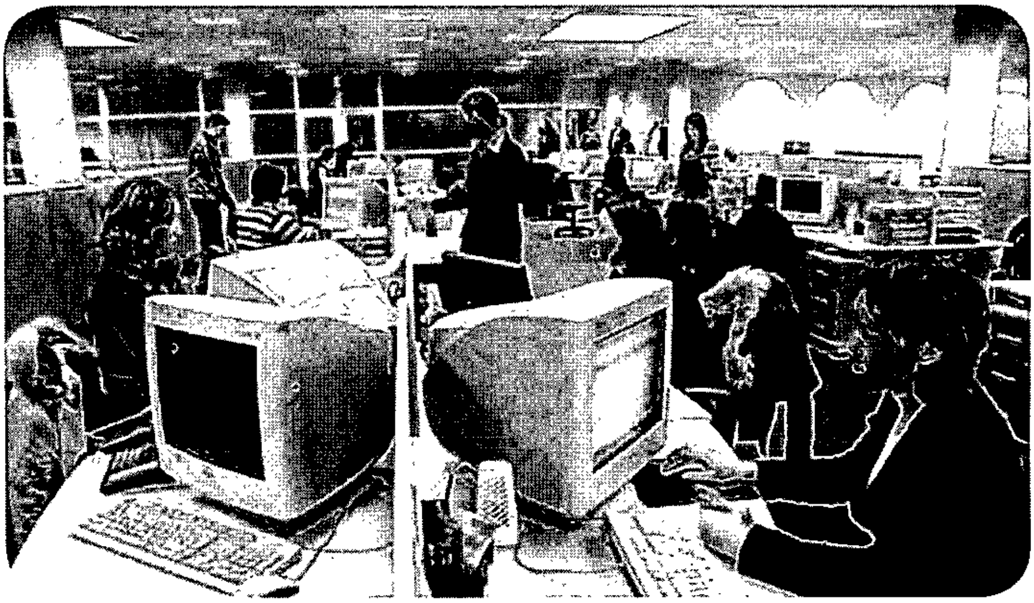
# BALANCE SHEET

Total assets increased by 30% based on a 16% increase in non-current assets, mainly resulting from the increase in intangible assets, and 61% in current assets, as a result of the expansion in operations. Working capital for existing business in 2006 was mainly financed by suppliers while additional increases in business were funded by new financing resources under the bank credit facilities.

A&D Pharma Romania used a new long-term syndicated bank loan concluded in 2006 to finance business operations and capex needs (€22.7 million) and to refinance existing short-term debt (€30.0 million).

Higher capital expenditure of €22.7 million in 2006 compared to €13.7 million in 2005 was mainly linked to investments in the new logistic centre and headquarters in Mogosoaia.

The balance sheet structure remains flexible enough to support financing future company expansion (net debt was €55.1 million as of 31 December 2006 while book value of equity stoodat €301.1 million).



# CASH FLOW STATEMENT

As at 31 December 2006, A&D Pharma Romania had positive net cash of €17.2 million compared to a negative net cash position of €11.3 million as at 31 December 2005. A&D Pharma Romania used up to €51.7 million from its new long-term syndicated Bank Loan to finance its business operations and capex needs and to refinance previous short-term debt. Besides the positive net cash from the syndicated loan, the increase in operating profit before working capital to €29.1 million in 2006 (from €26.6 million in 2005) contributed to the improvement in the 2006 net cash position.

A&D Pharma Romania's change in working capital position as at 31 December 2006 was a negative €35.1 million compared to a positive €13.1 million in 2005. Towards the end of 2005 the National House for Health Insurance settled historical debts existing in the health system to pharmacies. As a consequence, A&D Pharma Romania received overdue payments of over €20 million from the National House for Health Insurance by the end of 2005 and passed these amounts to suppliers at the beginning of 2006. This repayment of suppliers and higher inventories in order to obtain higher discounts and more favourable terms from suppliers, combined with an increase in receivables from business expansion, led to negative change in working capital of €35.1 million in 2006.

The major change in cash flows from investing activities in 2006 resulted from higher expenditures on fixed assets of €17.4 million, partly associated with the investment in the new warehouse in Mogosoia. However, this expenditure was partially offset by the proceeds from the sale of tangible and intangible assets, including part of the proceeds of €5.1 million from the sale of the previous company premises.

## Summary of consolidated income statement for A&D Pharma Romania

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| **(€'000)** | **2006** | **% change** | **2005*** | **% change** | **2004*** |
| **Sales** | | | | | |
| Retail | 89,780 | 42% | 63,147 | 26% | 50,241 |
| Wholesale | 287,582 | 37% | 209,603 | 44% | 145,631 |
| Other revenues | - | | - | | 442 |
| Eliminations | (45,769) | 80% | (25,456) | (1%) | (25,621) |
| **Total Sales** | **331,593** | **34%** | **247,294** | **45%** | **170,693** |
| Cost of sales | (243,431) | 38% | (175,842) | 39% | (126,261) |
| **Gross profit** | **88,162** | **23%** | **71,452** | **61%** | **44,432** |
| *Margin* | *26.8%* | | *28.9%* | | *26.0%* |
| Other operating costs | (60,099) | 29% | (46,449) | 61% | (28,860) |
| **EBITDA** | **28,063** | **12%** | **25,003** | **61%** | **15,572** |
| *Margin* | *8.5%* | | *10.1%* | | *9.1%* |
| Depreciation and amortisation | (4,794) | 51% | (3,174) | 83% | (1,735) |
| **Total operating costs** | **(308,324)** | **37%** | **(225,465)** | **44%** | **(156,856)** |
| **EBIT** | **23,269** | **7%** | **21,829** | **58%** | **13,837** |
| *Margin* | *7.0%* | | *8.8%* | | *8.1%* |
| Financial gains / (losses) | (1,889) | (5%) | (1,988) | NA | 507 |
| **Profit before taxation** | **21,380** | **8%** | **19,841** | **38%** | **14,344** |
| Taxation | (3,552) | 9% | (3,245) | 97% | (1,650) |
| **Net income** | **17,828** | **7.4%** | **16,596** | **31%** | **12,694** |
| *Margin* | *5.4%* | | *6.7%* | | *7.4%* |
| **Total Capital Expenditure** | **22,741** | **69%** | **13,487** | **35%** | **9,983** |

* See Note at the end of this section

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# Consolidated balance sheet for A&D Pharma Romania

| (€'000) | 31 December 2006 | 1 January 2006 |
|---|---|---|
| **Assets** | | |
| Non-current assets | | |
| Property, plant and equipment | 35,592 | 19,915 |
| Intangible assets | 302,009 | 276,486 |
| Financial investments | 57 | 10 |
| Long term receivables | 7,181 | 1,356 |
| **Total non-current assets** | **344,839** | **297,767** |
| **Current assets** | | |
| Inventories | 63,455 | 36,622 |
| Accounts receivable | 119,770 | 73,611 |
| Other current assets | 12,019 | 10,249 |
| Restricted cash | 5,863 | 8,221 |
| Cash and cash equivalents | 17,194 | 7,031 |
| **Total current assets** | **218,301** | **135,734** |
| **Total assets** | **563,140** | **433,501** |
| Shareholders' equity and liabilities | | |
| Shareholders equity | | |
| Share capital | 260,025 | 260,025 |
| Translation reserve | 23,323 | - |
| Retained earnings | 17,828 | - |
| **Total shareholders' equity** | **301,176** | **260,025** |
| **Non-current liabilities** | | |
| Provisions | 14,966 | 13,764 |
| Long term payables | 1,562 | 1,138 |
| Long term borrowings | 69,793 | - |
| Deferred tax | 6,743 | 7,272 |
| Finance lease | 1,825 | 1,555 |
| **Total non-current liabilities** | **94,889** | **23,729** |
| Current liabilities | | |
| Short term borrowings | - | 30,017 |
| Accounts payable, accruals and other liabilities | 164,624 | 117,715 |
| Finance lease | 2,451 | 2,015 |
| **Total current liabilities** | **167,075** | **149,747** |
| **Total liabilities** | **261,964** | **173,476** |
| **Total shareholders' equity and liabilities** | **563,140** | **433,501** |

* See Note at the end of this section

## Summary of consolidated cash flow statement for A&D Pharma Romania

| (€'000) | 2006 | 2005* |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Operating profit before working capital changes** | **29,057** | **26,559** |
| Increase in receivables and prepayments | (51,338) | (15,713) |
| Increase in inventories | (26,833) | (11,547) |
| Increase in trade and other payables | 43,053 | 40,368 |
| **Changes in working capital** | **(35,118)** | **13,108** |
| Tax paid | (2,703) | (3,618) |
| Net cash from operating activities | (8,764) | 36,049 |
| **Cash flows from investing activities** | | |
| **Net cash used in investing activities** | **(13,698)** | **(11,586)** |
| **Cash flow from financing activities** | | |
| **Net cash from financing activities** | **51,662** | **(23,289)** |
| Translation effect | (733) | (1,896) |
| **Net decrease in cash and cash equivalents** | **28,467** | **(722)** |
| **Cash and cash equivalents at beginning of the year** | **(11,273)** | **(10,551)** |
| **Cash and cash equivalents at end of year** | **17,194** | **(11,273)** |

17-09-2007

***Note**

**Proforma financial information**

The consolidated proforma financial information is presented by A&D Pharma Holdings SRL and they incorporate the results of the former group A&D Pharma Holdings NV, Netherlands Antilles ("ADP Antilles"), the ultimate parent company of the operating subsidiaries. The Group has preserved the same operational structure as that of ADP Antilles holding before 1 January 2006. Therefore, for comparative purposes, proforma income statement and cash flow figures for the year ended 31 December 2005 and 31 December 2004 are extracted from the consolidated financial statements of ADP Antilles, as detailed above.

## Analysis of A&D Pharma Holdings NV's financial performance

During the period from 24 May 2006 (date of incorporation) to 31 December 2006, A&D Pharma Holdings NV, the listed entity, reported the following results:

### Sales

Consolidated sales for the period were EUR 212m, with the wholesale segment accounting for EUR 183.6m, the retail segment for EUR 56.2m and intra-group sales eliminations for EUR 27.8m.

### Gross Profit

Consolidated gross profit for the period was EUR 56.9m, resulting in a consolidated gross margin of 26.8%.

### EBITDA

Consolidated EBITDA for the period was EUR 14.1m (6.7% margin), generated by the wholesale EBITDA of EUR 14.5m (7.9% margin), retail EBITDA of EUR 0.6m (1.1% margin), and the difference of EUR(1)m representing unallocated EBITDA loss incurred at the holding companies' level.

### Net Profit

Consolidated net profit for the period was EUR 8.8m (4.2% margin), comprising a wholesale net profit of EUR 11m (6% margin), a retail net loss of EUR 1.1m and unallocated net loss of EUR 1.1m.

For more details on A&D Pharma Holdings NV's financial performance, please see sub-section C of the section "Auditors' Reports and Financial Statements".

# Profit appropriation

## Appropriation of profit as per Articles of Association

Article 22 of the Articles of Association states that the General Meeting shall determine which part of the profits earned in a Financial year shall be added to the reserves and the allocation of the remaining profits. Distributions can only take place up to the amount of the distributable part of the net assets. Distribution of profits shall take place after adoption of the Annual Accounts from which it appears it is approved. The General Meeting may further resolve to make payments to the charge of any reserve which need not be maintained by virtue of law or the provisions of the articles of association.

## Proposed profit appropriation and dividend distribution

The foregoing in conjunction with article 23.2.c of the Articles of Association constitutes that the General Meeting is authorized to adopt the reservation and dividend policy. For the Annual General Meeting of Shareholders of 21 June 2007, the Board of Directors proposed to the General Meeting to adopt a policy which mandates the Board of Directors to submit a reservation proposal to the GM each year and to determine that in principal the net profit of the Company decreased with the amount of such reservation as determined by the Board of Directors will be available for distribution of a dividend to the shareholders in order to make a meaningful part of the annual net operating results of the activities of the Company and its group available to the shareholders each year. In addition, the reservation and dividend policy will be scheduled for discussion with the shareholders each year. The resolution regarding reservation and dividend policy of the Company was duly passed at the General Meeting held on 21 June 2007.

In anticipation of the adoption of a reservation and dividend policy by the GM in accordance with this proposal and in view of the satisfactory results of the Company's group in 2006 as explained in this Annual Report, the Board of Directors proposed to the General Meeting held on 21 June 2007 to resolve to make a dividend distribution out of the net profit for the year 2006 under article 22.1 of the Articles of Association in an aggregate amount of EUR 3,565,600, equaling EUR 0.017828 per share and payable as of 3 July 2007. In the opinion of the Board this proposal is in line with the spirit of proposed reservation and dividend policy and the intention of the Company to make a meaningful part of the annual net operating results of the activities of the Company and its group available to the shareholders each year.

It was initially intended that this dividend distribution would be an end of year dividend payment out of the net profit for the year 2006 under article 22.1 of the Articles of Association and to add the remainder of the net profit in the amount of EUR 5,198,000 to retained earnings. In light of the events outlined in the Introduction of the revised Annual Report, the annual accounts could not be adopted at the AGM on 21 June 2007 and therefore this dividend proposal could not be put to a vote at that AGM. However, the Company continued to propose a resolution at the AGM held on 21 June 2007 relating to the dividend announced on 24 May 2007. This dividend was proposed as an interim dividend under article 22.4 of the Articles of Association (the payment, ex-dividend and record dates remaining as announced on 24 May 2007). It was the Board's opinion that such distribution was possible with due observance of the provisions of the Articles of Association and Dutch law.



The above mentioned resolution regarding interim dividend distribution proposal has been duly passed. The shareholders received an interim dividend distribution on 3 July 2007 in the amount of the initially announced end of year dividend for 2006. The ex-dividend date for the London Stock Exchange listed Global Depository Receipts in the Company was 25 June 2007 and the record date was 27 June 2007. Therefore, the Board proposed to the AGM that at the further Extraordinary General Meeting of shareholders to resolve not to make any dividend distribution out of the net profit for 2006 and to add the net profit to the reserved earnings in full.

# Outlook and strategy

A&D Pharma's strategy is to continue to build upon its position as Romania's largest integrated pharmaceutical wholesale, distribution and retail company in order to capture the growth of this sector in Romania and to expand and replicate its successful business model in other attractive Central and Eastern European markets.

A&D Pharma expects the favourable general market trends to continue in 2007, with the accession of Romania to membership of the European Union and the ongoing reform of the country's healthcare system. The pharmaceutical market, in particular, is expected to continue to grow at a double digit rate. A&D Pharma anticipates that the recently completed IPO, together with the investments in increased capacity and state- of-the-art processing and logistics facilities should strongly position the Company to continue to outperform general market growth, by growing at a similar rate as in 2006.

Increasing competition is expected to lead to further consolidation of the pharmaceutical wholesale market and to increase pressure on wholesale margins. Mediplus is anticipating to compensate the pressure on margins by further improving and widening the range of value-added services provided to both manufacturers and pharmacies, thus playing the role of integrator in the whole supply chain from manufacturer to end consumer. In addition to launching new services, Mediplus expects to improve its market share in the hospital segment provided that tenders for National Programmes are relaunched this year.

These actions are expected to increase client loyalty, generate further revenues, ensure sustainability of current margins and compensate the competitive pressure on profitability lines.

Reforms initiated last year are expected to continue to reshape the pharmaceutical retail sector in 2007. The transfer of oral antidiabetics to retail in autumn 2006 and the shift from fixed to indicative ceilings for the therapy of several chronic illnesses starting this year are expected to impact retail revenues positively in 2007.

Furthermore, it is expected that the Sensiblu chain will continue to expand in 2007 and is expected to grow the number of new stores by approximately 8-12%, while focusing on profitable growth. Sensiblu anticipates it will continue to implement its existing strategic partnerships with hypermarkets in order to open new pharmacies in their commercial galleries and other high-traffic areas in 2007. The Company is also considering opening pharmacies within the proximity of hospitals and private clinics.

In parallel, the Company anticipates it will focus on increasing profitability by further utilising the synergies between the wholesale and retail businesses with the implementation of a company-wide ERP system. The Company also intends to increase the profitability of its pharmacies by building individual plans for each pharmacy and offering better services to its loyal customers, which are aimed at increasing the turnover generated by cardholders and improving operational efficiency. The Company expects to continue to enlarge its existing own-brand product range and to launch a new own-brand in dermo-cosmetics.

These measures are expected to lead to a turnaround in the retail business resulting in a positive EBITDA margin in 2007.

The number of employees of the Company is expected to increase in line with the development of the business.

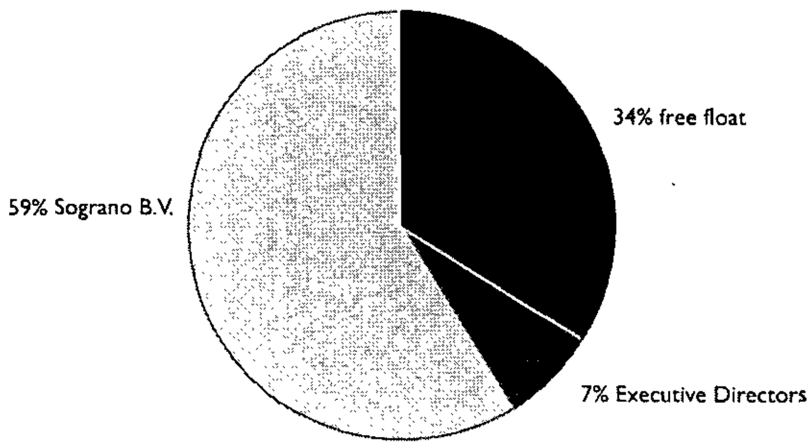
# Investor relations review

A&D Pharma N.V.'s GDRs have been listed on the Main Market of the London Stock Exchange since October 2006. The total size of the secondary offering was €136,192,788 (comprising 11,349,399 GDRs or approximately 34.05% of the Company's issued share capital at a price of €12 per GDR). The offering included an over-allotment option in respect of 8,096,394 existing shares of A&D Pharma Holdings in the form of 1,349,399 GDRs.

## Key data on A&D Pharma NV's GDRs

| | |
|---|---|
| Date of listing | October 24, 2006 |
| Market | London Stock Exchange, Main market |
| Number of GDRs | 11,349,399 |
| Number of shares per GDR | 6 |
| Total number of shares | 200,000,000 |
| Free float | 34% |
| Price per GDR at IPO closing | €12 |
| ISIN number | US0024812085 |
| LSE Code | ADPH |
| Bloomberg Code | ADPH LI |
| Reuters Code | ADPHq.L |

## Summary of shareholder structure post-IPO (as of 24 October 2006)*:






*More details on shareholder structure are included in the section "Corporate Governance", page 61.

The Head of Investor Relations presented in detail to Board members the IR strategy of the company at the beginning of the year. The Head of Investor Relations has also discussed the progress and implementation of the IR strategy, any new developments and opportunities in this area and the outcome of the meetings with investors. Consequently, Board members have been regularly informed about existing and potential investors' feedback. Board members have been closely involved in reviewing A&D Pharma N.V.'s regular corporate announcements prior to their release to the markets considering the compliance with transparency information requirements specific to the markets and to the investors' benefit of being informed in a comprehensive and concise manner.

## Investor calendar to date

| Event | Date | Location |
|---|---|---|
| Extraordinary General Meeting of shareholders | September 10th, 2007 | Amsterdam |
| CA IB and Aton Annual Emerging Europe Conference | September 6th-7th, 2007 | Istanbul |
| Morgan Stanley European Mid Cap Pharma | June 27th, 2007 | Budapest |
| Annual General Meeting of shareholders | June 21th, 2007 | Amsterdam |
| Erste Bank Investor Conference | May 31th - June 1th, 2007 | Cavdad, Croatia |
| Roadshow | April 16th- 25th 2007 | Europe and USA |
| Announcement of consolidated financial statements for the year ended 31 December 2006 for A&D PHARMA HOLDINGS SRL | April 4th 2007 | Bucharest |
| KBC Romania Conference: "Romanian Equity Market Review" | March 26th -27th 2007 | Bucharest |
| ING EMEA Romania Forum | February 2, 2007 | London |
| ING Equity Markets, 6th Annual European Healthcare Conference | December 5th - 6th 2006 | London |
| ING 9th Annual EMEA Forum | November 29th-30th 2006 | Prague |

# Corporate governance

The Company applies the principles and best practices set out by the Dutch Corporate Governance Code of the Corporate Governance Committee, dated 9 December 2003 ("the Dutch Code"). In addition, the Company decided to comply, as far it is able, with the principles of the UK Combined Code on Corporate Governance of the Financial Reporting Council, published in June 2006 ("the UK Code").

This section contains the Company's reporting disclosures on corporate governance required by the Dutch Code, including the required statement of compliance. The UK Code principles and provisions are also considered when disclosing the Company's corporate governance in place in 2006 or proposed for 2007 and the following financial years.

The Company has adopted a single tier board. Therefore, due to its organizational structure, certain of the Dutch Code best practice provisions applicable to the supervisory board will apply to the Non-Executive Directors.

## 1. Governance and Policy

The Board is committed to ensuring high standards of corporate governance are maintained by the Company and is accountable for this to the General Meeting of Shareholders. We believe that visibly high standards result in increased shareholder value and satisfaction.

The Board considers that during 2006 the Company initiated the compliance with the Dutch and UK Codes principles and provisions, creating the premises for more progresses in the 2007 financial year.

### Board Membership

The Board is a one-tier board, comprising managing directors with the title "Executive member of the Board" (the "Executive Directors") and, in a majority, with the title "Non-Executive member of the Board" (the "Non-Executive Directors"). The members of the Board (the "Directors") are appointed by the General Meeting of Shareholders.

The Board has ultimate responsibility for the management, general affairs, direction and performance of the Company's business as a whole. The responsibility of the Directors is collective, taking into account their respective roles as Executive Directors and Non-Executive Directors.

The Executive Directors are responsible for the day-to-day management of the Company's operations, for achieving the Company's aims, strategy and policy, and results, under the supervision of the Non-Executive Directors. The Executive Directors are required to keep the Non-Executive Directors informed and to consult with the Non-Executive Directors on important matters.



The Non-Executive Directors share responsibility for the execution of the Board's duties, taking into account their specific responsibilities, which are essentially supervisory. The key element of the role and responsibilities of the Non-Executive Directors is supervision of the policy and of the fulfilment of duties by the Executive Directors and of the general affairs of the Company and advising the Executive Directors.

The Non-Executive Directors are all experienced and influential individuals whose blend of skills and business experience contributes to the proper functioning of the Board, ensuring that matters are fully debated and that no individual or group dominates the Board's decision making processes.

The composition of the Company's Board, at the end of 2006, was as follows:

| | |
|---|---|
| Dr. David Ebsworth, Chairman | Non-Executive Director |
| Dragos Dinu, Chief Executive Officer | Executive Director |
| Florin Buligoanea, Chief Finance Officer | Executive Director |
| Vivian Diaconescu, Chief Operating Officer, Wholesale | Executive Director |
| Claudiu Opran, Chief Operating Officer, Retail | Executive Director |
| Urs Kamber, Member | Non-Executive Director |
| Michael Wemms, Member | Non-Executive Director |
| Walid Abboud, Member | Non-Executive Director |
| Roger Akoury, Member | Non-Executive Director |
| Michel Eid, Member | Non-Executive Director |
| Ludovic Robert, Member | Non-Executive Director |

The Non-Executive Directors shall consider drawing up a retirement schedule, in order to avoid, as far as possible, a situation in which many non-executive directors retire at the same time.

At the date of their offices termination, the Executive and Non-Executive Directors are subject to re-election by shareholders in accordance with the Articles of Association, each time for a period of up to four years, considering the independence criteria for the Non-Executive Directors, as set out by the Dutch and UK Codes.

The Board intends to review the composition of the Board, and the balance of skills, knowledge and experience of its members, and in case it concludes the Board is not of the appropriate size and balance for the Company, new Executive and/or Non-Executive Directors will be proposed for appointment, and the Board will be seeking approval by the General Meeting of Shareholders. According to the current provisions of the Articles of Association, the Board can consist of no more than five Executive Directors and nine Non-Executive Directors, subject to any change being approved by the General Meeting of Shareholders.

The Directors' biographical details are listed below:

## Executive Directors

## Dragos Dinu

*Chief Executive Officer*

Dragos Dinu, of Romanian nationality, was born in 1967 and has a machinery construction degree from the Constructions Institute, Bucharest. He has been the Chief Executive Officer of the Group since 2002. In February 1996, he joined the Group taking various positions: Area Sales Manager in Plurifarm Division, Manager of Plurifarm and an Executive Director position at

Mediplus. Between March 2003 and September 2004 he was also Executive Director of Sensiblu. He has previous management experience at Bouygues and PepsiCo. He has been an Executive Director of the Company since October 2006 and the term of his directorship expires in December 2008.

## Florin Buligoanea

*Chief Finance Officer*

Florin Buligoanea, of Romanian nationality, was born in 1972 and has a degree from the Academy of Economic Studies, Bucharest. He has been the Chief Finance Officer of the Group since 2002. He has worked for DHL, Abela Rocas, Grant Thornton and NEI group. He was formerly Chief Finance Officer at Brewery Holdings Romania. He has been an Executive Director of the Company since October 2006 and the term of his directorship expires in December 2008.

## Vivian Diaconescu

*Chief Operating Officer, Wholesale Business*

Vivan Diaconescu, of Romanian nationality, was born in 1975 and has a degree from the Faculty of International Economic Relations from Ovidius University, Constanta. He has been the Chief Operating Officer of Mediplus since 2005. He joined the company in 1998 as Area Sales Manager – Farmactiv Division. He became Business Development Manager in 2000 and between July 2002 and December 2004 he was the Executive Director of Mediplus (Sales to Pharmacies and Hospitals). He has been an Executive Director of the Company since October 2006 and the term of his directorship expires in December 2008.

## Claudiu Opran

*Chief Operating Officer, Retail Business*

Claudiu Opran, of Romanian nationality, was born in 1973 and has a degree in accounting and management. He has been the Chief Operating Officer of Sensiblu since 2005. He joined the Group in 2004 as Operational Manager of Sensiblu and has over eight years of professional experience in managerial positions at several multinational companies. He has previous business strategy experience at Brau Union Romania (which is now Heineken) and SAB Miller Romania. He has been an Executive Director of the Company since October 2006 and the term of his directorship expires in December 2008.



## Non-Executive Directors

## Dr. David Ebsworth

*Chairman, Non-Executive Director*

David Ebsworth, of English nationality, was born in 1954 and holds a BSc in Chemistry and German and a PhD in Comparative Industrial Relations from the University of Surrey, Guildford, England. He has over 25 years' experience in the ethical pharmaceutical, biological, biotechnology and generic industries. He has worked at Pfizer, Bayer, Oxford Glyco Sciences PLC and has wide ranging experience as a director and non-executive director in pharmaceutical companies. He has been a Non-Executive Director of the Company since October 2006 and the term of his directorship expires in October 2010.

## Urs Kamber

*Non-Executive Director*

Urs Kamber, of Swiss nationality, was born in 1952 and holds a Swiss CPA degree from Balsthal, Switzerland. He has a background in finance and he has worked extensively in Eastern Europe. He was formerly the CFO of Cesky Telecom and a member of the supervisory board of the privatised Bulgarian Telecoms Company BTC. He currently has a non-executive role with Zentiva NV. He has been a Non-Executive Director of the Company since October 2006 and the term of his directorship expires in October 2009.

## Michael Wemms

*Non-Executive Director*

Michael Wemms, of English nationality, was born in 1940 and holds a BA in History from the University of Bristol, England and an MBA from Cranfield School of Management. He has extensive experience in food and general merchandise retailing, most significantly eleven years on the board of Tesco PLC in an executive role. He has been a Non-Executive Director of the Company since October 2006 and the term of his directorship expires in October 2009.

## Walid Abboud

*Non-Executive Director*

Walid Abboud, of English nationality, was born in 1969 and holds a Management Studies degree from ESSEC, France. He is a founding shareholder of the Company and was actively involved in its management from 1994 to 2002. He has been a Non-Executive Director of the Company since October 2006 and the term of his directorship expires in October 2009.

## Roger Akoury

*Non-Executive Director*

Roger Akoury, of Lebanese nationality, was born in 1968 and has a degree in Economics from the St Joseph Faculty, Beirut. He is a founding shareholder of the Company and was actively involved in its management from 1994 to 2002. He previously worked in the sales department for Emirates Airlines Beirut from 1992 to 1994. He has been a Non-Executive Director of the Company since October 2006 and the term of the directorship expires in October 2009.

## Michel Eid

*Non-Executive Director*

Michel Eid, of Lebanese nationality, was born in 1970 and has an Economics degree from the Saint-Joseph University, Beirut, followed by advanced studies at INSEAD, France. He is a founding shareholder of the Company and was actively involved in its management from 1994 to 2002. He has been a Non-Executive Director of the Company since October 2006 and the term of the directorship expires in October 2009.

## Ludovic Robert

*Non-Executive Director*

Ludovic Robert, of French nationality, was born in 1971 and holds a degree of Management Studies from ESSEC, France. He is a founding shareholder of the Company and was actively involved in its management from 1994 to 2002. He has been a Non-Executive Director of the Company since October 2006 and the term of the directorship expires in October 2009.

17-09-2007

## Terms of Reference

As of its appointment, the Board intended to adopt the Terms of Reference of the Board and of the Audit, Nomination and Remuneration Committees to deal with such matters as their internal organization, the manner in which decisions are taken, the composition and the duties.

On 13 April 2007, the Board of Directors adopted the Terms of Reference of the Board and of the Audit, Nomination and Remuneration Committees, a copy of which is available to shareholders on request by writing to the Company Secretary. They will be posted on the Company's website, www.adpharma.ro by end of 2007.

## Board Balance and Independence

The Chairman is not independent, due to his variable part of remuneration, dependant on the company's results. At the date of his appointment, the Chairman was independent.

The following Non-Executive Directors are not independent, due to their significant interests in the Company:

- Walid Abboud
- Roger Akoury
- Michel Eid
- Ludovic Robert

In addition, the above mentioned Non-Executive Directors have links with different related parties, with who the Company's subsidiaries had transactions in 2006, as detailed in the Note 21 of the consolidated financial statements for A&D Pharma Holdings SRL.

The Board considers that the remaining Non-Executive Directors are independent in both judgement and character and that they carry out their duties in an independent manner. The Chairman and the independent Non-Executive Directors provide constructive challenge to decisions. This is due to their ability to:

- rigorously analyze management reports;
- robustly defend their own points of view;
- critically evaluate the pharmaceutical industry and the Company itself.

## The Role of the Board

Certain decisions of the Management Board must be submitted for approval of the entire Board and shall be adopted with a simple majority of the votes cast, which majority shall include the affirmative vote of at least the majority of all appointed Executive Directors, and the Chairman shall not have a casting vote. Such decisions include:

- specification of risk management policies including insurance, hedging, borrowing limits and corporate security;
- approval of annual operating and capital expenditure budgets and any material changes thereto;
- extension of the Group's activities into new business, where new business means performance of activities outside the healthcare and pharmaceutical market, or into new geographic areas;
- changes relating to the group's capital structure including reduction of capital, issues of shares (except under employee share plans), share buy-backs;
- approval of annual and semi-annual accounts and announcements relating to results;
- proposals for any distribution or payment including an interim dividend;
- changes to the structure, size, composition and profile of the Board of Directors;
- changes to the structure, size and composition of committees of the Board;
- succession planning for executive directors and senior managers;
- corporate strategy; investor relations strategy;
- corporate governance;

- the entering into by the Company or a subsidiary of agreements of any kind with the person (legal entity or individual) who holds the majority of the Company's issued and outstanding share capital or of the voting powers at the General Meeting or otherwise directs its activities, or any person affiliated with such person;
- the application for listing or cancellation of a listing of securities of the Company;
- the acquisition or disposal by the Company or a dependant company of a participating interest in the capital of another company with a value of at least one-third of the amount of the issued capital with the reserves according to the Company's balance sheet with explanatory notes, or, if the Company prepares a consolidated balance sheet, according to its consolidated balance sheet and explanatory notes in the last adopted annual accounts of the company, as well as the substantial increase or decrease of such a participating interest;
- investments which require an amount equal to at least a quarter of the amount of the Company's issued capital with the reserves according to the balance sheet with explanatory notes;
- a proposal to amend the Articles;
- a proposal to conclude a legal merger (juridische fusie) or a demerger (juridische splitsing);
- a proposal to dissolve (ontbinden) the Company;
- a petition for liquidation or an application for a suspension of payments (surséance van betaling) or bankruptcy (faillissement);
- a proposal to reduce the Company's issued share capital;
- the adoption, amendment or termination of internal rules regulating the decision making process and working methods of the Board of Directors;
- the internal allocation of duties within the Board;
- the restriction or exclusion of pre-emptive rights in respect of share issues;

The Board will decide which other decisions must be submitted to the approval of the entire Board and will include the full list in its board rules.

Certain resolutions of the Board further require the prior approval of the General Meeting of Shareholders.

These resolutions, which are specified in the Articles of Association, are:

- the entry into or termination of a long-term cooperation of the Company or a subsidiary with another legal person or partnership or as a fully liable partner in a limited partnership or general partnership, if such cooperation or termination is of a far-reaching significance for the Company;
- resolutions to limit or exclude pre-emption rights in the event of issuance of shares or the granting of rights to subscribe for shares;
- investments which require an amount equal to at least a quarter of the amount of the Company's issued capital with the reserves according to the balance sheet with explanatory notes or, if the Company prepares a consolidated balance sheet, according to its consolidated balance sheet and explanatory notes in the last adopted annual accounts of the Company;
- the application for listing or cancellation of a listing of securities of the Company.



## Conflict of Interests

Any conflict of interest or apparent conflict of interest between the Company and a member of the Board of Directors shall be avoided. Decisions to enter into transactions under which a member of the Board of Directors would have conflicts of interest that are of material significance to the Company and/or to the relevant member of the Board of Directors require the approval of the Non-Executive Directors.

No director can attend meetings where he could have a conflict of interest.

During the year under review, the Company continued to consider the transaction by which to acquire 20 per cent of the shares in Arishop Pharma AD, a Bulgarian wholesale company owned by certain of the founding shareholders, who are also Non-Executive Directors of the Company.

The discussions were made and the actions were taken by the Company in relation to this transaction without the participation and/or involvement of the Non-Executive Directors in conflict of interests with the Company, namely Mr. Walid Abboud, Mr. Roger Akoury, Mr. Ludovic Robert.

## Board Meetings

The Board meets formally at least four times a year and ad hoc as required. In addition, on a periodical basis, the Executive Directors organize meetings relating to the activities performed by the operational entities, to which Non-Executive Directors are invited to attend.

In 2006 no Board meetings were held, and three operational meetings with respect to the operational entities activity were held. The operational meetings are held mainly at the operational premises, and are designed to allow Non-Executive Directors to gain knowledge of the activities carried out by the operational entities and scrutinize their performance. Also, these meetings facilitate to the Non-Executive Directors meetings with the Company's subsidiaries personnel in order to identify those areas in which Directors can provide advise.

In addition to the Company's Board meetings, these operational meetings contribute to the Board effectiveness.

The dates when the operational meetings were held are listed below, and all Executive and Non-Executive Directors attended:

- 27 October 2006
- 23 November 2006
- 20 December 2006

The Board, the committees and the operational meetings are supplied with information by Mihaela Pislaru, the Company Secretary.

## Independent Professional Advice

When Directors have to seek legal or financial advice in furtherance of their duties they are always able to consult the Company's advisers and it is not intended to restrict or discourage this in any way.

## Insurance and Indemnification

The Company maintains directors' and officers' insurance cover, up to a limit of €15 million, in respect of any legal actions taken against the directors in connection with their duties.

## Role of Chairman and Chief Executive

The roles of Chairman and Chief Executive are distinct and are held by different people to ensure a clear division of responsibility. The Chairman is responsible for running the Board including monitoring the proper functioning of Board and its committees, ensuring the timely flow of information to Board members and overseeing their development whilst the Chief Executive is responsible for the day-to-day running of the Company and reporting upon this to the Chairman.

## Senior Independent Director

On 13 April 2007 the Board of Directors appointed, among its independent Non-Executive Directors, Mr. Urs Kamber as Senior Independent Director to:

i) deal with the Chairman annual performance evaluation,

ii) meet shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or is inappropriate.

## Induction Programme

In the year under review, all independent Non-Executive Directors received induction with respect to the Company's business and organizational structure. Directors also received regular updates on changes and developments in the business, legislative and regulatory environments.

The Company envisages for 2007 and following financial years developing formal induction training, including site visits for the new Non-Executive Directors, customized for each director, depending upon his/her skills, experience and background.

## Board Evaluation

The Board intends to conduct an annual, formal evaluation of its own performance and that of its committees and of individual directors. Feedback on collective performance will be collated and presented to the Board and actions to improve will be agreed and implemented.

In the year under review, the Company commenced an evaluation process for the Executive Directors, meant to assess their personal competencies and intended to help in developing their potential and increasing their effectiveness. Such evaluation was carried out by external advisors based in Romania and UK.

## Board Committees

On 13 April 2007, the Board appointed from its Non-Executive Directors members to the Audit, Nomination and Remuneration Committees, consisting of 3 members each.

## Audit Committee

The directors who are members of the Audit Committee are:

| Name | Position | Date of Appointment |
|---|---|---|
| Urs Kamber | Chairman | 13th April 2007 |
| Walid Abboud | Member | 13th April 2007 |
| Michel Eid | Member | 13th April 2007 |

The Audit Committee is formally constituted with written terms of reference with the full remit of the committee role described. A copy of the terms of reference is available to shareholders on request by writing to the Company Secretary. They will be posted on the Company's website, www.adpharma.ro by end of 2007.

The Audit Committee shall supervise the activities of the Executive Directors with respect to:

a) the operation of the internal risk management and control systems, including enforcement of the relevant legislation and regulations, and the operation of codes of conduct;
b) the provision of financial information by the company (choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the annual accounts, forecasts, work of internal and external auditors, etc.);
c) compliance with recommendations and observations of internal and external auditors;
d) the role and functioning of the internal audit department;
e) the policy of the company on tax planning;
f) relations with the external auditors, including, in particular, their independence, remuneration and any non-audit services for the company;
g) the financing of the company;
h) the applications of information and communication technology (ICT).

In fulfilling its duties, the Audit Committee reviewed the audited financial statements in the 2006 Annual Report with management, including the quality and not just the acceptability of accounting principles. It satisfied itself with the reasonableness of judgements made and the clarity of the disclosures in the financial statements.

The Audit Committee reviewed with the independent external auditors, who are responsible for expressing an opinion on the conformity of those financial statements with IFRS or Dutch GAAP. It reviewed with the independent auditors the adopted accounting principles and such other matters as required to be discussed and reviewed with the Committee as defined by the Terms of Reference of the Audit Committee approved by the Board of Directors. In addition, the Committee discussed with the independent auditors the auditors independence from management and the Company, and considered the compatibility of non-audit services with the auditors independence.

The committee discussed with the company's independent auditors the overall scope and plans for their respective audits. The Committee meets with internal and independent auditors, with and without management present, as needed to discuss the result of their examinations, their evaluations of the Company's risk management and internal control system and framework and the overall quality of the Company's financial reporting. In particular, it also discussed the findings of the internal risk assessment and approved the plan of internal audits for the year 2007.

In reliance on the reviews and discussions referred to above, the committee recommended to the Board of Directors and the Board has approved, that the statutory consolidated and company financial statements be included in the Annual Report for the year ended December 31, 2006 for filing with the respective regulatory authorities.

The Audit Committee supervised the Company's relation with BDO CampsObers Audit & Assurance B.V. as statutory external auditor of the Company's statutory consolidated and company financial statements, and KPMG Romania SRL, the auditor of A&D Pharma Romania's and the Company's IFRS consolidated financial statements. Reference is made to the "Introduction" on page 1 of this Annual Report in connection with the prior engagement of HLB Schippers (and their affiliated firm HLB Den Hartog).

## Nomination Committee

The directors who are members of the Nomination Committee are:

| Name | Position | Date of Appointment |
|---|---|---|
| Dr. David Ebsworth | Chairman | 13th April 2007 |
| Michael Wemms | Member | 13th April 2007 |
| Ludovic Robert | Member | 13th April 2007 |

The Nomination Committee is formally constituted with written terms of reference with the full remit of the committee role described. A copy of the terms of reference is available to shareholders on request by writing to the Company Secretary. They will be posted on the Company's website, www.adpharma.ro by end of 2007.

The Nomination Committee shall supervise the activities of the Executive Directors with respect to:

a) drawing up the selection criteria and appointment procedures for Executive and Non-Executive directors;
b) assessing the size and composition of the board and making a proposal for a composition profile of the Non-Executive board members;
c) assessing the functioning of individual Executive and Non-Executive Directors;
d) making proposals for appointments and reappointments;
e) succession planning for Executive Directors, Non-Executive Directors and, in particular, the Chairman of the Board of Directors and the chief executive officer;
f) supervising the policy of the executive management on the selection criteria and appointment procedures for senior management.

During the past financial year, upon the Chairman's advice, the Company hired a consultancy firm to commence research for Non-Executive Directors candidates having competencies and skills not present in the current Board composition. As at 31 December 2006 the process was in progress.

## Remuneration Committee

The directors who are members of the Remuneration Committee are:

| Name | Position | Date of Appointment |
|---|---|---|
| Michael Wemms | Chairman | 13th April 2007 |
| Dr. David Ebsworth | Member | 13th April 2007 |
| Roger Akoury | Member | 13th April 2007 |

The Remuneration Committee is formally constituted with written terms of reference with the full remit of the committee role described. A copy of the terms of reference is available to shareholders on request by writing to the Company Secretary. They will be posted on the Company's website, www.adpharma.ro by end of 2007.

The Remuneration Committee shall supervise the activities of the Executive Directors with respect to:

a) proposal to the board for the Remuneration Policy to be determined by the General Meeting;

b) assessment of the current remuneration scheme of the Executive Directors;

c) proposal for the remuneration of the executive directors, for adoption by the board:

  (i) the remuneration structure and

  (ii) the amount of the fixed remuneration, the shares and/or options to be granted and/or other variable remuneration components, pension rights, redundancy pay and other forms of compensation to be awarded, as well as the performance criteria and their application;

d) proposal for the remuneration of the non-executive directors;

e) preparing the remuneration report.

On remuneration matters, the Board is advised by Halliwell Consulting, an UK independent executive remuneration and share schemes consultant, which provides no other services to the Company.

## Policy on Other Appointments

The number of supervisory boards of Dutch listed companies of which an individual may be a member shall be limited to such an extent that the proper performance of his duties is assured and as long as no conflict of interests arises.

Details of any other relevant appointments held by each Non-Executive Director are listed below.

| Name of Director | Name of relevant company | Position held in 2006 |
|---|---|---|
| Dr. David Ebsworth | Atani Ltd, UK | Chairman, Director |
| | betapharm Arzneimittel GmbH, Germany | Member of Supervisory Board (ended March 2006) |
| | Curacyte AG, Germany | Chairman of Supervisory Board |
| | CuraGen Corporation, Connecticut, USA | Non Executive Director |
| | Intercell AG, Vienna, Austria | Member of Supervisory Board |
| | Renovo Group PLC, England | Non Executive Director |
| | SkyePharma PLC, England | Non Executive Director |
| | Wilex AG, Germany | Chairman, Supervisory Board |
| | Xention Limited, England | Chairman, Director |

| Name of Director | Name of relevant company | Position held in 2006 |
|---|---|---|
| Michael Wemms | House of Fraser PLC | Chairman, Member of Audit and Remuneration Committees and Chairman of Nomination Committee (ended November 2006) |
| | Coles Myer Limited | Non Executive Director |
| | Inchcape PLC | Non Executive Director, Chairman of Remuneration Committee |
| | British Retail Consortium | Chairman (ended June 2006) |
| | Galiform Plc | Non Executive Director (from November 2006) |
| | Majid Al Futtaim Group | Member of Committees |
| Urs Kamber | BTC (Bulgarian Telecommunications Company) | Member of Supervisory Board |
| | Zentiva N.V. | Non Executive Director, Chairman of the Audit Committee |
| | China Enterprise Capital Ltd, Hong Kong | Non Executive Director |
| | Stirling Systems AG, Schaffhausen, Switzerland | Non Executive Director |
| | WIMAX Telecom AG, Küsnacht, Switzerland | Non Executive Director |
| | ADAX S.A., Bevaix, Switzerland | Non Executive Director |
| | ADAX Holding AG, Herbligen, Switzerland | Non Executive Directorr |
| | FS KAMBER AG, Herbligen, Switzerland | Board Member |
| | BOGAR AG, Wallisellen, Switzerland | Non Executive Director |

## Ethics

All Group employees will be required to adhere to specified codes of conduct, policies and procedures, including, but not limited to:

- Code of Conduct;
- Complaints and Whistle Blowing Procedure;
- Insider Trading Code

In the year when this report is published, progress has been made with respect to such policies and procedures.

Copies of the above will be made available on the Company's website when they are approved. These policies will be reviewed annually.

## Statement of Directors' Responsibility in Relation to the Accounts

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The responsibilities of the auditors in relation to the financial statements included in this Annual Report are set out in the relevant laws and regulations and are described in the relevant auditor's reports.

### Going concern

The Company's financial statements are prepared on the assumption that the entity is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations.

## Internal Accountability (Internal Control)

A&D Pharma recognizes that it has a duty to act responsibly towards its shareholders and to protect the Company's assets. The Board is responsible for reviewing and approving the adequacy and effectiveness of the Company's internal controls and for ensuring compliance with relevant local laws and regulations. The aim of our internal controls is to provide reasonable assurance that the Company's operational and financial objectives are achieved and that significant risks are identified. It should be noted that this reasonable level of assurance does not provide certainty as to the realization of operational and financial business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliance with rules and regulations.

During 2006, the reporting and monitoring activities were conducted based on an informal set of procedures. Although certain procedures were documented by the Company, those procedures were not entirely integrated in a policy and procedures manual. The existing controls have been enforced or modified to accommodate changes in the business which may affect financial reporting.

During 2006 Ernst & Young and the Internal Audit Department assisted management in the preparation of a "Risk Assessment Report". The risk assessment was embedded in a "top down Business Process" approach and all significant risks have been documented in a risk map. Company's management is responsible for continually updating this risk assessment and implementing action plans to mitigate those risks. The Internal Audit Department reviews the risk assessment and operation of the risk management and control systems on an ongoing basis to take into account the changes in risk profile and the implication of audit findings. The Internal Audit Department reports to the Chief Executive Officer and to the Chairman of the Audit Committee.

The most important risks identified, as well as the structure of the aforesaid risk management system and aspects of its further development are discussed below and in the section on risk management in the Annual Report.

In 2006, the design and operation of the Company's risk management and control systems were discussed with the Non-Executive Directors.

In supporting the reporting system and risk management and control procedures, the Board of Directors has established and enhanced in 2007 various control functions:

- Audit Committee

The Audit Committee is designed to help the Non-Executive Directors to perform their supervisory role. As indicated above in section "Board Committees", the Audit Committee was appointed in 2007 and it has the duties as set out by its Terms of Reference and summarized above.

- Internal Audit Department

The Internal Audit Department was established in January 2006 in order to help the management to evaluate, improve the effectiveness of risk management, control and governance process.

- External Auditors

For the financial year 2006 BDO CampsObers Audit & Assurance B.V. was the statutory external auditor of the statutory consolidated and company financial statements. KPMG Romania SRL was the non-statutory auditor of A&D Pharma Romania's IFRS and the Company's consolidated non-statutory financial statements. BDO CampsObers Audit & Assurance B.V. will submit for adoption the audit opinion on the Company's statutory consolidated and company financial statements to the General Meeting. The audit opinion of KPMG Romania

SRL on ADP Romania's and the Company's IFRS consolidated financial statements will also be presented. BDO CampsObers Audit & Assurance B.V. and KPMG Romania SRL also informed representatives of the Board of Directors of their findings and observations. Reference is made to the "Introduction" on page 1 of this Annual Report in connection with the prior engagement of HLB Schippers (and their affiliated firm HLB Den Hartog).

The Group issues to its external stakeholders financial statements prepared in accordance with the International Financial Reporting Standards as endorsed for use in the European Union ("IFRS"). Internal financial reports are prepared on the basis of IFRS as well. The statutory consolidated and company financial statements are prepared in accordance with IFRS and Dutch law. Financial results and key operational and financial performance indicators are reported monthly and variances from plans and budgets are investigated and reported.

## Risk Management

The following section contains a selection of important risks that have been identified and for the management of which a process of setting strategies, controls and mitigating measures has been initiated. They nevertheless involve uncertainty that may lead to the actual results differing from those projected. There may also be current risks that the company has not yet fully assessed but that could have a material impact on the company's performance at a later stage. The company's risk management and internal control system has been designed to timely identify and respond to these developments, but 100% assurance can never be achieved.

## Generic risks

### *Risks Related to the Company and the Group*

The success and growth of the business depends on the continued macroeconomic and pharma market growth.

The success and growth of the Company's business has been linked to and will, to a larger extent, depend on continued expected improvements in the Romanian macroeconomic environment and on the forecast growth of the local consumer spending and the pharmaceutical market. An economic slowdown in Romania could materially adversely affect the business, financial and operational results of the Company.

### *The Romanian public health sector regulations*

The pharmaceutical industry in Romania heavily relies on Government policies relating to the public health system, defining the health insurance system and regulating the institutions responsible for monitoring and implementing such policies.

In Romania, there is only one insurance body, namely the National House for Health Insurance (NHHI);
NHHI has a monopoly in the Romanian pharmaceutical market which is different to other European countries that have several insurance houses that create a competitive market. This means that the NHHI does not always act efficiently, transparently or in the best interests of contributions payers.

### *Drug re-imbursement*

The Governmental health spending policy and level of state budget allocation towards drug reimbursements is an important element of the Romanian pharmaceutical retail sector. Reduction of state budget funds allocated to timely re-imbursement of pharmaceuticals purchased in the retail system would have a significant direct impact on revenues of all pharmacies in the market, including Sensiblu.

### *Predictions of parliament, government authorities or public organizations*

Considering significant unexpected measures in the past, the Company cannot accurately predict the nature of the measures that may be adopted by legislative and governmental authorities or public organizations or their impact on the Company's subsidiaries' revenues.

### *Pharmaceutical industry and competition*

The pharmaceutical industry in Romania is fragmented and price-competitive. Potential entry of major international industry players and consequent consolidation may lead to further erosion of margins in the market. Even though market is fragmented, the small players (especially from retail) might organize themselves into purchasing groups in order to increase the negotiation power based on bigger volumes.

### *Group expansion*

The Group plans to grow its business through organic growth and also through domestic and international mergers and acquisitions. The Group is currently looking into a possible expansion of the Group's business into Bulgaria, Moldavia, Ukraine and Serbia. As all of these countries are emerging markets, the Group's business may be subject to greater risks than in more developed countries.

### *Systems failures and delays could harm the Group's business*

The Company and the Company's subsidiaries manage their warehousing, logistical and point-of-sale operations through a variety of electronic mediums, including the intranet, networked personal computers and automated inventory management systems. These operations are heavily dependent on the integrity of the electronic systems supporting them. Mediplus' and Sensiblu's systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, intentional acts of vandalism and similar events.

### *Human resource risks*

Company's ability to retain highly skilled, committed as well talented staff working in sales, marketing, finance, general management and human resources is critical to the Company's future success. Within the limits of its strategic direction, the company is making huge and ongoing efforts to manage the required processes. The Company may have to adjust the timing of its growth path due to constraints or opportunities in this field.

## Risks Related to Sensiblu

### *Risks associated with the ability to hire and retain qualified pharmacists*

The retail pharmaceutical business in Romania is significantly dependent on the availability of licensed pharmacists. Sensiblu believes that its benefits and training programs should enable it to attract, hire and retain qualified personnel. However, it may not be able to attract, hire and retain enough qualified pharmacists as the number of eligible candidates is limited to the pharmacist license holders in Romania.

### *Demographical Restrictions*

The number of pharmacies to be opened in Romania is currently restricted by law according to demographical restrictions which are applied in a non transparent and potentially arbitrary manner. Sensiblu benefits from high entry barriers set by the regulations. If the restrictions are lifted or lessened, large international pharmacy chains may enter the Romanian pharmaceutical market through acquisition of Romanian pharmaceutical chains and by organic growth which would lead to further competition in the retail market which may have a material adverse effect on the Company and its subsidiaries.



### *Certain lease agreements have not been registered with the Land Book*

According to Romanian law, lease agreements with a term of over three years must be registered with the Land Book in order for the tenant to have protection in case the building owner change, which is the equivalent of a land registry in other countries. This lack of registration may lead to the lease agreements' prior termination and may have a material adverse effect on the business and operations of Sensiblu.

### *Certain construction permits have not been obtained*

A significant number of Sensiblu pharmacies have been re-furbished without the relevant construction permit having been obtained from the City Hall. There is a risk that Sensiblu may be fined by the City Hall with up to EUR 100,000 in total for all pharmacies without a construction permit from the City Hall and may be required to return the buildings to the state they were prior to any refurbishment.

## Risks Related to Mediplus

### *Exchange rate fluctuations may affect Mediplus' business*

More than 70 per cent, on average, of Mediplus' products are imported. Since its transition to a market economy, Romania has experienced several periods of material fluctuation in the value of its currency. Despite the current strength of the Romanian economy, the risk of further currency fluctuation and devaluation continues. Depreciation of the RON against the Euro and the US dollar could increase the cost of acquiring key products from Mediplus' main suppliers, which could lead to reduced profits denominated in RON. Any significant fluctuation in exchange rates may affect the Company's subsidiaries' profitability. Company's aim is to mitigate its currency exposure by hedging their open currency positions in order to protect the operating result against effects of currency fluctuations

### *Incentives granted by Mediplus to pharmacists and pharmacies*

Mediplus is granting incentives to pharmacists, pharmacy assistants, in relation to the commercial relationships established between Mediplus and their pharmacies. Granting of these types of incentives is common practice in the Romanian wholesale pharmaceutical market to stimulate sales and maintain or increase the market share of a wholesaler. Although a common market practice, the carrying out of such activities may lead to administrative and/or other sanctions.

### *Pharmaceutical industry and competition*

The pharmaceutical wholesale industry in Romania is fragmented and price-competitive. Potential entry of major international industry players and consequent consolidation may lead to further erosion of margins in the market which would negatively affect the financial performance of the Group.

### *Distribution practices may be re-classified or subject to administrative sanctions*

The Group's subsidiaries have been involved in various practices which may constitute violations of specific Romanian laws and regulations regarding the wholesale, retail and advertising of medical products and medication, including of prescription drugs. These practices are common in the Romanian pharmaceutical market and, to the Company's knowledge, in relation to these practices no sanctions have been applied to date. However, if investigated and proved, such practices may result in either the re-classification of certain transactions from a tax standpoint or fines and other sanctions. Any such re-classification, fine or sanction may have a material adverse affect on the business, results of operation or financial condition of the Group.

### *Lack of up-dated agreements with customers*

Due to frequent changes of the commercial conditions applied by Mediplus in the relations carried out with its customers, Mediplus faces difficulties with executing amendments to its written agreements in due course, although new commercial conditions are periodically changed and therefore applied. Mediplus is considering creating ways for an automatically up-dating process, but no system has been implemented in this respect.

## Statement of compliance

The Company was not listed until October 2006, and therefore the Dutch and UK Codes only became effective as of the listing date. Since then, the Company has been working to fully implement the Dutch and UK Codes with the exception of the deviations described below.

The Board is committed to report progresses on these matters to the General Meeting of Shareholders to be held after 2007.

The Board believes there are no principles and provisions of the Dutch and UK Codes to which the Company will not be able to comply with in 2007 and the following years, except the following:

**Best practice provisions III.8.4 of the Dutch Code and A.3.2 of the UK CodeIII.8.4 Dutch Code**

"The majority of the members of the management board shall be non-executive directors and are independent within the meaning of best practice provision III.2.2"

**A.3.2. UK Code**

"...At least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent."

The current Board composition consists of four Executive Directors and seven Non-Executive Directors out of which only 2 are independent. Until significant change of the current structure will occur, the Company will not be able to comply with the above provisions.

**Best practice provision III.5.1 of the Dutch Code (with respect to the Audit Committee) and B.2.1 and C.3.1 of The UK Code (with respect to the Remuneration and Audit Committees)**

**III.5.1 Dutch Code**

"... a maximum of one member of each committee need not be independent within the meaning of best practice provision III.2.2."

**B.2.1 UK Code**

"The Board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors."

**C.3.1. UK Code**

"The Board should establish an audit committee of at least three, or in the case of smaller companies two, members, who should all be independent non-executive directors."

Considering the composition of the April 2007 established committees, the Company does not meet the Dutch and UK requirements with respect to the independent non-executive directors composition of the Committees. Appointment of new independent Non-Executive Directors will allow the Company to comply with the Codes requirements in respect of committees' independent non-executive directors composition.

In the year under review, the Company complied with the majority of the principles set out by the Dutch Code and UK Code, provided that they were applicable considering the Company's organizational structure, business profile, level of corporate governance development and the period when the Company was active as public company, with the exception of the following principles and relevant best practice provisions of the Dutch Code and main principles and relevant supporting principles and provisions of the UK Code:

**Dutch Code: Principle II.2 Remuneration**

"[..] The amount of compensation which a management board member may receive on termination of his employment may not exceed one year's salary, unless this would be manifestly unreasonable in the circumstances"

As more detailed in the Remuneration Committee Report, this principle is not followed in case of the Executive Directors' compensation.

**Dutch Code: Provision III.3.4 Regarding the number of supervisory boards to which a board member of a Dutch listed company may be a member**

The Company deviated from this best practice provision due to the fact that two of the Non Executive Directors held more than five supervisory membership in listed companies: Dr. David Ebsworth (Chairman) and Mr. Michael Wemms (for a short period of time).

In both cases, the time commitment to the Company was clearly stated in the agreements concluded with the Non-Executive Directors.

**Dutch Code: Principle III.7 Remuneration**

"[...] The remuneration of a supervisory board member is not dependent on the results of the company."

As more detailed in the Remuneration Committee Report, the Chairman's remuneration comprises a variable part, dependent of the Company's results. At the date of his appointment, the Chairman was independent.

**Dutch Code: Principle III.5 Composition and role of three committees of the supervisory board**

**UK Code: provisions relating to committees**

No committees were established in 2006. The Audit, Nomination and Remuneration Committees have been established on 13 April 2007.

**Dutch Code and UK Code: Information inclusion on the website**

The relevant information, as provided by the Dutch and UK Codes, was not included on the Company's website. The Company undertakes to comply with these requirements, as soon as reasonable possible in 2007 and following years.

**UK Code: Provision D.2.4 "The company should arrange for the Notice to the AGM and related papers to be sent to shareholders at least 20 working days before the meeting."**

For the 2007 AGM the Company has applied the Dutch law and its Articles of Association provisions, according to which "The convocation shall take place no later than on the 15th day prior to the date of meeting."

**Dutch Code: Provision IV.3.9 regarding Anti-takeover measures**

The Company did not prepare any policy relating to anti-takeover measures meant to prevent or discourage an unwanted takeover of the Company.

**UK Code: Provision D.2.1 "At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts" and C.1.1 "The directors should explain in the annual report their responsibility for preparing the accounts and there should be a statement by the auditors about their reporting responsibilities"**

For the reasons set out in the Introduction to the Annual Report, the Company has not proposed a resolution at its June's AGM relating to the 2006 Annual Report and Accounts, nor included in the previous revised version of the Annual Report a statement by the auditors about their reporting responsibilities. Shareholders will have an opportunity to discuss and vote on the adoption of the final Annual Report at the extraordinary general meeting on September 10, 2007.

# 2. Remuneration Committee Report

## Introduction

The Board of the Company determined to follow UK Corporate Governance best practice in relation to Executive remuneration for the year in question. Therefore this report has been prepared in accordance with the spirit of The UK Directors' Remuneration Report Regulations 2002 (the "Regulations"). The report also meets the relevant requirements of the UK Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles and complied with the provisions of the UK Combined Code (the "Code") on Corporate Governance relating to directors' remuneration. It also meets the requirements of the Dutch Corporate Governance Code regarding the Executive and Non-Executive Directors.

The Board has decided, subject to shareholder approval at the forthcoming Annual General Meeting of the Company ("2007 AGM")to introduce an incentive plan for non-executive directors (full details are contained in the Shareholders' Circular accompanying these Report & Accounts). The Board recognises by doing so that it will be in breach of both the UK and Dutch Codes. However, the Board and the Company's major shareholders do not believe that this aspect of UK and Dutch Corporate Governance Best Practice is appropriate at this stage of the Company's development. It is their opinion that the alignment of interests between the executive directors, non-executive directors and shareholders of the Company is best achieved through the introduction of this plan. It should be noted that benefits are only provided under the plan for achieving challenging absolute total shareholder returns over the performance period.

## Remuneration Committee

The Remuneration Committee was established in April 2007 and the members are:

| Name | Position | Date of Appointment to Committee |
|---|---|---|
| Michael Wemms | Chairman | 13th April 2007 |
| Dr. David Ebsworth | Member | 13th April 2007 |
| Roger Akoury | Member | 13th April 2007 |

The responsibility for the establishment of a remuneration policy and its cost is a matter for the full Board, on the advice of the Remuneration Committee. The recommendations of the Remuneration Committee have been approved without amendment by the Board for submission to shareholders. The Remuneration Committee is responsible for developing policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors.

The Remuneration Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

During the period under review, the Board sought the assistance of the Chief Executive on matters relating to directors' performance and remuneration. No director takes part in discussions relating to their own remuneration and benefits. The Board and the Remuneration Committee appointed and received wholly independent advice on executive compensation and share scheme design from Halliwell Consulting. No other services were provided to the Company by Halliwell Consulting during the year.

The Remuneration Committee is formally constituted with written terms of reference with the full remit of the committee role described. A copy of the terms of reference is available to shareholders on request by writing to the Company Secretary will be posted on the Company's website, www.adpharma.ro.

## Philosophy behind Remuneration Committee's Approach

The policy is designed to encourage, reward and retain the executives and the Remuneration Committee believes that shareholders' interests are best served by remuneration packages which have a large emphasis on performance related pay. Emphasis on performance should encourage executives to focus on delivering the business strategy and, by providing meaningful incentives to executives, ensure that the appropriate balance between fixed and performance related pay is maintained.

## Remuneration Policy

The Remuneration Committee will review on an annual basis whether its remuneration policy remains appropriate for the relevant financial year. Factors taken into account by the Remuneration Committee include:

- market conditions affecting the Company;
- the recruitment market in the Company's sector;
- changing market practice;
- changing views of institutional shareholders and their representative bodies.

In line with this general review the Committee specifically considered the appropriate equity incentive arrangements for the directors and other senior executives of the Company. This process led to the design of the A&D Pharma 2007 Long-Term Incentive Plan (the "2007 LTIP") which it is intended to operate following the 2007 AGM and conditional on shareholders passing an ordinary resolution approving the Plan at this meeting.

## Policy for 2006 & 2007

In all other respects the policy applied during 2006 will continue to apply for 2007. The Board's policy during 2006 was to set the main elements of the remuneration package at the following quartiles in comparison to the Company's Comparator Group:

| Base salary | Annual Bonus Potential | Pension | Benefits in kind | Potential Total Short-Term Remuneration available | Potential Annual Share Awards | Potential Total Compensation Value |
|---|---|---|---|---|---|---|
| Lower quartile | Upper quartile | Median | Market practice | Median | Median | Median |
| | Maximum bonus payouts are only earned by executives for achieving upper quartile performance. | | | The remuneration package will provide lower quartile total short-term remuneration unless high levels of bonus payments are earned by executives. | The remuneration package will provide a lower quartile total compensation value unless executives earn their bonus payouts and satisfy the performance conditions attached to their share incentives. Maximum bonus and share incentive payments will only occur for upper quartile performance. | |

## Comparator Group

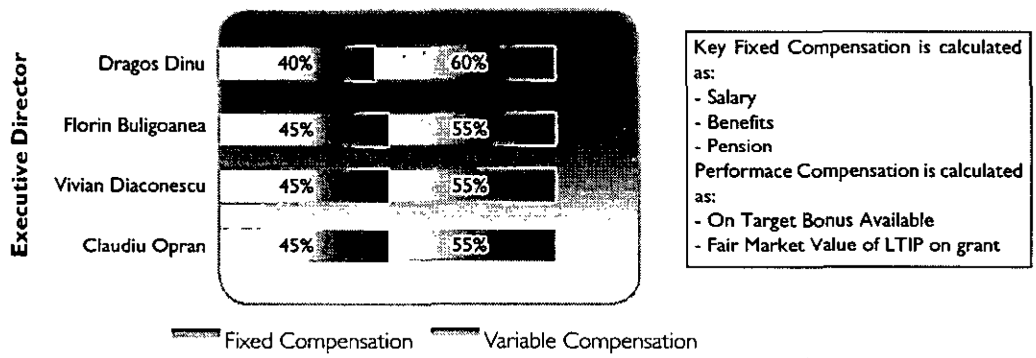
The Company's Comparator Group is made up predominantly of UK and European companies of comparable market capitalisation to the Company drawn from the following sectors:

- pharmaceuticals;
- wholesale pharmaceuticals; and
- retail.

## Balance between Fixed & Performance Based Compensation

The chart below demonstrates the proposed balance between fixed and variable performance based compensation for each executive director for the forthcoming financial year following the introduction of the proposed LTIP:

**Balance Between Fixed & Performance Based Compensation (Variable Compensation)**




## Elements of Executive Directors' Remuneration

## Basic Salary

*Policy: - Lower Quartile*

For 2007 the Remuneration Committee has applied the criteria set out below to determine the salaries payable:

| Name | 2007 Salary | Quartile Position |
|---|---|---|
| **Dragos Dinu** – Chief Executive Officer | € 226,000 | Lower Quartile |
| **Florin Buligoanea** – Chief Finance Officer | € 206,000 | Lower Quartile |
| **Vivian Diaconescu** – COO Wholesale | € 165,000 | Lower Quartile |
| **Claudiu Opran** – COO Retail | € 113,000 | Lower Quartile |

References to quartiles are to quartiles in the Comparator Group. The salary figures above are grossed up from the net pay figures using an approximate tax rate of 30%.

When determining the salary of the executives the Committee takes into consideration:

- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the lower quartile salary levels of those comparable companies within the pharmaceutical retail sector and the Comparator Group;
- the performance of the individual executive director;
- the individual executive director's experience and responsibilities; and
- pay and conditions throughout the Company.

## Annual Performance Related Bonus

*Policy: Upper Quartile Maximum Bonus Potential*

Bonus payments are not pensionable. The following tables summarise the main features of the Company's executive bonus plan.

| Bonus | Dragos Dinu | Florin Buligoanea | Vivian Diaconescu | Claudiu Opran |
|---|---|---|---|---|
| **Maximum Annual Bonus Potential (%age of Salary)** | | | | |
| **Company** | | | | **No maximum** |
| Upper Quartile | 100% | 100% | 100% | 100% |
| 2006 Bonus Paid (& as %age of Salary) | €14,180<br>6.4% | €0<br>0% | €73,787<br>119.3% | €17,121<br>26.4% |
| Median Bonus Payments in the Comparator Group as a %age of Salary | 37% | 24% | 55% | 55% |
| New Policy Maximum Bonus Potential for 2007 | 100% | 100% | 100% | 100% |

References to quartiles are to quartiles in the Comparator Group.

The bonuses for 2006 have been paid on the basis of the level of the satisfaction of various performance conditions including EBITDA, market share, logistic activity and control of expenses.

The maximum bonus potential has been set at 100% of salary, with effect from 1 January 2007. The performance conditions for the annual bonus plan are reviewed and agreed by the Remuneration Committee at the beginning of each financial year to ensure that they are appropriate to the current market conditions and position of the Company in order to ensure that they continue to remain challenging. After reviewing the bonus targets the Remuneration Committee has set similar budgeted financial performance targets and personal effectiveness targets for the executive bonus plan for 2007.

## Share Incentives

*Policy: Median*

## Old LTIP

In 2002, the Board of the Company put in place an equity based incentive plan for certain members of the senior and middle management of the Company. The plan involves a cash payment linked to the value of the Company's shares (with the aggregate number of reference shares being a maximum of 7% of the Company's issued share capital). The value of the cash payments were based on the offer price of the Company's shares on flotation. Participants in the plan are required to repay the bonus if they are employed by a competitor within 12 months of the date of payment.

## New LTIP

The Remuneration Committee's policy is to provide annual share grants to executives at the median level compared to the Comparator Group. Share incentives, excluding all employee plans, will be provided through the proposed "A&D Pharma 2007 Executive Long-Term Incentive Plan" that is to be put to shareholders at the forthcoming 2007 AGM, details of which are provided in the separate circular. No grants were made during the year under any discretionary share plan.

## Dilution

The Company intends to operate all its share arrangements (both discretionary and all employee) within the UK Association of British Insurers Guidelines on dilution. The ABI Guidelines provide that the Company can issue a maximum of 10% of its issued share capital in a rolling ten year period to employees under all its share plans. In addition, of this 10% the Company can only issue 5% to satisfy awards under discretionary or executive plans.

## Pension

*Policy: Median*

### Defined Contribution Plan

The executive directors should receive payment into a defined contribution pension arrangement equal to 10% of net base salary. This arrangement is not applied for the moment.

## Benefits in Kind

*Policy: - Market Practice*

The Company provides normal benefits in kind for executives of this level in a company of this size, such as company cars, healthcare and permanent health insurance.

## Other Remuneration Matters

### Executive Directors' Contracts

Details of the service contracts of the executive directors of the Company are as follows:

| Name | Company Notice Period | Contract date | Contract Lapse Date | Potential Termination Payment |
|---|---|---|---|---|
| **Dragos Dinu**<br>Chief Executive Officer | 12 months | 01.10.06 | 31.12.08 | See table below for Details |
| **Florin Buligoanea**<br>Chief Financial Officer | 12 months | 01.10.06 | 31.12.08 | |
| **Vivian Diaconescu**<br>COO Wholesale | 12 months | 01.10.06 | 31.12.08 | |
| **Claudiu Opran**<br>COO Retail | 12 months | 01.10.06 | 31.12.08 | |

All executive directors' contracts are renewable 26 months from date of appointment.

## Termination

The following table sets out the entitlements and penalties for the various circumstances surrounding the termination of an executive's employment with the Company:

17-09-2007

| Element | Executive Gives Notice | | Company Gives Notice | | |
|---|---|---|---|---|---|
| | New Employment by Competitor | No Employment or Employment with a Non-Competitor | New Employment by Competitor | No Employment or Employment with a Non-Competitor | Summary Dismissal |
| Salary for 12 months | Yes | Yes | Yes | Yes | No |
| 75% of Total Cash Compensation for 24 months (salary and bonus) – (see note 1) | No | Yes (see note 2) | No | Yes (see note 2) | No |
| Penalty Payment (see note 3) | Yes (see note 3) | Yes (see note 3) | No | No | No |

**Note 1**: the payment is being made to compensate the executive for agreeing not to work with a competitor of the Company during this 24 month period. The limited pool of experienced executives in the Company's market makes the employment of its executives very attractive to current or potential competitors. Therefore the Remuneration Committee felt that it was essential that these provisions were included in the service agreements to protect the Company's commercial interests and in this case these interests take precedence over UK corporate governance best practice that stated notice payments should not exceed 12 months salary.

**Note 2**: the Company has the right to offset any earnings received by the executive as a result of his employment providing similar services to another company against its liability to make the payment.

**Note 3**: the executive is liable for the following payment if he voluntarily terminates his employment prior to the Contract Lapse Date set out above.

| | Liability on Termination of Employment | |
|---|---|---|
| **Name** | **Period 01.10.2006 to 30.09.2007** | **Period 01.10.2007 to 31.12.08** |
| Dragos Dinu | €3million | €1.5million |
| Florin Buligoanea | €3million | €1.5million |
| Vivian Diaconescu | €3million | €1.5million |
| Claudiu Opran | €1million | €0.5million |

This penalty payments structure has been put in place to discourage executives departing in order to maintain the stability of the executive team.

The Remuneration Committee will ensure that there have been no unjustified payments for failure on an executive director's termination of employment. There are no special provisions in the contracts of employment extending notice periods on a change of control or liquidation of the Company.

## Chairman

The Chairman is entitled to an annual fee of €120,000. For each full day worked in excess of 40 days in the year he is entitled to an additional fee of €3,000 per day. The current expected time commitment of the Chairman is 96 days per annum. The Chairman's appointment is for a fixed term of four years.

The Chairman is also entitled to an additional fee at the end of his initial term as Chairman. The additional fee is equivalent to the aggregate of 1% of the total Company shareholder return in excess of a 15% return (the "threshold") in respect of each complete year of the term. If the New Europe Blue Chip Index falls by more than 10% in any year, the threshold for that year will be reduced by 1% for every 1% drop in the Index greater than 10%. Accrued elements of the additional fee will receive interest at a rate of 2% above EURIBOR until the date of payment. On a change of control the Chairman is entitled to a payment equivalent to the accrued element of the additional fee at the date of the change of control and a payment equivalent to the additional fee that would have been earned had the mean average total shareholder return for the previous completed years of the term continued until its normal end. There are similar provisions if the Chairman leaves the Company as a "good leaver" i.e. death.

## Non-Executive Directors

The remuneration of the non-executive directors is determined by the Board based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Senior Independent Non-Executive Director and the Chief Executive). The individual fee levels are as follows:

| **Name** | **Basic fee €** | **Additional Fee for Working more than 40 days Per day** |
|---|---|---|
| Michael Wemms | €70,000 | £1,200 |
| Urs Kamber | €80,000 | €2,000 |
| Ludovic Robert | €0 | €0 |

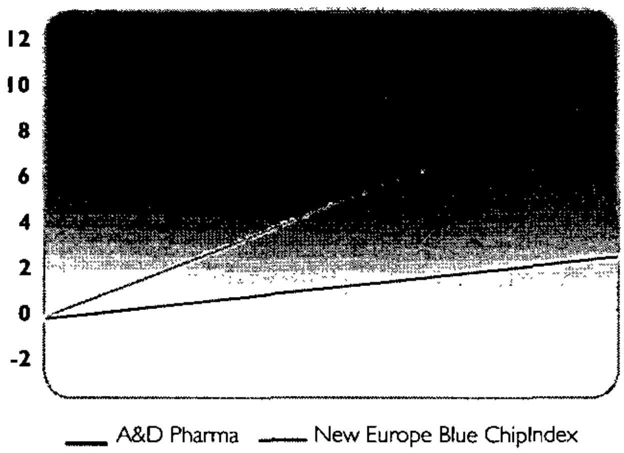
| Name | Basic fee € | Additional Fee for Working more than 40 days Per day |
|---|---|---|
| Michel Eid | €0 | €0 |
| Roger Akoury | €0 | €0 |
| Walid Abboud | €0 | €0 |

Non-executive directors do not currently participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company. It should be noted that subject to shareholder approval a new incentive plan is being implemented for the non-executive directors (full details are set out in the Shareholders' Circular accompanying these Report & Accounts). The non-executive directors' appointments are for fixed-terms of three years. The terms and conditions of appointment of the non-executive directors are available for inspection.

## Total Shareholder Return Performance Graph

The graph shows the Company's performance, measured by total shareholder return, compared to the constituents of the New Europe Blue Chip Index which the Committee has selected on the basis that it provides a good indication of the Company's share price performance against the general market.

**Total Shareholder Return from Date of Flotation**






## Directors' Emoluments

## The total of directors' emoluments in the year was €681,964.

The remuneration of each director, during the year ended 31 December 2006 is set out in the table below.

| | Basic salary/fees | Annual performance related bonus | Pension | Total |
|---|---|---|---|---|
| **Executive directors**[1] | | | | |
| Dragos Dinu | 202,349 | 14,180 | - | 216,529 |
| Florin Buligoanea | 135,719 | 0 | - | 135,719 |
| Vivian Diaconescu | 61,843 | 73,787 | - | 135,630 |
| Claudiu Opran | 64,890 | 19,696 | - | 84,586 |

| | Basic salary/fees | Annual performance related bonus | Pension | Total |
|---|---|---|---|---|
| **Non-executive directors**[2] | | | | |
| Dr. David Ebsworth | €72,000 | - | - | **€72,000** |
| Michael Wemms | €17,500 | - | - | **€17,500** |
| Urs Kamber | €20,000 | - | - | **€20,000** |
| Ludovic Robert | €0 | - | - | **€0** |
| Michel Eid | €0 | - | - | **€0** |
| Roger Akoury | €0 | - | - | **€0** |
| Walid Abboud | €0 | - | - | **€0** |
| **Total** | €574,301 | €107,663 | - | **€681,964** |

**Note 1:** The Executive Directors also receive the benefit of a company car (the purchase value of which is between €45,000 and €55,000).
**Note 2:** The Non-Executive Directors were appointed on the 9th October 2006 and the payments relate to the period from this date.

## LTIP Payments

The following table sets out the payments to the executives as a result of the old LTIP (described above) and the repayment provisions if they voluntary terminate their employment with the Company (see above section on executive directors' contracts):

| Executive | Date of Payment | Value on Date of Payment € | Penalty Payment: Period 01.10.2006 to 30.09.2007 €million | Penalty Payment: Period 01.10.2007 to 31.12.08 €million |
|---|---|---|---|---|
| Dragos Dinu | 25 October 2006 | 4,454,600 | 3 | 1.5 |
| Florin Buligoanea | 25 October 2006 | 4,454,600 | 3 | 1.5 |
| Vivian Diaconescu | 25 October 2006 | 3,818,200 | 3 | 1.5 |
| Claudiu Opran | 25 October 2006 | 1,272,800 | 1 | 0.5 |

No options or LTIP awards apart from those mentioned in the table above were granted or held by the directors during the year.

By order of the Board
Michael Wemms
Remuneration Committee Chairman
1 June 2007

# 3. Disclosures required pursuant to the Decree implementing Article 10 of the EU Takeover Directive

## Share capital structure

The Company's authorized share capital amounts to € 220,000,000, consisting of 220,000,000 ordinary shares, with a nominal value of € per share, of which 200,000,000 shares have been issued and have been fully paid up. Shares can be issued in registered form only. No share certificates may be issued for shares.

As of 24 November 2006 a number of 68,096,394 shares are publicly traded on the London Stock Exchange, in the form of Regulation S GDRs, each GDR representing six ordinary shares, with a nominal value of € 1.00 each.

The Company and Citibank, N.A., acting in its capacity as depositary, have established a depositary receipt facility for the issuance of Rule 144A GDRs, although no Rule 144A GDRs were issued.

## Transfer restrictions

Due to the following restrictions, holders of GDRs are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Regulations S GDRs, the Rule 144A GDRs or the shares represented thereby.

## Regulation S GDRs

The Regulation S GDRs and the shares represented thereby have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state in the United States or other jurisdiction, and may not be offered or sold within the United States. The Regulation S GDRs and the shares represented thereby may only be offered, sold or delivered outside the United States in offshore transactions in reliance on Regulation S, and in each case in accordance with any other applicable law.

## Rule 144A GDRs

To the extent any Rule 144A GDRs (including those issued in exchange for Regulation S GDRs) are issued in the future and for so long as such Rule 144A GDRs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, such Rule 144A GDRs and the shares represented thereby may only be offered, sold or delivered within the United States to qualified institutional buyers (as defined in Rule 144A) ("QIBs") in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Notwithstanding anything to the contrary in the foregoing, the GDRs may not be deposited into any unrestricted depositary receipt facility in respect of GDRs established or maintained by a depositary bank.

The Rule 144A GDRs offered in reliance on Rule 144A will be evidenced by the Master Rule 144A GDR. Before any interest in the Master Rule 144A GDR may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Master GDR, it will be required to provide the Depositary with a written certification (in the form provided in the Rule 144A Deposit Agreement) as to compliance with applicable securities laws.

To the extent (if any) that Rule 144A GDRs may be offered and sold, holders may be relying on the exemption from the provisions of Section 5 of the Securities Act followed by Rule 144A.

## General

Any resale or other transfer, or attempted resale or other transfer, made otherwise than in compliance with the above-stated restrictions shall not be recognized by the Company or the Depositary in respect of the Regulation S GDRs, the Rule 144A GDRs or the shares represented thereby.

### *Disclosure of major shareholdings and capital interests*

According to the provisions of Act on the Disclosure of Major Shareholdings and Capital Interests in Securities-Issuing Institutions, certain shareholders and the executive and non-executive directors holding interests in the issuing company have the obligation to disclose to the Dutch Authority for Financial Markets (AFM) their holdings in the company, in order to increase transparency regarding major shareholdings and capital interests in securities-issuing institutions.

The information regarding the major shareholdings and capital interests is made available to AFM by way of notifications filed by the shareholders and directors concerned, and is published on the AFM's website, at www.afm.nl.

As at 21 May 2007, according to the AFM's website, two major holdings were posted:

- Active Pharma Invest Ltd, which holds 58.95% capital interests in the Company, and which directly (for 58.5% capital interests) and potentially (for 0.45% capital interests) exercises its voting rights in the Company, through its subsidiary Sograno B.V., *Date of disclosure: 1 November 2006.*
- JP Morgan Chase & Co, which holds 5% capital interests in the Company, and which can potentially exercises its voting rights in the Company, through its subsidiaries JP Morgan Investment Management Inc., JF Asset Management Ltd., JPMorgan Asset Management (Japan) Ltd., JPMorgan Asset Management (UK) Limited. *Date of disclosure: 1 November 2006.*

## *Date of disclosure: 1 November 2006.*

As at 21 May 2007, according to the AFM's website, the following directors' holdings in the Company were posted:

- Dragos Dinu, Executive Director, Chief Executive Officer, who holds 4,454,600 shares, representing 2.2273% capital interests,
  *Date of disclosure: 1 November 2006.*
- Florin Buligoanea, Executive Director, Chief Finance Officer, who holds 4,454,600 shares, representing 2.2273% capital interests,
  *Date of disclosure: 1 November 2006.*
- Vivian Diaconescu, Executive Director, Chief Operating Officer Wholesale Business, who holds 3,818,200 shares, representing 1.9091% capital interests,
  *Date of disclosure: 1 November 2006.*
- Claudiu Opran, Executive Director, Chief Operating Officer Retail Business, who holds 1,272,600 shares, representing 0.6363% capital interests.
  *Date of disclosure: 1 November 2006.*
- Dr. David Ebsworth, Non-Executive Director, Chairman of the Board of Directors, who holds 18,000 shares, representing 0.01% capital interests.
  *Date of disclosure: 1 November 2006.*

## *Voting rights*

GDR holders will have no direct voting rights with respect to the shares represented by the GDRs. They will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the relevant Deposit Agreement relating to the GDRs and relevant requirements of the Company's Articles of Association and Dutch law, which provide for a proxy being granted to the holder upon request by such holder, provided the proxy is submitted to the Board of Directors 5 days prior to the meeting of shareholders. There are, therefore, certain practical limitations on the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. Under the Company's Articles of Association, the Board of Directors can set a registration date for determining which shareholders or GDR holders have the right to attend and vote at the meeting of shareholders.

## *Rules governing the appointment and dismissal of managing directors and supervisory directors and amendment of the Articles of Association*

According to the Company's Articles of Association, the Executive Directors and Non-Executive Directors are appointed by the General Meeting, for a period of up to four years. Re-appointment is possible, but each time for a period of up to four years.

Any suspension or dismissal of directors (Executive and Non-Executive) can only be made by the General Meeting, based on a resolution that is well-motivated. Any suspension may be extended one or more times, but may not last longer than three months in the aggregate. If at the end of that period no decision has been taken on termination of the suspension, or on dismissal, the suspension shall cease.

When a proposal of the Board of Directors to amend the Articles of Association of the Company is made to the General Meeting, this must be mentioned in the notification of the General Meeting of Shareholders and a copy of the proposal including the text of the proposed amendment must at the same time be deposited and held available at the Company's office for inspection by the shareholders and the GDRs holders until the end of the meeting. Such copy will also be available for inspection at the General Meeting of Shareholders.

Resolutions on the appointment and dismissal of directors and on the amendment of the Articles of Association can be adopted by simple majority.

### *The powers of the managing board, in particular the power to issue or repurchase shares of the company*

In the Articles, the power to decide on any further issuance of shares or rights for shares and on the terms and conditions thereof, has been delegated to the Board of Directors. This delegation prevents the General Meeting from deciding on the issue of shares or the granting of rights to subscribe for shares and is valid for a period of five years, ending on 19 June 2011. The delegation is limited to the Company's authorized share capital from time to time. Therefore, under the current Articles, the Board of Directors has the right to issue an additional 20,000,000 shares without the need to amend the Articles. The delegation to the

Board of Directors may be extended for periods of up to five years by a resolution of the General Meeting. In the absence of a resolution extending the delegation the General Meeting shall have the authority to issue shares and grant the right to subscribe for shares.

Shares may not be issued at less than their nominal value. The nominal value of shares and share premium (if any) must be fully paid up upon issue. Each holder of shares has pre-emptive rights to subscribe for any shares or rights to subscribe for shares. Pre-emptive rights are in proportion to the percentage of outstanding shares that the holder owns. Pre-emptive rights do not apply to shares (or rights to subscribe for shares) issued for a non-cash consideration, to shares (or rights to subscribe for shares) issued to employees of the Company or its affiliates or to shares issued to a person who exercises a previously acquired right to subscribe for shares. The Board of Directors has been delegated the authority to exclude or limit pre-emptive rights of holders of shares, which delegation is valid for a period of five years, ending on 19 June 2011, and may at any time be extended for periods of up to five years by a resolution of the General Meeting.

A resolution of the Board of Directors to limit or exclude pre-emption rights in the event of the issuance of shares or the granting of rights to subscribe for shares requires the prior approval of the General Meeting. It should be noted, however, that the absence of approval of the General Meeting does not affect the ability of the Management Board to exclude or limit pre-emptive rights. The Board of Directors shall apply the Statement of 86 Principles of the UK Pre-Emption Group when deciding on the exclusion or limitation of pre-emptive rights.

### *Acquisition by the Company of its own shares*

The Company may acquire fully paid-up shares in its own capital for no consideration or if the following conditions are met:

a) the General Meeting has authorized the Board of Directors to make the acquisition (which authorization can be valid for no more than 18 months), specifying the maximum number of shares that may be acquired, the manner in which such shares may be acquired and the limits within which the price must be set;

b) the Company's equity, after deduction of the acquisition price, is not less than the amount of the paid-up and called portion of share capital plus the reserves that the Company has to maintain under Dutch law or the Articles;

c) the Company and its subsidiaries would as a result of such acquisition not hold, or hold as pledgee, shares with an aggregate nominal value exceeding one-tenth of the Company's issued share capital.

The Articles provide that the Company shall be able to acquire shares in order to transfer these shares under employee stock option or stock purchase plans, without an authorization of the General Meeting being required. The Board of Directors has not been authorized to acquire shares in the Company's own capital.

Shares held by the Company or its subsidiaries cannot be voted on or counted for quorum purposes at shareholders' meetings.

*Significant agreements affected by the change of control clause*

## Citibank Loan Agreement

On 13 July 2006, the Company's subsidiaries (A&D Pharma Holdings SA, Ideapharm, Mediplus and Sensiblu), as borrowers, entered into a EUR 100 million syndicated loan agreement with Citibank N.A., London as arranger, Citibank International Plc as agent, HVB Bank Romanian S.A. as issuing bank and Citibank Romanian S.A. as security agent (the "Citibank Loan Agreement"). The lenders under the Citibank Loan Agreement are: Bank Austria Creditanstalt AG, Piraeus Bank S.A. (London Branch), Alpha Bank AE, BRD Groupe Société Genérâlé SA, EFG Private Bank (Luxembourg), ING Bank N.V, Dublin Branch, Investkredit Bank AG, Raiffeisen Bank SA, Citibank Romania SA, MKB Bank Rt, Budapest and Banca Romaneasca S.A.

The Citibank Loan Agreement contains certain customary events of default (which, in case of occurrence, will generate an accelerated loan repayment) including, inter alia, change of control, but subject to certain exceptions.

## Supply agreements

There is a certain number of supply agreements to which Mediplus is party, which could be affected as result of the exercise by the suppliers of the right to terminate the agreement in case of change of control.

The suppliers concerned are: Abbott GmbH & Co.KG Germany, Bayer SRL Romania, Eli Lilly Export SA Switzerland, GSK Healthcare Hungary, Roche Romania Srl, Krka d.d., Novo mesto, Slovenia, Pierre Fabre Dermo- Cosmetique France, Reckit Benckiser Healthcare Eastern Europe Czech Republic, Laboratories Urgo France.

# 4. United Kingdom Tax Considerations

## United Kingdom Tax Considerations

The following discussion is a summary of certain United Kingdom tax considerations relating to an investment in the GDRs. The comments below are of a general nature based on current United Kingdom law and HM Revenue and Customs' published practice as at the date hereof. They do not necessarily apply to all categories of investor. Prospective investors are urged to consult their own tax advisers prior to investing with respect to their own particular circumstances. In particular, these comments do not apply to the following:

- investors who are not the beneficial owner of GDRs;
- investors who do not hold their GDRs as capital assets;
- special classes of investor such as dealers, broker dealers, insurance companies and investment companies;
- investors who own (or are deemed to own) 10 per cent. or more of the Company's voting rights or GDRs;
- investors who hold the GDRs as part of hedging or conversion transactions; or
- investors who have (or are deemed to have) acquired their GDRs by virtue of an office or employment.

## Withholding tax

Dividend payments in respect of GDRs may be made without withholding or deduction for or on account of United Kingdom income tax.

## Taxation of dividends

Dividends received by investors who are resident in the United Kingdom for tax purposes or carrying on a trade, profession or vocation in the United Kingdom through a branch or agency — or, in the case of a corporate investor, a permanent establishment in connection with which the GDRs are held, will generally be subject to United Kingdom income tax or corporation tax, as the case may be, on the gross amount of any dividend paid before the deduction of any Dutch withholding taxes. Credit may be given for Dutch tax withheld (and not recoverable from the Dutch tax authorities) subject to the United Kingdom tax rules regarding calculation and availability of such credit including taking all reasonable steps to minimise the amount of Dutch tax on the dividends. See "— Netherlands Tax Considerations — Dutch dividend withholding tax".

An individual investor who is resident but not domiciled in the United Kingdom will generally be subject to United Kingdom income tax on dividends received to the extent that such dividends are remitted to the United Kingdom or deemed to be remitted to the United Kingdom. A dividend is remitted to the United Kingdom if it is paid to the United Kingdom or transmitted or brought to the United Kingdom in any way.

A dividend may also be treated as remitted to the United Kingdom under certain anti-avoidance legislation.

## Taxation of disposals

For the purposes of United Kingdom taxation on chargeable gains, the disposal of GDRs by investors which are companies within the charge to United Kingdom corporation tax (by reason of being resident in the United Kingdom or carrying on a trade through a permanent establishment in the United Kingdom to which the GDRs are attributable) may, depending on the investor's circumstances, give rise to a chargeable gain or allowable loss.

A disposal of GDRs by an investor who is an individual who is resident or ordinarily resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the GDRs are attributable may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains. Any chargeable gains may, depending on the individual's personal circumstances, be reduced or offset by available exemptions or reliefs from capital gains tax, including the annualexemption and taper relief.

An individual investor who is resident or ordinarily resident, but not domiciled, in the United Kingdom, and who does not carry on a trade in the United Kingdom, will be liable for United Kingdom capital gains tax only to the extent that the chargeable gains made on the disposal of GDRs are remitted or deemed to be remitted to the United Kingdom. Dealings in the GDRs on the London Stock Exchange may give rise to remitted profits that would, therefore, give rise to a United Kingdom capital gains tax liability.

An individual investor who is neither resident nor ordinarily resident in the United Kingdom for tax purposes and who does not return to the United Kingdom within five years of the disposal of GDRs will not normally be liable for United Kingdom taxation on chargeable gains realised on the disposal of such GDRs unless, at the time of the disposal, such investor carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the GDRs are attributable.

## Stamp duty

No liability to United Kingdom stamp duty or stamp duty reserve tax will arise on the issue of GDRs to investors.

United Kingdom stamp duty will not normally be payable in connection with a transfer of GDRs provided that the instrument of transfer is executed and retained outside the United Kingdom, the GDR register and the GDR register is not held in the United Kingdom and no other action is taken in the United Kingdom by the transferor or transferee.

No United Kingdom stamp duty reserve tax will be payable in respect of any agreement to transfer GDRs.

# Corporate social responsibility

## A&D Pharma - Fully dedicated to health and life

A&D Pharma is a company actively involved in the community through both Sensiblu and Mediplus. In order to fulfill its commitment to the community, A&D Pharma launched the Sensiblu Foundation as part of the corporate social responsibility of the Group.

The management team of the Group believes that a healthy company is a socially responsible company. Here are some examples of our activities:

### Sensiblu Foundation

As a healthcare company, A&D Pharma is constantly linked to people's health and the social fabric and believes that it is its duty to offer support to the community and to contribute as much as it can to the social well-being. In March 2002, the Sensiblu Foundation set the goal of being closer to people in need and to improve their lives. The Sensiblu Foundation is the only Romanian corporate foundation to provide direct support services for people in need.

*Casa Blu*

The principal project of the Sensiblu Foundation, **Casa Blu**, targets victims of domestic violence, for whom the fund offers long-term shelter and reintegration counseling in order to help victims to rebuild their disrupted lives. Employees and volunteers, many who specialize in sociology, law, and psychology, work to help women and children. Women receive assistance in finding employment, raising children and becoming reintegrated in their community. The project has received many awards from various organizations and institutions and demonstrates A&D Pharma's commitment to the community.

In 2006, 1,600 women and children benefited from direct, telephone or on-line counseling from **Casa Blu**. During this period, 8 women and 8 children were placed in the temporary shelter for 4 months.

Casa Blu Project is an example of successful public-private partnership. Our traditional public partners are the City Halls and Police Department.

### *Parents School*

During the first half of 2006, the Sensiblu Foundation implemented a new program – **Parents School** – addressing the dysfunctional relationships between mothers and children. **Parents School** is an educational group which focuses on developing the concept of motherhood and improving mother – child relationships using psycho-dramatic techniques and art. The program addresses abused women from the Casa Blu program who have one or more children.

We offered support for 454 individuals in 2006. In 2007, the Parents School will be developed in partnership with a public school and will be addressed to those parents whose children study in that institution.

### *Restraining order lobbying project*

The Sensiblu Foundation has also been actively involved in lobbying for the introduction of a restraining order system under the existing Criminal Code.

### *V-Days Campaign*

In line with the international activities of other non-governmental organizations with similar concerns, during November 25th – December 10th the foundation held the third **VDays Campaign**, with 16 days of programs against gender related violence. Developed under the slogan "If you lose control, someone else could lose their life", the campaign emphasized that violence against women is a breach of human rights with extremely serious effects on the family as a social institution.

The General Directorate of the Bucharest Police, the Mayoralty of District 3, the General Directorate of Social Work and Child Protection, the National Agency for Family Protection and the Ecumenical Association of Churches in Romania were our partners in this campaign.

The main activities developed under this program included:

- White Ribbon campaign – the white ribbon symbolizes a man's pledge to never commit, condone or remain silent about violence against women
- Silent Witness exhibition – a memorial for all women murdered by a family member in 2006, in Bucharest; each victim was represented by a red silhouette "telling" the victim's story
- The messages against violence were reinforced by priests in Bucharest churches
- The campaign ended with a candle light outdoor ceremony, in the memory of murdered women

During the 16 day program, the Sensiblu Foundation team and 30 volunteers distributed more than 15,000 flyers, calendars and white ribbons to the public.

### *Aid for flood victims*

The Sensiblu Foundation, assisted by A&D Pharma, provided tangible support for the victims of the most severe floods in Romania within the last 100 years. **"Health and hope"** was the name of one of the widest national aid programmes launched in 2005 and 2006 by a corporation. Employees of Sensiblu and Mediplus and volunteer medical doctors spent months in flooded villages, offering first aid to victims in that area.

With a budget of €150,000, the **"Health and Hope"** campaign, organized in 2006, focused on the inhabitants of the 3 affected counties Calarasi (Chiselet, Manastirea, Spantov villages), Dolj (Bechet town, Macesu de Jos and Rast villages), and Bistrita-Nasaud (Tarlisua village). We also focused on solving urgent problems and giving priority to children. The health of children was the first concern. The Sensiblu Foundation, sponsored by Sensiblu, donated 30,000 powder milk packs and 5,000 baby feeding bottles in various parts of the country, including the flooded regions. The Foundation also donated 30,000 pairs of shoes to the affected villages, together with considerable donations of pharmaceuticals for several hundreds of refugees in Bistrita Nasaud county.

*Sensiblu Professional Excellency Program*

Our main objective is to deliver outstanding professional services to our customers. We are committed to investing in people and to prepare highly educated specialists for the pharmaceutical market. In 2006 Sensiblu launched the most complex educational and rewarding programe for the pharmacy professional in Romania, under the name of **Sensiblu Professional Excellency Programme**. This program addressed students in pharmacies and Sensiblu's employed pharmacists.

The program is the first integrated training and development program in the pharmaceutical market in Romania. The four pillars of the program include:

- **Sensiblu Scholarships** targeting students in pharmacies, originating from low-level income families. It is actively promoted in 300 high schools from over 220 Romanian cities; we currently offer scholarships to 40 students;
- **The Sensiblu Training Center** targeting students at the Pharmacy University;
- **Sensiblu Academy** is addressed to our pharmacists by offering training sessions on various medical specialties held by well known key opinion leaders in the medical field;
- **Best of Sensiblu** is a regular internal contest for our pharmacists. The winners enjoy a few days of teambuilding abroad.

*Independent of diabetes*

In October 2006, Sensiblu launched the long-term programme **"Independent of diabetes"** aiming to raise awareness about the health risks associated with diabetes. The components of the programme are:

- **the website www.desprediabet.ro**, which includes information on all forms of diabetes, evaluation of patients' health status, diagnosis as well as information on nutrition and lifestyle;
- publishing **"Diabetes – A Practical Guide"**, by Professor Maria Mota, PhD, in 20,000 copies – offered free of charge to all patients of diabetes who came to collect their prescriptions in Sensiblu pharmacies;
- **free blood sugar and cholesterol testing** – we tested over 10,000 people in 6 cities, including Bucharest.

The programme will be continued in 2007.

## Mediplus

Mediplus has supported the professional associations of pharmacists, patients and various other under-represented areas, developing partnerships with representatives of various NGOs and public institutions.

## *Support to Pharmacists Community*

In 2006, Mediplus continued its programmes for the support of the pharmacists' communities, offering sponsorship to some of the most important professional events of the year.

## *Aid to Community*

With the support of the Sensiblu Foundation, in 2006, Mediplus has continued the programme of pharmaceuticals donations, offering products of over €15,000 to 14 organizations, of which the most significant are:

- The Romanian Society of Sexual and Contraceptive Education;
- The Pro-Family Association;
- The General Directorate of Child Social Care and Protection of District 3, Bucharest.

## *Atopic Dermatitis Campaign*

In the Spring of 2006, Mediplus developed a social marketing campaign for the children affected by atopic dermatitis disease. Thus, for each Avene product bought in April, Mediplus donated 1.5 RON to the Romanian Pediatrics Society and the Dermo-Pediatrics section of Coletina Hospital of Bucharest. At the end of the campaign, hi-tech medical devices were acquired for the Hospital, in support to the treatment of this disease.

This campaign was awarded with **"The Best Community Marketing Programme"** of 2006, within the "People for People" Gala, organized by the American Chamber of Commerce in Romania and The Community Relations Association.

17-09-2007

# Auditors' Reports and Financial Statements

This Annual Report contains the following financial statements:

A. Independent Auditors' Report and consolidated financial statements prepared according to IFRS for the year ended 31 December 2006 for A&D PHARMA HOLDINGS SRL ("A&D Pharma Romania").

B. Independent Auditors' Report and A&D PHARMA HOLDINGS N.V. ("A&D Pharma NV") consolidated audited accounts prepared according to IFRS for the period from 24 May 2006 to 31 December 2006.

C. Independent Auditor's Report and A&D Pharma Holdings NV's statutory company and consolidated financial statements as at and for the period from 24 May 2006 (date of incorporation) to 31 December 2006

The Annual Report includes the consolidated financial statements prepared according to IFRS for the year ended 31 December 2006 for A&D Pharma Romania for comparative purposes. They are a better comparable with the results of the former group A&D Pharma Holdings NV, Netherlands Antilles ("ADP Antilles") provided in the IPO prospectus than the results of the listed entity, A&D Pharma N.V., which cover only the 7-month period since its incorporation until the end of the year (May-December 2006).

Our analysis of the financial performance of the business provided in the "Financial Review" section refers to the 12-month audited accounts of A&D Pharma Romania. The "Financial Review" section should be read in conjunction with the notes to the consolidated financial statements for the year ended 31 December 2006 for A&D Pharma Romania.

A&D Pharma

A&D Pharma Holdings SRL

Consolidated financial statements prepared in accordance with international financial reporting standards as at and for the year ended 31 December 2006

17-09-2007

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# INDEPENDENT AUDITORS' REPORT

## The Board of Directors' of A&D Pharma Holdings SRL

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of A&D Pharma Holdings SRL (and its subsidiaries) (the "Group"), which comprises the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other Matters

This report is made solely to the Board of Directors of A&D Pharma Holdings SRL. The consolidated financial statements are not statutory financial statements of the Group, nor are the financial statements intended for statutory filing purposes. Our audit work has been undertaken so that we might state to the Board of Directors of A&D Pharma Holdings SRL those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Board of Directors of A&D Pharma Holdings SRL, for our audit work, for this report, or for the opinions we have formed.

KPMG Romania SRL
Bucharest, Romania
30 March 2007

# GENERAL INFORMATION

## Description of the business

A&D Pharma Holdings SRL and its subsidiaries' (together "the Group") principal activities include the import, wholesale and retail distribution of pharmaceutical products. The Group's facilities are based in Romania. The parent company, A&D Pharma Holdings SRL (ADP SRL or "the Company") was incorporated as a joint stock company in Bucharest, Romania, in 2005. The principal subsidiaries are disclosed in Note 23.

As at 31 December 2006 the Group have 3,173 employees (2,642 as at 1 January 2006). The registered office of the Company is 2, Marasesti Blvd., Bucharest, Romania.

A&D Pharma Holdings SRL was set up on 2 December 2005, following a cash contribution made by the shareholders in November 2005 (Note 12). The Group was formed on 22 December 2005, by way of in-kind contribution from Sograno BV, consisting of shares of Mediplus Exim SA and Sensiblu SRL. There were no material transactions affecting the Group between 22 December 2005 and 1 January 2006.

The legal form of the Company was changed on 22 September 2006, from a joint-stock company into a limited liability company, together with the change of shareholders' structure, and ADP Netherlands (as defined below) became the sole shareholder of the Company. At the same date, the individual shareholders: Robert Ludovic Charles Simon, Walid Abboud, Michel Charles Eid, and Roger Fawzi El Akoury sold their minority interest to A&D Pharma Holdings N.V.

As at 1 January 2006, the ultimate parent company was A&D Pharma Holdings N.V. (formerly known as Destar Holdings N.V., hereinafter "ADP Antilles") which was incorporated as a limited company in Curaçao, Netherlands Antilles during 2001. The registered office of the Company is Kaya W.F.G. (Jombi) Mensing 36, Curaçao, Netherlands Antilles.

On 11 May 2006, ADP Antilles sold its investment in Sograno B.V. (and through that the investment in the Company) to Active Pharma Invest Limited ("API Ltd.", a limited company incorporated in and organized under the laws of Cyprus, for the price of EUR 260 million). API Ltd., which is owned by the same shareholders as the Group, has hence become the new holding company of the Group. This was a restructuring such that the investments remain under common control of the Group shareholders. This transfer of the investments did not reduce the net assets of the Company and Group.

On 31 May 2006, Sograno set up A&D Pharma Holdings NV ("ADP Netherlands"), a joint-stock company incorporated and organized under the laws of the Netherlands, and made an in-kind contribution to its share capital consisting of the shares held in the Company. ADP Netherlands has its registered office at 2 Martinus Nijhofflaan, 2624 ES Delft, The Netherlands.

## Shareholders structure

The shareholder of the Company as at 31 December 2006 was:

| | Number of shares | Shareholding % |
|---|---|---|
| A&D Pharma Holdings NV, Netherlands | 29,436,690 | 100 |
| | 29,436,690 | 100 |

The shareholders of the Company as at 1 January 2006 were:

| | **Number of shares** | **Shareholding %** |
|---|---|---|
| Sograno BV | 29,436,686 | 99.999986 |
| Robert Ludovic Charles Simon | 1 | 0.0000035 |
| Walid Abboud | 1 | 0.0000035 |
| Michel Charles Eid | 1 | 0.0000035 |
| Roger Fawzi El Akoury | 1 | 0.0000035 |
| | 29,436,690 | 100 |

The ultimate parent company is Active Pharma Invest Limited, Cyprus.

The persons who held office during the year ended 31 December 2006 were the following:

| | |
|---|---|
| Dragos Dinu | Chief Executive Officer |
| Florin Buligoanea | Chief Financial Officer |
| Liviu Voicu | Group Finance Manager |
| Claudiu Manolescu | Group Reporting Manager |
| Mihaela Pislaru | Head of Group Legal Department |
| Vali Florea | Group Economic Director |
| Raluca Lazarovici | Head of Group Treasury Department |
| Iuliana Ciulinet | Head of Internal Audit Department |
| Laura Florea | Group Public Relations Manager |
| Carmina Buzuloiu | Head of Group Investor Relations & Corporate Finance |
| George Pacea | Group Information Officer |
| Stefan Lumnicky | Group Procurement Officer |
| Brandusa Fecioru | Group Human Resources Manager |
| Sorin Sfirlogea | ERP CC Director |
| Bogdan Dumitrescu | Group IT Manager |

17-08-2007

**Consolidated Balance Sheets as at 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Note | 31 December 2006 | 1 January 2006 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 35,592 | 19,915 |
| Intangible assets | 5 | 302,009 | 276,486 |
| Financial investments | 6 | 57 | 10 |
| Long term receivables | 7 | 7,181 | 1,356 |
| **Total non-current assets** | | **344,839** | **297,767** |
| | | | |
| **Current assets** | | | |
| Inventories | 8 | 63,455 | 36,622 |
| Accounts receivable | 9 | 119,770 | 73,611 |
| Other current assets | 10 | 12,019 | 10,249 |
| Restricted cash | 11 | 5,863 | 8,221 |
| Cash and cash equivalents | 11 | 17,194 | 7,031 |
| **Total current assets** | | **218,301** | **135,734** |
| **Total assets** | | **563,140** | **433,501** |
| | | | |
| **Shareholders' equity and liabilities** | | | |
| Shareholders' equity | | | |
| Share capital | 12 | 260,025 | 260,025 |
| Translation reserve | | 23,323 | - |
| Retained earnings | | 17,828 | - |
| **Total shareholders' equity** | | **301,176** | **260,025** |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | 16 | 14,966 | 13,764 |
| Long term payables | 17 | 1,562 | 1,138 |
| Long term borrowings | 15 | 69,793 | - |
| Deferred tax | 13 | 6,743 | 7,272 |
| Finance lease | 14 | 1,825 | 1,555 |
| **Total non-current liabilities** | | **94,889** | **23,729** |
| | | | |
| **Current liabilities** | | | |
| Short term borrowings | 15 | - | 30,017 |
| Accounts payable, accruals and other liabilities | 18 | 164,624 | 117,715 |
| Finance lease | 14 | 2,451 | 2,015 |
| **Total current liabilities** | | **167,075** | **149,747** |
| **Total liabilities** | | **261,964** | **173,476** |
| **Total shareholders' equity and liabilities** | | **563,140** | **433,501** |

Authorised for issue by the Board of Directors on 30 March 2007 and authorised for signature on their behalf by:

Dragos Dinu
Chief Executive Officer

Florin Buligoanea
Chief Financial Officer



The notes 1 to 28 form an integral part of these Consolidated Financial Statements.

A&D Pharma

**Consolidated Statement of Income for the year ended 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Note | 31 December 2006 |
|---|---|---|
| Sales | | 331,593 |
| Operating costs | 19 | (308,324) |
| Operating profit | | 23,269 |
| Financial income | | 4,370 |
| Financial expense | | (6,259) |
| Financial result | 20 | (1,889) |
| Profit before taxation | | 21,380 |
| Taxation | 13 | (3,552) |
| Profit for the year | | 17,828 |

Authorised for issue by the Board of Directors on 30 March 2007 and authorised for signature on their behalf by:

Dragos Dinu
Chief Executive Officer

Florin Buligoanea
Chief Financial Officer

17-09-2007

The notes 1 to 28 form an integral part of these Consolidated Financial Statements.

**Consolidated Statement of Cash Flows for the year ended 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | 2006 |
|---|---|
| **Cash flows from operating activities** | |
| Profit before taxation | 21,380 |
| Adjustments for: | |
| Depreciation and amortization | 4,794 |
| Loss on disposal of tangible and intangible assets | (1,735) |
| Property, plant and equipment impairment | (360) |
| Interest income | (381) |
| Interest expense | 5,359 |
| **Operating profit before working capital changes** | **29,057** |
| | |
| Increase in receivables and prepayments | (51,338) |
| Increase in inventories | (26,833) |
| Increase in trade and other payables | 43,053 |
| **Changes in working capital** | **(35,118)** |
| Tax paid | (2,703) |
| **Net cash from operating activities** | **(8,764)** |
| | |
| ***Cash flows from investing activities*** | |
| Purchases of property, plant and equipment | (17,430) |
| Purchases of intangibles | (1,481) |
| Acquisition of other subsidiaries | (273) |
| Proceeds from sale of tangible and intangible assets | 5,116 |
| Interest received | 370 |
| **Net cash used in investing activities** | **(13,698)** |
| **Cash flow from financing activities** | |
| Long term loans | 69,793 |
| Short term borrowings | (11,713) |
| Lease payments | (3,147) |
| Interest paid | (3,271) |
| Net cash from financing activities | 51,662 |
| Translation effect | (733) |
| Net decrease in cash and cash equivalents | 28,467 |
| Cash and cash equivalents at beginning of the year | (11,273) |
| **Cash and cash equivalents at end of year (Note 11)** | **17,194** |

The notes 1 to 28 form an integral part of these Consolidated Financial Statements.

## Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2006
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Share capital | Translation reserve | Accumulated profit | Total |
|---|---|---|---|---|
| 1 January 2006 | 260,025 | - | - | 260,025 |
| Profit for the year | | | 17,828 | 17,828 |
| Translation reserve | | 23,323 | | 23,323 |
| 31 December 2006 | 260,025 | 23,323 | 17,828 | 301,176 |

The Group is not allowed to declare and pay dividends without prior consent of Citibank (see Note 15).

(All amounts are expressed in EUR '000, unless otherwise stated)

## 1. REPORTING ENTITY

These consolidated financial statements (alternatively referred to hereinafter as the "financial statements") are presented by A&D Pharma Holdings SRL ("ADP" or the "Company") and they incorporate the results of the Company and its subsidiaries (together the "Group" or separately the "Entity" or "Entities"), as detailed in Note 22. The Group has preserved the same operational structure as that of A&D Pharma Holdings, Netherlands Antilles (ADP Antilles) holding before 1 January 2006. Therefore, for convenience purposes, proforma income statement and cash flow figures for the year ended 31 December 2005 are extracted from the consolidated financial statements of ADP Antilles, as detailed in Note 0.

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by EU. These are not the statutory accounts of the Group.

The consolidated financial statements are prepared based on the statutory records of the Entities, which are maintained on a going concern basis under the historical cost convention except for the derivative financial instruments, measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates (Note 24).

### 2.2 Functional currency

The functional currency of A&D Pharma Holdings SRL is the RON ("Romanian leu"), the currency that best reflects the economic substance of the underlying events and circumstances relevant to that Entity ("the functional currency").

The RON is not convertible outside Romania. The management of the Company has decided to adopt EUR as presentation currency for consolidated financial statements.

The balance sheet items have been translated into EUR by dividing the RON amounts at the National Bank of Romania ("NBR") official exchange rates as at the date of each balance sheet, as set out below:

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| RON / 1 EUR | 3.3817 | 3.6771 |

The statement of income items for the periods ended 31 December 2006 were translated using the RON/EUR monthly average exchange rates. The translation of the balance sheet and statement of income items into the presentation currency gave rise to a translation reserve as defined in Note 3.9. Cash flows are translated using appropriate average exchange rates. Components of equity are not retranslated.

Such computations and presentation of amounts in EUR should not be construed as a representation that the RON amounts have been or could be converted into EUR at these rates or any other rates.

### 2.3 Going concern

Management is satisfied that it is appropriate to prepare these financial statements on a going concern basis. If the Group was unable to continue in operational existence, adjustments would have to be made to reduce the carrying value of assets to their recoverable amounts and to provide for further liabilities which might arise. Additionally, further adjustments would have to be made to reclassify fixed assets and long-term liabilities as current assets and liabilities, respectively.

As at 1 January 2006, current liabilities exceeded current assets by EUR 14 million. As disclosed in Note 15, in 2006 the Group has finalized its finance restructuring. The new financing facility concluded with Citibank replaces and extends the maturities of overdraft facilities by approximately two years.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Group accounting

*a) Subsidiaries*

Subsidiaries, which are those Entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries (Note 29).

The cost of an acquisition is measured by the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

*b) Associates and joint ventures*

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for as described in Note 3.5.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

*c) Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as an acquisition at the date when business combination has occurred. The assets and liabilities acquired are recognised at fair value (Note 28).

*d) Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3.1 Segment reporting

Segment information is presented in respect of the Group's business segments, based on the Group's management and internal structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

***Primary reporting format – business segments***

The Group comprises the following main business segments:

- Wholesale
- Retail

***Secondary reporting format – geographical segments***

The operational activities of the Group are in Romania and accordingly no geographical segment is presented.

## 3.1 Property, plant and equipment

Property, plant and equipment is recorded at purchase or construction cost.

Depreciation is calculated on the amounts of property, plant and equipment on a straight-line basis down to the assets' estimated residual values.

The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

| Type | Useful life (years) |
|---|---|
| Buildings | 30-50 |
| Leasehold improvements | 3-10 |
| Computers and electronic equipment | 3-5 |
| Motor vehicles and trucks | 3-5 |
| Fixtures and fittings | 3-10 |

Land is not depreciated.

Repairs and maintenance are charged to the statement of income during the financial period in which they incur. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

All borrowing costs are expensed as incurred.

***Impairment***

At each reporting date the management assess as to whether there is any indication of impairment of property, plant end equipment. If any such indication exists, the management estimates the recoverable amount which is determined as the higher of an asset's net selling price and its value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the circumstances leading to the impairment.

## 3.2 Intangible assets

### *a) Goodwill*

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested for impairment at each reporting date.

***Impairment***

At each reporting date the management assess whether there is any indication of impairment of goodwill. If any such indication exists, the management estimates the recoverable amount which is determined as the higher of net selling price and its value in use of cash generating units it is allocated to. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income. An impairment loss in respect of goodwill is not reversed.

### *b) Brands*

Acquired brands are capitalized on the balance sheet. These brands are valued on acquisition by an independent valuer, using a discounted cash flow methodology based on management assumptions and estimates regarding future revenue growth, prices, costs and economic factors in valuing a brand. These assumptions reflect management's best estimates but these estimates involve inherent uncertainties, which may not be controlled by management.

No amortisation is charged on brand intangibles as the Group believes that the value of these brands is maintained indefinitely. The factors that result in the durability of brands capitalised are that there are no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangibles.

Furthermore:

- The Group expects to acquire, hold and support brands for an indefinite period. The Group supports these brands through spending on consumer marketing across the business and through significant investment in promotional support. The brands capitalised are expected to be in longstanding and profitable market sectors.

- The likelihood that market based factors could truncate a brand's life is relatively remote because the size and market share of the brands in question.

The brands are tested for impairment at each reporting date, irrespective of whether there is an indication that the related assets may be impaired, as well as whenever there is any indication that they may be impaired. Management estimates the recoverable amount which is determined as the higher of net selling price and the value in use of the cash generating units it is allocated to. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income.

### *c) Pharmacies licenses*

Expenditure to acquire operating licenses for pharmacies are capitalised at cost. Prior to 1 January 2006, the retail segment subsidiary, Sensiblu, used to amortise pharmacy licenses using the straight line method, over the lease terms for the locations where the pharmacies were operating. Starting 1 January 2006, the Company has ceased amortising the licenses due to changes in applicable legal framework (see Note 5).

As a consequence, licenses are tested for impairment at each reporting date. Impairment testing is performed in a similar way to that of brands and goodwill (see paragraph above). Licenses are stated at cost less any accumulated impairment losses.

### *d) Computer licences and software*

Expenditure to acquire licences and computer software is capitalised and amortised using the straight-line method over their useful lives, normally 1 to 5 years.

*e) Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

## 3.1 Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortized cost using the effective yield method. Realized and unrealized gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the statement of income in the period in which they arise. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When securities classified as available-for-sale are sold or impaired the accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

## 3.2 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less any selling expenses. When necessary, provision is made for obsolete, slow moving and defective inventories.

## 3.3 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the collection terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is determined based on management risk assessment of the trade receivables collectibility.

## 3.4 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, cash held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are included with borrowings in current liabilities.

## 3.5 Shareholders' equity

### *Share capital*

Ordinary and preferred shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium and any deficit is deducted from share premium and retained earnings, if available.

## Translation reserve

In translating the financial statements into EUR, all resulting exchange differences are classified as equity. The main differences arise on the translation of income and expense items at the monthly average exchange rates and assets and liabilities at the date of each balance sheet closing rate. Components of equity are not retranslated.

### *Dividends*

The Group can only pay dividends from its entities statutory retained earnings, based upon financial statements prepared in accordance with local accounting regulations.

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date, but before the financial statements are authorised for issue.

## 3.6 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

## 3.7 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## 3.8 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 3.9 Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The transaction costs incurred in issuing the liability are amortized over the life of the loan.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

### 3.10 Accounts payable

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. After initial recognition, the Group measures trade payable at amortised cost using effective interest method.

### 3.11 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

### 3.12 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and when collection is reasonably assured.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 3.13 Employee benefits

The Group, in the normal course of business, makes payments to the Romanian State on behalf of its employees. All employees of the Group are members of the Romanian State pension plan. All such contributions to the mandatory government pension scheme are expensed when incurred. The Group does not operate any other pension scheme or post retirement benefit plan and, consequently, has no obligation in respect of pensions. In addition, the Group is not obliged to provide further benefits to current and former employees.

### 3.14 Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction cost, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. The amounts disclosed in the financial statements approximate their fair value.

The Group uses financial instruments that are subject to fluctuations in foreign currency exchanges (Note 26(ii) ) for the financial risks faced by the Group.

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss

### 3.15 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### Intangible assets

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets as detailed in Note 5.

### Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## 3.16 Recent accounting pronouncements

### *(a) Adoption of standards effective from 1 January 2006*

As at 1 January 2006, the Company adopted the IFRSs below. The financial statements have been amended as required, in accordance with the relevant requirements.

- IAS 19 (Amendment), Employee Benefits
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intracompany Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adoption of the new or amended standards did not have a significant impact on the Company's financial statements.

### *(b) Adoption of standards effective from 1 January 2007*

Certain new standards, amendments and interpretations to existing standards that have been published are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted, as follows:

(All amounts are expressed in EUR '000, unless otherwise stated)

- IFRS 7 Financial Instruments: Disclosures - The Standard will require increased disclosure about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks.
- Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures - As a complimentary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Group's capital.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This standard which becomes mandatory for the Group's 2009 financial statements is not expected to have any impact on the financial statements.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006) addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 is not relevant to the Group's operations as the Group does not have the currency of a hyperinflationary economy as its functional currency.
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007) The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The interpretation states that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not relevant to the Group's operations.
- IFRIC 10 Interim Financial Reporting and Impairment - The Interpretation prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, investments in equity instruments or financial assets carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions - The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements.
- IFRIC 12 Service Concession Arrangements - The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Land & buildings | Leasehold improvements | Computers & electronic equipment | Motor vehicles | Fixtures & fittings | Assets in course of construction | Total |
|---|---|---|---|---|---|---|---|
| Opening net book amount as of 01/01/2006 | 7,267 | 4,184 | 1,391 | 4,100 | 1,073 | 1,900 | 19,915 |
| Translation differences | 525 | 399 | 144 | 349 | 114 | 145 | 1,676 |
| Additions | 1,226 | 173 | 1,169 | 1,885 | 758 | 16,072 | 21,283 |
| Transfers | 824 | 1,777 | 29 | 1,391 | 497 | (4,518) | - |
| Disposals | (2,611) | - | (4) | (641) | (28) | (16) | (3,300) |

(All amounts are expressed in EUR '000, unless otherwise stated)

| | Land & buildings | Leasehold improvements | Computers & electronic equipment | Motor vehicles | Fixtures & fittings | Assets in course of construction | Total |
|---|---|---|---|---|---|---|---|
| Depreciation charge | (101) | (1,431) | (814) | (1,600) | (396) | - | (4,342) |
| Impairment | - | 295 | 45 | - | 20 | - | 360 |
| Closing net book amount | 7,130 | 5,397 | 1,960 | 5,484 | 2,038 | 13,583 | 35,592 |
| At 31 December 2006 | | | | | | | |
| Cost | 7,320 | 8,712 | 4,043 | 8,146 | 3,007 | 13,583 | 44,811 |
| Accumulated depreciation | (190) | (3,315) | (2,083) | (2,662) | (969) | - | (9,219) |
| Net book value as of 31 December 2006 | 7,130 | 5,397 | 1,960 | 5,484 | 2,038 | 13,583 | 35,592 |

Assets under construction represent mostly the building of new head office in Mogosoaia (EUR 12,128 thousand including the automatic warehousing system ), the building of new warehouses in Craiova (EUR 621 thousand) and Iasi (EUR 394 thousand) and improvements made at the 29 new leased pharmacies which had not been opened until after the period end. The new head office in Mogosoaia has been operational from February 2007.

Leasehold improvements include services from related parties capitalised in amount of EUR 1,950 thousand (1 January 2006: EUR 1,088 thousand).

Bank borrowings (Note 15) are secured over buildings and land with a net book value of EUR 5,367 thousand (1 January 2006: EUR 4,660 thousand).

The impairment on leasehold improvements relates to the assets existing in some pharmacies which are intended to be relocated.

Included above are leased assets (mainly electronic equipment, motor vehicles and trucks), where the Group is a lessee under a finance lease as follows:

| | 31 Dec 2006 | 1 Jan 2006 |
|---|---|---|
| Cost – capitalised finance leases | 10,431 | 8,198 |
| Accumulated depreciation | (3,235) | (1,484) |
| Net book value as of 31/12/2006 | 7,196 | 6,714 |

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

| | Goodwill | Brand Sensiblu | Licences | Software and other | Total |
|---|---|---|---|---|---|
| At 1 January 2006 | | | | | |
| Opening net book amount | 229,268 | 45,000 | 1,534 | 684 | 276,486 |
| Translation reserve | 20,027 | 3,931 | 136 | 76 | 24,170 |
| Additions | 405 | - | 49 | 1,409 | 1,863 |
| Additions trough business combination | - | - | - | 23 | 23 |
| Disposals | - | - | - | (81) | (81) |
| Depreciation charge | - | - | - | (452) | (452) |
| Closing net book amount | 249,700 | 48,931 | 1,719 | 1,659 | 302,009 |
| At 31 December 2006 | | | | | |
| Cost | 249,700 | 48,931 | 2,168 | 2,419 | 303,218 |
| Accumulated depreciation | - | - | (449) | (760) | (1,209) |
| Net book value | 249,700 | 48,931 | 1,719 | 1,659 | 302,009 |

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(All amounts are expressed in EUR '000, unless otherwise stated)

Goodwill was computed as follows:

| | |
|---|---|
| The value of Mediplus Exim SA and Sensiblu SRL established by the Company (See Note 12) | 260,000 |
| Less: Fair value of net assets acquired (see table below) | (32,615) |
| Goodwill arising from the acquisition of Mediplus Exim SA and Sensiblu SRL | 227,385 |
| Add: Existing goodwill in Sensiblu SRL from the acquisition of Ideapharm SA | 1,883 |
| Goodwill as at 1 January 2006 | 229,268 |
| Add: Goodwill in Mediplus Exim SRL from the acquisition of Lauren Finance IFN SA | 405 |
| Translation reserve | 20,027 |
| Goodwill as at 31 December 2006 | 249,700 |

The fair value of the net assets of Mediplus Exim SA and Sensiblu SRL (consolidated with Ideapharm SA) as at 1 January 2006 is as follows:

| | Mediplus | Sensiblu (consolidated) | Eliminations | Total |
|---|---|---|---|---|
| Property, plant and equipment | 13,398 | 6,517 | - | 19,915 |
| Goodwill and other intangibles | 286 | 48,813 | - | 49,099 |
| Receivables and other assets | 92,623 | 6,455 | (13,852) | 85,226 |
| Inventories | 28,620 | 8,637 | (635) | 36,622 |
| Cash | 7,566 | 7,661 | - | 15,227 |
| Payables | (110,780) | (35,676) | 13,840 | (132,616) |
| Interest-bearing debt | (27,988) | (5,598) | - | (33,586) |
| Deferred tax | (428) | (6,638) | (206) | (7,272) |
| Net Assets | 3,297 | 30,171 | (853) | 32,615 |

As at 31 December 2006 and 1 January 2006, for impairment purposes, management has allocated goodwill to the Group's two main cash generating units, Mediplus Exim SA EUR 216,465 thousand as at 31 December 2006 (EUR 198,703 thousand as at 1 January 2006) and Sensiblu SRL EUR 33,235 thousand as at 31 December 2006 (EUR 30,565 thousand as at 1 January 2006). Goodwill was allocated taking into account the enterprise value assessed by the independent valuer for each entity and its net assets upon being acquired. There are no material differences between the net assets of the Entities as at the acquisition date (22 December 2005) and as at 1 January 2006.

As at 22 December 2005, this Group acquired its only brand ("Sensiblu"), which has an indefinite economic life in accordance with management's estimation. The brand was valued by an independent valuer, using a discounted cash flow methodology based on management assumptions and estimates regarding future revenue growth, prices, costs and economic factors. The discount rate used in the computations was estimated at 15%, by the SCOR Interbrand and SCOR Brand Finance approaches.

The acquired goodwill represents a sum of non quantifiable intangible assets such as:

- Leading position in Romanian pharmaceutical wholesale and retail, a market of EUR 1,563 million and with a compound annual growth rate of 31% pa. This high growth rate is driven by the strong economic growth further supported also by the recent EU membership.
- Proven management track record
- ADP's management has a proven track record of delivering profitable growth and consistently increasing market share. ADP's management team has been involved with the Group since 1996 and has managed the business independently of the founding shareholders since July 2002. Under the supervision of the current management team, ADP has (i) become the leading pharmaceutical wholesaler and retailer in Romania, (ii) achieved national coverage in both the wholesale and retail markets, (iii) introduced various innovative services for both suppliers and clients in wholesale, (iv) introduced the loyalty card scheme for Sensiblu customers and (v) undertaken the first major private pharmacy chain acquisition in the pharmacy retail market in Romania through the acquisition of Ideapharm.
- Mediplus' consumer healthcare divisions and value added service

- Mediplus is differentiated from traditional wholesalers due to its consumer healthcare sales divisions which provide contract marketing services and promote OTC brands of international producers generating higher gross margins than the traditional wholesale business. Mediplus also provides a wide range of value added services to both producers and its pharmacy clients such as free pharmacy software, pharmacy refurbishment services and pharmacist training.
- Vertical integration: strong synergies on both revenues and costs
- There are significant strong synergies between the wholesale and retail businesses. Revenue synergies arise from the improved insight gained by Mediplus via Sensiblu into consumer behaviour and segmentation which enables Mediplus to offer greater value added services to its key suppliers. Cost synergies are generated by higher operations efficiency due to vertical integration. For example, fewer field sales force visits are required for Sensiblu which means that sales and marketing costs are reduced. Invoice processing costs and time are also reduced. Mediplus provides for Sensiblu with warehousing facilities, logistics infrastructure, the head office building and other central costs.

As at 31 December 2006 management tested goodwill, brands and licenses, as well as non-current fixed assets for impairment (see Note 24 (iv)).

## Pharmacy licence

Licences represent mainly the cost of the legal entities acquired by Sensiblu SRL during the years, in order to obtain their existing operating licences to open new pharmacies.

The life and the conditions for obtaining a pharmacy license are regulated under article 15 of the Norms approved by the Order no. 626/ 2001, issued by the Romanian Minister of Health, modified and completed by the Order no. 1196/ 2004. Article 15 stipulates that the pharmacy licenses obtained after the enforcement of the Order no. 1199 are to be permanent, under the amendment of preserving the initial conditions that have originated the authorization of such a license.

In respect to the licenses previously obtained, having a limited life of 5 years according to the Order no. 626, the new regulation states they will be re-authorized, under the provisions of the Order no. 1199.

Considering the changes in legislation mentioned above, and based on the fact that no license was cancelled since the Company's foundation, the management has decided to cease the amortisation of the current pharmacy licenses.

The new accounting approach adopted by the Company is to preserve the value of the licences to the level as at 1 January 2006, for the existing ones, and to the level of acquisition cost for the newly obtained licenses, over an indefinite lifetime.

The change in the accounting estimate impacts the depreciation charge for the period ended 31 December 2006 with EUR 405 thousand. The management considers impracticable to estimate the effect of this change over future accounting periods.

## Acquisition of Lauren Finance IFN SA

On 18 July 2006, the Group acquired 99.67% of Lauren Finance IFN SA ("Lauren") as follows: 94.97% from Gemisa Investments Ltd (related party) and 4.69% from others, for the amount of EUR 450 thousand plus 2.3% of Lauren's monthly sales for at least 5 years, starting 1 January 2007.

Lauren was incorporated in 2004, and its object of activity is financial intermediation, specifically issuing of credit cards.

At the date of acquisition, Lauren's total statutory turnover was EUR 8 thousand and the net loss was EUR 28 thousand. Net assets at acquisition date are EUR 72 thousand. As at year end, Lauren's net sales are in amount of EUR 11 thousand and the net assets are at the level of EUR 42 thousand.

As at 31 December 2006 the National Bank of Romania ("NBR") did not give an official answer to the request to include Lauren in the General Register of Non-Banking Financial Institutions, the parties have agreed to extend the acquisition agreement until a decision will be formulated by NBR.

## 6. INVESTMENTS

As at 31 December 2006 and 1 January 2006, all available for sale securities are carried at cost because they are not publicly traded and management of the Group is not able to measure reliably their fair value.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 7. LONG TERM RECEIVABLES

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Long term trade receivables | 4,365 | 218 |
| Health Insurance Houses receivables | 1,562 | 1,138 |
| Loan to shareholders (Note 21) | 950 | - |
| Other | 304 | - |
| | 7,181 | 1,356 |

As at 31 December 2006, the carrying value of long term receivables approximates their fair value of EUR 7,359 thousand (1 January 2006: EUR 1,374 thousand).

As at 31 December 2006 amortised cost was computed based on an effective weighted average interest rate of 7.23% (3.47% as at 1 January 2006).

Bank borrowings (Note 15) are secured over EUR 4,365 thousand from the above long term trade receivables balance.

Following a three year analysis of receivables, it was determined that from the total population of customers with outstanding amounts ageing 60 days from the sale date, approximately 10% are "cashed" after a period longer than 1 year. This amount (EUR 4,365 thousand) was reclassified as long term receivables.

As at 31 December 2006, the Health Insurance Houses receivable balance in amount of EUR 1,562 thousand (as at 1 January 2006 EUR 1,138 thousand) consists of amounts due from Health Insurance Houses for sales of items subsidized by the Romanian State, sales which exceeded the ceilings set out in the contractual agreements concluded by Ideapharm SA with the Health Insurance Houses for the year ended 31 December 2005. Since the sales were in excess of the contractual agreements, as at the date of this report the Health Insurance Houses do not recognize these amounts. However, these long term receivables from Health Insurance House are covered by a warranty undertaking from GlaxosmithKline SRL (GSK Group – Note 17).

According to the acquisition contract of Ideapharm SA, GSK Group must cover all the uncollected receivables from Health Insurance House, which were outstanding at the acquisition date.

In case the Health Insurance House will not pay its outstanding debts towards the Company within a period of 3 years, GSK Group will compensate these amounts with the debts of the Company.

## 8. INVENTORIES

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Goods held for sale | 64,827 | 37,403 |
| Provision for slow moving and obsolete inventory | (1,372) | (781) |
| | 63,455 | 36,622 |

Bank borrowings (Note 15) are secured over EUR 63,136 thousand from the above inventories.

## 9. ACCOUNTS RECEIVABLE

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Trade receivables | 115,552 | 74,811 |
| Amounts due from related parties (Note 21) | 6,487 | 1,571 |
| Impairment for receivables | (2,269) | (2,771) |
| | 119,770 | 73,611 |

Trade receivables amortised cost was computed based on an effective weighted average interest rate of 4.55% p.a. as at 31 December 2006 (1 January 2006: 3.47%).

(All amounts are expressed in EUR '000, unless otherwise stated)

Bank borrowings (Note 15) are secured over EUR 119,770 thousand from the above trade receivables balance.

The fair value of trade receivables (including related parties) as at 31 December 2006 and 1 January 2006 is EUR 120,113 thousand and EUR 79,861 thousand, respectively.

As an extension of the initial contract signed by Mediplus Exim SA and Ozone Laboratories SRL (related party) in the year 2004, on 1 January 2006 a convention was signed for conveying the old Ozone division's receivables to the supplier Ozone Laboratories SRL. Following this convention, all the debts in relation with Ozone merchandise older than 210 days, were conveyed from Mediplus Exim SRL to Ozone Laboratories SRL. The amount of debt transferred by Mediplus Exim SA to Ozone Laboratories SRL in 2006 is in value of EUR 1,140 thousand.

The Group has undertaken a review of the provision for loyalty points program in retail segment. Commencing with 2006, the Company has implemented some operational rules that limit in time the availability of card use. Based on the new policy and in line with the historical analysis of loyalty points usage, the Company has determined a percentage of total points disbursement from customers. The Company believes that the new estimate provides a more precise approximation of the future impact of customer usage of loyalty points. This change in accounting estimate has been applied prospectively from 1st January 2006. This has reduced the provision for loyalty points for the year by EUR 575 thousand. In 2006, following analysis of historical data and increased control over receivable collection, the Group management has decided to change its impairment assessment methodology by focusing on specific evaluation of significant customers. Had the old methodology been used (based more on general provisioning), the impairment for receivables balance as at 31 December 2006 would have been higher by EUR 1.5 million.

## 10. OTHER CURRENT ASSETS

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Prepayments | 4,886 | 1,630 |
| VAT recoverable | 4,889 | 1,346 |
| Loans receivable from customers | 733 | 725 |
| Amounts receivable from shareholders (Note 21) | 587 | 792 |
| Advances to suppliers | 351 | 898 |
| Sundry debtors, net | 351 | 181 |
| Amounts due from related parties (Note 21) | 222 | 4,677 |
| | 12,019 | 10,249 |

In prepayments the Group has included various forms of discounts granted in advance to clients.

## 11. CASH AND CASH EQUIVALENTS

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Cash and bank in RON | 17,127 | 2,245 |
| Cash and bank in foreign currency | 67 | 4,786 |
| | 17,194 | 7,031 |
| Restricted cash | 5,863 | 8,221 |
| | 23,057 | 15,252 |

As at 31 December 2006 the value of short-term deposits included within cash and bank in RON was EUR 14.5 million, and the weighted average effective interest rate on short-term bank deposits was 3.36% p.a. As at 1 January 2006 short-term deposits value was EUR 56 thousand; and the weighted average effective interest rate on short-term bank deposits was 3.25% p.a.

Bank borrowings (Note 15) are secured over EUR 589 thousand from the above cash balance.

For the purpose of the cash flow statement, the cash and cash equivalents comprise the following:

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Cash and bank balances | 23,057 | 15,252 |
| Less restricted cash | (5,863) | (8,221) |
| Bank overdrafts (Note 15) | - | (18,304) |
| | 17,194 | (11,273) |

## 12. SHARE CAPITAL

The statutory issued share capital was contributed as set out below:

| | Date | Shares (EUR '000) |
|---|---|---|
| Cash contribution | November 2005 | 25 |
| In-kind contribution by Sograno BV of shares in Mediplus Exim SA and Sensiblu SRL | December 2005 | 300,000 |
| | | 300,025 |

Shares have a nominal value of RON 37.2 each and all have equal voting rights. The total statutory value of share capital is 300,025.

The shares of Mediplus Exim SA and Sensiblu SRL, contributed by Sograno BV into the share capital of the Company, have been valued by an independent valuer using the market comparison approach, whereby price data ("multiples") for shares of similar companies which are traded in public markets (the "Comparable Companies") were applied to the Entities' financial data to estimate their marketable value. As value measures, the valuer used price/earnings, price/sales, price/EBITDA, and price/EBIT ratios as of the valuation date. The Comparable Companies used in developing these ratios were drawn from the same industry as the Entities.

For the purposes of these financial statements drawn up under IFRS, the fair value of the shares of Mediplus Exim SA and Sensiblu SRL was estimated at 260,000, which results in a share capital of the Company of 260,025 as at 1 January 2006.

The issued share capital consists of the following:

| | Number of shares (thousand) | Ordinary shares (EUR '000) |
|---|---|---|
| At 1 January 2006 | 29,437 | 260,025 |
| At 31 December 2006 | 29,437 | 260,025 |

## 13. TAXATION

| | 2006 |
|---|---|
| Income tax expense – current | 4,669 |
| Deferred tax (income)/expense | (1,117) |
| Income tax | 3,552 |

The Romanian subsidiaries accrue income tax at the rate of 16% on profits as at 31 December 2006 and 31 December 2005 computed in accordance with the Romanian tax legislation.

The profit before taxation for financial reporting purposes is reconciled to the total tax expense as follows:

| | 2006 |
|---|---|
| Profit before tax charge | 21,380 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 3,421 |

(All amounts are expressed in EUR '000, unless otherwise stated)

| **Tax effect of items which are not deductible or assessable for taxation purposes** | |
|---|---|
| Non-deductible expenses | 1,440 |
| Other non-temporary adjustments | (782) |
| Recognised deferred tax asset | (527) |
| Non-recognised deferred tax asset movement | - |
| Income tax | 3,552 |

### Deferred tax

Deferred tax assets/liabilities arise from the Romanian subsidiaries operations. These subsidiaries are subject to the statutory tax rate of 16% on taxable profits. Deferred tax assets/liabilities are measured at the enacted statutory effective tax rate of 16%. The net effect of the change on deferred tax balances recognised as at 31 December 2006 is reflected in the statement of income for the period then ended.

| | 31 December 2006 | | 1 January 2006 | |
|---|---|---|---|---|
| | Cumulative temporary differences | Deferred tax asset/ (liability) | Cumulative temporary differences | Deferred tax asset/ (liability) |
| Property, plant and equipment | (1,118) | (179) | 1,586 | 254 |
| Inventories | 7,831 | 1,253 | 3,958 | 633 |
| Receivables | 5,953 | 952 | 4,912 | 786 |
| Investments | (442) | (71) | (406) | (65) |
| Payables and other accruals | (13,331) | (2,133) | (14,014) | (2,242) |
| Deferred tax asset for statutory unused loss relief | 7,892 | 1,263 | 3,511 | 562 |
| Brand | (48,931) | (7,828) | (45,000) | (7,200) |
| Deferred tax asset/(liability) | (42,146) | (6,743) | (45,453) | (7,272) |

The movement in deferred tax liability balance is as follows:

| | **Deferred tax (liability)/asset** |
|---|---|
| 1 January 2006 | (7,272) |
| Deferred tax (expense)/income | 1,117 |
| Translation reserve | (588) |
| 31 December 2006 | (6,743) |

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even when there is a net consolidated tax loss. Therefore, a deferred tax asset of one of the companies is not offset against the deferred tax liability of another company in the Group.

## 14. FINANCE LEASE

Finance lease liabilities – minimum lease payments:

(All amounts are expressed in EUR '000, unless otherwise stated)

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Gross obligations under finance leases | | |
| Less than 1 year | 2,694 | 2,258 |
| Between 1 year and 5 years | 1,924 | 1,658 |
| | 4,618 | 3,916 |
| Future finance charges | (342) | (346) |
| Present value of finance lease liabilities | 4,276 | 3,570 |

The present value of finance lease liabilities is as follows:

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Less than 1 year | 2,451 | 2,015 |
| Between 1 year and 5 years | 1,825 | 1,555 |
| *Present value of finance lease liabilities* | 4,276 | 3,570 |

The carrying amounts of lease obligations approximate their fair value.

## 15. BORROWINGS

As at 13 July 2006, the Company has contracted the syndicated loan with Citibank. The balance as at 31 December 2006 is as follows:

| | *31 December 2006* |
|---|---|
| CITIBANK - EUR (Syndicated Loan) | 71,718 |
| Prepaid fees – less than 1 year | (745) |
| Prepaid fees – between 1 year and 5 years | (1,180) |
| | 69,793 |

Long term loans are presented as follows:

| Lender | Maturity | Interest | 31 December 2006 |
|---|---|---|---|
| CITIBANK – Facility A | 31 July 2011 | EURIBOR 6m + 1.95% p.a. | 4,000 |
| CITIBANK – Facility B2 | 31 July 2009 | EURIBOR 3m + 1.7% p.a. | 50,580 |
| CITIBANK – Facility B 1 | 31 July 2009 | EURIBOR 3m + 1.7% p.a. | 17,138 |
| | | | 71,718 |

This financing facility replaced the overdraft facilities provided by HVB Bank and ING Bank.

The bank has agreed to split the total facility as follows:

- Facility A -capital expenditure requirements and/or repayment of existing indebtedness of any member of the Group, over a period of 5 years;
- Facility B1 - working capital requirements and/or repayment of existing indebtedness of any member of the Group (revolving), over a period of 3 years;
- Facility B2 -capital expenditure requirements and/or repayment of existing indebtedness of any member o l f the Group, over a period of 3 years;
- Facility B3 -issuance of letters of guarantee to the extent required in the ordinary course of the business of any member of the Group, over a period of 3 years;

(All amounts are expressed in EUR '000, unless otherwise stated)

Limitations and utilisations:

- The maximum amount can be utilised for facility A is EUR 10 million at the date of the agreement;
- The maximum amount that can be utilised for facility B2 is EUR 45 million;
- The maximum amount of all letters of guarantee issued under facility B3 shall not exceed EUR 10 million;
- The maximum total amount that can be utilised for facility B is EUR 90 million at the date of the agreement.

The Citibank Loan Agreement contains certain affirmative covenants, including, without limitation, certain financial ratio covenants to be observed and, in some cases, restrictions on dividend payments, unless a certain debt/EBITDA ratio is met.

Short term borrowings and bank overdrafts are analysed below:

| | 1 January 2006 |
|---|---|
| HVB BANK - EUR | 16,073 |
| ING BANK- RON | 2,231 |
| Total Overdraft | 18,304 |
| SOGRANO - EUR (Short term loan) Mediplus Exim SRL | 11,713 |
| | 30,017 |

Detailed bank overdrafts and short term loans are presented as follows:

| Lender | Maturity | Interest | 1 January 2006 |
|---|---|---|---|
| HVB BANK – EUR Mediplus Exim SRL | 31 August 2006 | EURIBOR 3m + 3% p.a. | 15,000 |
| HVB BANK – RON Sensiblu SRL | 31 August 2006 | Overnight RBOR + 3% p.a. | 1,073 |
| ING BANK- RON Sensiblu SRL | 31 August 2006 | BUBOR 1m +1.5% p.a. | 2,231 |
| Bank overdrafts | | | 18,304 |
| SOGRANO - EUR (Short term loan) Mediplus Exim SRL | 30 June 2006 | 9% | 11,713 |
| | | | 30,017 |

There is no short term borrowings payable by the Group as at 31 December 2006.

## 16. PROVISIONS

As at 1 January 2006, the Group recognized in its balance sheet a part of the acquired contingent liabilities of Mediplus Exim SA and Sensiblu SRL. The change in balance at 31 December 2006 as compared with 1 January 2006 is due to a translation effect on opening balances. The contingent liabilities not recognized – due to management's not being able to make reliable estimations of their impact - are described in Note 25(i).

The Group was subject to a Romanian Customs Authority control regarding the classification of certain imported goods which were not considered as nutritional supplements and taxed with 18%, but taxed as exempted products. The control of the Romanian Customs National Authority covered the period from 2001 to 2003 and resulted in additional custom duties, VAT, and related interest and late payments in amount of EUR 0.8 million, which is included in the amount of EUR 15 million.

(All amounts are expressed in EUR '000, unless otherwise stated)

Management is actively challenging the imposition of these charges.

Thus the legal and fiscal environment in Romania and its implementation into practice can change and is subject to different interpretation by various Ministries of the Government and their agencies that are authorised to conduct audits ("controls") of Romanian companies. Management has therefore made provision for tax or other liabilities in the financial statements where they consider that tax or other authorities could take differing positions with regards to the interpretation of these issues.

## 17. LONG TERM PAYABLES

As at 31 December 2006, the long term payables of the Group to GlaxoSmithKline SRL (GSK Group) guarantee for the receivable balance of EUR 1,562 thousands of the Group, in relation with Health Insurance House (Note 7) (EUR 1,356 as at 1 January 2006).

Long trade payables amortized cost was computed based on an effective weighted average interest rate of 5.38% p.a. as at 31 December 2006. The fair value of long term trade payables as at 31 December 2006 and 1 January 2006 is EUR 1,685 thousand and EUR 1,374 thousand, respectively.

## 18. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Trade payables | 146,775 | 101,012 |
| Amounts owing to related parties (Note 21) | 9,369 | 12,468 |
| Tax on profit | 2,553 | 587 |
| Due to State | 2,548 | 696 |
| Financial liabilities | 1,590 | |
| Due to employees | 1,140 | 572 |
| Interest payable | 432 | - |
| Advances for sale of land and building | - | 2,201 |
| Other payables | 217 | 179 |
| | 164,624 | 117,715 |

Short trade payables amortised cost was computed based on an effective weighted average interest rate of 4.96% as at 31 December 2006 (1 January 2006: 4.63%).

The fair value of trade payables (including related parties) as at 31 December 2006 and 1 January 2006 is EUR 156,960 thousand and EUR 116,086 thousand, respectively.

Financial instruments at fair value through profit or loss

The Group entered into a number of foreign currencies enhanced non-deliverable forward contracts to mitigate its foreign currency exposure with trade payables. All gains and losses on foreign currency contracts are recognised in the income statement. The unrealised losses as at 31 December 2006 on these non deliverable forward contracts are EUR 1,590 thousands.

The table below summarizes, by major currency, the contractual amounts of the Group non-deliverable forward foreign exchange contracts as at 31 December 2006, with details of the contracted exchange rates versus the RON. Foreign currency amounts are translated at market rates ruling at the balance sheet date.

(All amounts are expressed in EUR '000, unless otherwise stated)

| | Enhanced forward exchange rates | Participation exchange rates | Notional amount in EUR |
|---|---|---|---|
| Buy US Dollars | 2.72 | 2.92 | 15,185 |
| Buy US Dollars | 2.60 | 2.70 | 5,315 |
| Buy Euro | 3.47 | 3.60 | 18,000 |
| Buy Euro | 3.40 | 3.50 | 8,000 |

The "Enhanced forward rate" represents the rate at which the Group buys the notional amounts in foreign currency as long as the spot rate is below the "Participation rate". In case the spot rate reaches or goes above the Participation rate, the Group exits the hedge.

## 19. OPERATING COSTS

| | 2006 |
|---|---|
| Cost of sales | 243,431 |
| Salaries and benefits | 28,782 |
| Rent and administrative expenses | 11,913 |
| Third party services | 11,070 |
| Advertising and promotion | 13,419 |
| Depreciation and amortization | 4,794 |
| Impairment for fixed assets | (360) |
| Provision for inventories | 487 |
| Inventory write off | 1,453 |
| Penalties and fines | 1,337 |
| Impairment on receivables | (515) |
| Operational foreign exchange (income)/ expense | (9,900) |
| Losses on foreign currency non deliverable forward contracts | 1,590 |
| Other expenses | 823 |
| | 308,324 |

## 20. FINANCIAL RESULT

| | 2006 |
|---|---|
| Foreign exchange differences, net | 3,989 |
| Interest income | 381 |
| Interest expense | (3,810) |
| Interest (expense)/revenue financial instruments | (1,549) |
| Other financial expense | (900) |
| | (1,889) |

## 21. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosure". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely to the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(All amounts are expressed in EUR '000, unless otherwise stated)

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the period ended 31 December 2006 or had significant balances outstanding at 31 December 2006 are detailed below. Transactions were entered into with related parties during the ordinary course of business on both normal and preferential commercial terms.

| Controlled by the same ultimate shareholders | Activity | Country of incorporation |
|---|---|---|
| Consumer Product Network SRL (formerly Farmactiv SRL) | Importer and distributor of parapharmaceutical products | Romania |
| Global Business Software SRL | Software development | Romania |
| Ozone Laboratories Ltd | Holding company of Ozone Laboratories SRL | United Kingdom |
| Ozone Laboratories SRL | Pharmaceutical manufacturer | Romania |
| Fleet Management Services SRL | Car fleet maintenance | Romania |
| Press Pro International SRL | Media promotion | Romania |
| Arishop Pharma AD | Importer and distributor of pharmaceutical products | Bulgaria |
| Oxigen Plus SRL | Oxigen products distributor | Romania |

| Controlled by the same ultimate shareholders | Activity | Country of incorporation |
|---|---|---|
| Miniblu SRL | Baby clothing and toys | Romania |
| Optical Network SRL | Optical products | Romania |
| Gemisa Investments Ltd | Investment fund | Cyprus |
| Lauren Finance SRL | Merchant card | Romania |
| Adkit Serv SRL | Management services | Romania |
| Grup 3 Contracting SRL | Construction | Romania |
| Cristal Diagnostic SRL | Laboratory tests | Romania |

During the period, the following transactions were carried out with related parties:

| Sales of goods and services | 2006 |
|---|---|
| Ozone Laboratories SRL | 3,054 |
| Employees | 1,195 |
| Miniblu SRL | 196 |
| Optical Network SRL | 191 |
| Consumer Product Network SRL | 149 |
| Gemisa Servicii SRL | 1 |
| | 4,786 |

Mediplus Exim SA and Ozone Laboratories SRL have entered into an agreement dated 1 January 2006, based on which the former undertook to provide the latter storage and distribution services, as well as logistic services related to the transport and management of Ozone Laboratories products, up to a yearly limit set out by the parties in the agreement. The agreement remains in force until 31 December 2007. The fees that Ozone Laboratories must pay to Mediplus Exim SA are calculated by applying certain percentages to the value of the Ozone Laboratories finished products acquired by Mediplus Exim SA from Ozone Laboratories.

(All amounts are expressed in EUR '000, unless otherwise stated)

On 2 August 2006 Sensiblu SRL and Ozone Laboratories SRL entered into a service agreement according to which the former undertook to provide to the latter certain services for the merchandising of Ozone Laboratories products in 159 of Sensiblu SRL's pharmacies. The number of the pharmacies where these services are to be provided will increase to 190 by the end of 2006 and to 210 by 1 July 2007. The agreement is entered into for a 12 month period, namely from 1 July 2006 to 1 July 2007. The tariffs to be paid by Ozone Laboratories SRL are set out for each type of services provided. Given the significant package of services acquired, Ozone Laboratories SRL benefits from a 17 per cent discount applied to the aggregate value of the purchased services.

| Purchases of goods and services | 2006 |
|---|---|
| Ozone Laboratories SRL | 24,409 |
| Consumer Product Network SRL | 2,131 |
| Fleet Management SRL | 532 |
| Oxigen Plus | 168 |
| Miniblu SRL | 120 |
| Ozone Laboratories Ltd | 37 |
| Optical Network SRL | 127 |
| Global Business Software SRL | 5 |
| Lauren Finance SRL | - |
| SC Cristal Diagnostic SRL | 121 |
| Adkit Serv SRL | 42 |
| Sensiblu Optica SRL | 13 |
| Others | 27 |
| | 27,732 |

The goods and services purchased are presented net of discounts received from Ozone Laboratories SRL during the period ended 31 December 2006. The value of discounts received by the Group in the period is of EUR 4,951 thousand.

| Sales of property, plant and equipment | 2006 |
|---|---|
| Grup 3 Contracting | 159 |
| Consumer Product Network SRL | 52 |
| Ozone Laboratories SRL | 41 |
| Founding Shareholders | 37 |
| Other | 27 |
| | **316** |

| Purchases of property plant and equipment | 2006 |
|---|---|
| Grup 3 Contracting | 13,163 |
| Consumer Product Network SRL | 114 |
| Global Business Software SRL | 98 |
| Fleet Management SRL | 16 |
| | 13,391 |

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(All amounts are expressed in EUR '000, unless otherwise stated)

| | 2006 |
|---|---|
| Management salaries | 2,477 |

| Interest related to loan granted by related parties | 2006 |
|---|---|
| Interest paid to Sograno BV | 391 |

The following balances were outstanding with related parties:

| Trade receivables from related parties | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Ozone Laboratories SRL | 4,286 | 280 |
| Employees | 1,516 | - |
| Ozone Laboratories Ltd | 453 | - |
| Optical Network SRL | 109 | 101 |
| Miniblu SRL | 100 | 309 |
| Consumer Product Network SRL | 23 | 881 |
| | 6,487 | 1,571 |

For the above receivable, the Company has provided the amount of EUR 1.5 million as at 31 December 2006.

| Other receivables from related parties | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Ozone Laboratories SRL | 64 | 1,622 |
| Arishop Pharma AD | - | 895 |
| Receivable from shareholders | 1,537 | 792 |
| Greenville BV | - | 601 |
| Ozone Laboratories Ltd | - | 416 |
| Consumer Product Network SRL | - | 414 |
| Miniblu SRL | 36 | 280 |
| Oxigen Plus SRL | 60 | 283 |
| Optical Network SRL | 40 | 98 |
| Gemisa Servicii SRL | 12 | - |
| Others | 10 | 68 |
| | 1,759 | 5,469 |

| Trade payables to related parties | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Ozone Laboratories SRL | 7,323 | 7,836 |
| Grup 3 Contracting SRL | 1,286 | 41 |
| Consumer Product Network SRL | 579 | 53 |
| Optical Network SRL | 74 | 129 |
| Fleet Management SRL | 60 | - |
| SC Cristal Diagnostic SRL | 23 | - |
| Miniblu SRL | 18 | 197 |
| Global Business Software SRL | - | 9 |

(All amounts are expressed in EUR '000, unless otherwise stated)

| Trade payables to related parties | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Ozone Laboratories Ltd | - | 4,163 |
| Others | 6 | 40 |
| | 9,369 | 12,468 |

As at 1 January 2006 a contract was signed between Mediplus Exim SA and Ozone Laboratories SRL, related party of the Group (Note 9), related to the transfer of the Mediplus's outstanding receivables balances older than 210 days on Ozone products.

The contract concerns the compensation of third parties receivables balances towards the Group against the Ozone Laboratories SRL payable balance.

| Loan from related parties | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Sograno BV | - | 11,713 |

**Transactions with shareholders**

| Balances from/(due) to shareholders | 31 December 2006 | 1 January 2006 |
|---|---|---|
| Loan granted to ADP NV (Note 7) | 950 | - |
| To recover from founding shareholders (Note 10) | 39 | - |
| Other amounts receivable/(payable) (Note 10) | 548 | (3) |
| Amounts due from founding shareholders in respect of the price adjustment on the shares purchased in Sensiblu SRL (Note 10) | - | 792 |
| Net amount recoverable from shareholders | 1,537 | 789 |

As at 21 September 2006, Mediplus Exim SA has concluded a loan agreement to lend EUR 950 thousand to A&D Pharma Holdings NV. The loan bears an interest rate of 7% p.a. and the principal and interest receivable have a maturity of three years. As at 31 December 2006, the carrying value of shareholder's loan approximates their fair value of EUR 950 thousand.

The founding shareholders have provided goods to its employees, as benefits in kind, in amount of EUR 767 thousand. The receivable of the Company from the founding shareholders for the amount mentioned above were written off by the management decision.

The Management has decided as at 31 December 2006 to write-off these receivables.

Other amounts receivable comprise the withholding tax due to the state in relation with past transactions involving the founding shareholders.

Based on administrator's decision of Mediplus Exim and Sensiblu from 7 March 2007, the shareholders have committed themselves to repay the amount of EUR 548 thousands to the two companies.

As at 1 January 2006 the balance due from the ultimate shareholders in respect of the shares purchased in Sensiblu SRL was denominated in USD, unsecured and interest free.

As at 15 September 2006, the ultimate shareholders have reimbursed their debts due to the Company in amount of EUR 792 thousand (USD 938 thousand).

Other transactions with key management personnel

Directors of the Company control 7% of the voting shares of the Group's parent company, A&D Pharma Holdings NV, Netherlands. Non executive independent directors of the parent company Board render services to Romanian Group with no charges.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 22. MAIN SUBSIDIARIES

The consolidated subsidiaries included within the Group and the degree of control exercised by A&D Pharma Holdings SRL are as follows:

| Entity | Country of incorporation | Activity | % share | |
|---|---|---|---|---|
| | | | 31 December 2006 | 1 January 2006 |
| Mediplus Exim SRL | Romania | Import and wholesale distribution of pharmaceutical products in Romania | 100 | 100 |
| Sensiblu SRL | Romania | Retail distribution of pharmaceutical products in Romania | 100 | 100 |
| Ideapharm SA | Romania | Retail distribution of pharmaceutical products in Romania | - | 100 |
| Lauren Finance SRL | Romania | Financial activities | 100 | - |

In September 2006 Ideapharm SA merged with Sensiblu SRL.

## 23. SEGMENT INFORMATION

| **Statement of income** | | | | | |
|---|---|---|---|---|---|
| ***Year ended 31 December 2006*** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
| Sales | 287,582 | 89,780 | - | (45,769) | 331,593 |
| Operating income and expenses | (260,327) | (94,331) | (87) | 46,421 | (308,324) |
| Segment result | 27,255 | (4,551) | (87) | 652 | 23,269 |
| Unallocated other operating income and expenses | - | - | - | - | - |
| Operating profit/(loss) | 27,255 | (4,551) | (87) | 652 | 23,269 |
| Finance costs, net | (1,679) | (210) | - | - | (1,889) |
| Profit/(loss) before taxation | 25,576 | (4,761) | (87) | 652 | 21,380 |
| Income tax expense | (4,058) | 506 | - | - | (3,552) |
| Net profit/(loss) for the year | 21,518 | (4,255) | (87) | 652 | 17,828 |

| **Balance sheet** | | | | | |
|---|---|---|---|---|---|
| **As at 31 December 2006** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
| Segment assets | 245,988 | 42,057 | 299,973 | (24,878) | 563,140 |
| Unallocated assets | - | - | - | - | - |
| Total assets | 245,988 | 42,057 | 299,973 | (24,878) | 563,140 |
| Segment liabilities | 209,776 | 50,727 | 34 | 1,427 | 261,964 |
| Unallocated liabilities | - | - | - | - | - |
| Total liabilities | 209,776 | 50,727 | 34 | 1,427 | 261,964 |
| Capital expenditure | 18,053 | 4,688 | - | - | 22,741 |
| Depreciation and amortisation | (2,101) | (2,693) | - | - | (4,794) |

Included in operating income and expenses are depreciation and amortisation charges in amount of EUR 4,794 thousands out of which wholesale accounts for EUR 2,101 thousands and retail segment for EUR 2,769 thousands.

(All amounts are expressed in EUR '000, unless otherwise stated)

| Balance sheet | | | | | |
|---|---|---|---|---|---|
| As at 1 January 2006 | Wholesale | Retail | Other | Eliminations | Group |
| Segment assets | 142,493 | 35,677 | 300,025 | (44,694) | 433,501 |
| Total assets | 142,493 | 35,677 | 300,025 | (44,694) | 433,501 |
| Segment liabilities | 129,732 | 36,974 | - | 6,770 | 173,476 |
| Total liabilities | 129,732 | 36,974 | - | 6,770 | 173,476 |

*Primary reporting format - business segments*

There are material sales and other transactions between the business segments. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and investments. Segment liabilities comprise operating liabilities, lease liabilities and borrowings. Eliminations comprise mainly intercompany commercial and service transactions.

Capital expenditure comprises additions to property, plant and equipment and intangibles

The secondary segmental information based on geographical area is not material to be disclosed as almost all the activity is carried out in Romania.

## 24. USE OF ESTIMATES

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(i) Interest income and expenses**

Interest income and expenses for financial instruments is recognised in the income statement at amortised cost using the effective interest rate method for receivables and payables.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The linear amortisation method used to determine the amortised cost for both receivable and payables represents the management's best estimate for the value of the corresponding amortisation.

**(ii) Impairment losses on receivable**

In accordance with the internal impairment assessment methodology, the Company reviews its receivable portfolios to assess impairment on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is objective evidence of impairment that has an impact on the estimated future cash flows from an individual or from entire portfolio of receivables. Management uses estimates based on historical loss experience; in the same time the calculation of the present value of future cash flows requires judgement by the management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**(iii) Carrying value of inventories**

The Company assesses at each balance-sheet date the requirement for a provision against its inventories. The Company uses its judgement, based on the expiry date of goods in order to estimate the level of the provision required.

**(iv) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(All amounts are expressed in EUR '000, unless otherwise stated)

Identification of cash generating units requires judgment and is based on ability to generate independent cash inflows. Both the wholesale and retail segments are treated by the Management as cash generating units as their operations are interdependent and there are no smaller units that have the ability to generate revenues largely independent from others within the group.

Goodwill is allocated at the acquisition date before the end of the first annual reporting period. As at 31 December 2006 management tested goodwill, brands and licenses for impairment. Goodwill acquired through business combination, indefinite lived intangibles and net book value of fixed assets have been allocated to cash generating units as follows:

| **Cash-generating unit** | Carrying amount of goodwill | Carrying amount of indefinite lived brand | Carrying amount of pharmacy licences | Carrying amount of tangible assets | **Total Carrying value** | **Value in Use** | **Excess of recoverable amount over carrying amount** |
|---|---|---|---|---|---|---|---|
| **Wholesale** | 216,465 | - | - | 26,705 | **243,170** | **338,986** | **95,816** |
| **Retail** | 33,235 | 48,931 | 1,719 | 8,887 | **92,772** | **134,797** | **42,025** |
| | 249,700 | 48,931 | 1,719 | 35,592 | **335,942** | **473,783** | **137,841** |

In determining the values in use, the management uses four-year detailed free cash flow forecasts (for period 2007-2010) and then simplified free cash flow forecasts in perpetuity with a discount rate of 9.6%, using data for 2010. The value in use of the cash generating units was based on a growth factor of 2% for all cash flows beyond the detailed projections.

Key assumptions are based on a local pharma market of EUR 1,268 million as at 31 December 2005.

Over the four-year period, the Compound Annual Growth Rate ("CAGR") of the total pharma market is estimated at 19% (i.e. EUR 2,976 mill as at 31 December 2010). The ADP Wholesale's CAGR is expected at 31% yearly, up to 31 December 2010 (from net sales of EUR 286 mill as at 31 December 2005 to EUR 824.3 million in 2010).

Over the same period, the retail market's CAGR is 20% (from EUR 286 mill as at 31 December 2006 to EUR 815 million as at 31 December 2010). The estimated ADP Retail segment CAGR of 56%, up to 31 December 2010 (from net sales of EUR 89.8 million as at 31 December 2005 to EUR 370 million in 2010).

The key assumptions in the value in use calculations determining recoverable amounts for the specific cash-generating units noted above are:

**Wholesale segment**

For the wholesale business, the Company projects sales and gross margins by product group based on estimated market growth dynamics and expected market shares. Management believes the assumed improvements and margins are reasonably achievable.

**Retail segment**

For the retail business, the Company based its forecasts on the projected future number of pharmacies, and how sales per pharmacy are expected to evolve. Management believes the assumed improvements and margins are reasonably achievable.

As at 31 December 2006, management tested goodwill and brands for impairment by reference to the Entities' business plans drawn up for the period 2006-2010. The assumptions and estimates used in the preparation of these business plans are further detailed in Note 24. Following these tests, management has reached the conclusion that the above-mentioned assets are not impaired as at 31 December 2006.

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The value of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

Management is confident that the projections are reasonable in the context of consolidating the leadership position on the local market.

## 25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

### *(i) Contingencies*

### *a) Taxation*

The Romanian taxation system is undergoing a process of consolidation and harmonisation with the European Union legislation.

Even if the current Romanian Fiscal Code is meant to create a stable tax framework, tax legislation is still subject to a significant amount of changes and contradictory interpretations, which may apply retroactively.

Moreover, in practice, the tax authorities can take an aggressive approach and assess additional tax liabilities and related late payment penalties (2006: 0.06% per day plus 0.5% per month of delay) based on questionable interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the State.

Contingent liabilities may arise in relation to additional taxes that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period.

### *b) Transfer pricing*

The Romanian Fiscal legislation includes detailed regulations regarding transfer pricing between related parties and includes specific methods for determining transfer prices between related prices at arm's length.

Although transfer pricing is a relatively new issue in Romania and the authorities have minimal experience in dealing with it, continuous development of legislation indicates that the authorities are becoming aware of its growing importance.

The company entered into various transactions with companies within the group, as well as other transactions with related parties.

Although no formal transfer pricing documentation is required under the domestic legislation, in practice the Romanian tax authorities may request specific documentation on a case-to-case basis.

In light of this, if observance of arm's length principle cannot be proved, a future tax control could challenge the values of transactions between related parties and adjust the fiscal result with additional taxable revenues/non-deductible expenses (i.e. assess additional profit tax liability and related penalties).

### *c) Competition laws*

The group has various contracts with suppliers which may be classified by Competition Council as potential prohibited practices. Should the Competition Council open an investigation on any of these contracts and decide that Prohibited Practices exist, the Group and relevant suppliers may be subject to an Anti-Trust Fine for each offence. The fine may be up to 10% of annual turnover for the financial years prior to the investigation. Management is confident that it is not probable that such a risk will materialise, and is taking the necessary measures to alter those agreements to be fully in line with Competition laws.

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### *d) Operating environment*

The Romanian economy continues to display some characteristics of an emerging market.

The Group's subsidiaries have been involved in various practices which may constitute violations of specific Romanian laws and regulations regarding the wholesale, retail and advertising of medical products and medication, including of prescription drugs.

These practices are common in the Romanian pharmaceutical market and, to the Company's knowledge, in relation to these practices no investigations have been undertaken or sanctions applied to date. However, if investigated and proved, such practices may result in either the reclassification of certain transaction from a tax standpoint or fines and other sanctions. The tax exposure may result into additional EUR 9.3 million profit tax, VAT and late payment interest and also confiscation of revenues in amount of EUR 2.9 million.

However, the inspection performed by the Fiscal Authorities covering the financial periods to 31 December 2004, did not result in any additional tax liabilities or penalties in connection with this matter. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, or reasonably determinable, or both.

The accompanying financial statements do not include any provision for such matters.

*e) Legal proceedings*

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

*f) Insurance policies*

The Group holds insurance policies covering its office building, warehouses and inventory balances as well as insurance policies covering its losses resulting from malpractice for the retail business. The Group holds no other insurance policies in relation to its assets, operations, product liability, or in respect of public liability or other insurable risks.

*g) Benefits in kind to employees*

Over time, the Group has given benefits in kind to its employees, which could be regarded as salaries by the fiscal authorities and taxed accordingly. However, the inspection performed by the Fiscal Authorities covering the financial periods up to 31 December 2004, did not result in any additional tax liabilities or penalties in connection with this matter. Therefore, Group management considers the risk of such taxes being imposed to be remote and the accompanying financial statements do not include any provision for such matters.

*(ii) Contractual commitments*

*a) Operating lease contracts for pharmacies*

The Group has operating lease contracts for pharmacies location in total amount of EUR 30.8 million, for a period from 3 to 10 years, with future minimum lease payments as follows:

i) less than 1 year EUR 6.6 million;

ii) between 1 and 5 years EUR 18.7 million;

iii) more than 5 years EUR 5.5 million.

*b) Construction Agreement for Mogosoaia office building and warehouse*

As at 23 June 2005, Mediplus has entered into an agreement for the construction of an office building and a warehouse in the Mogosoaia village with Grup 3 Contracting (related party).

The agreement was further amended as at 1 March 2006 and sets out the following deadlines for the construction works: (i) 31 July 2006 for the warehouse, and (ii) 30 September 2006 for the office building and for completing ancillary outfitting works. In case of delays in carrying out the relevant construction works the contractor is liable for penalties of EUR 2,500 per day of delay.

Although the deadlines were not achieved as at 31 December 2006, no penalties were perceived or collected.

The value of the agreement is of EUR 10.8 million exclusive of VAT, payable by Mediplus in several instalments upon the acceptance of different categories of construction works.

As at 31 December 2006, future services in an amount of approximately EUR 2.0 million should be rendered by Group 3 Contracting (related party) to Mediplus related to this agreement.

*c) Contracts concluded for improvements to leased pharmacies*

The Group concluded agreements with Riga International and Grup 3 Contracting (related party) for improvements which were performed in 2006 to leased pharmacies. The total value of payments in 2006 for improvements was in amount of EUR 1 million.

*(iii) Guarantees*

- As at 31 December 2006, the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the business the Group has given guarantees amounting to EUR 4.7 million to third parties as at 31 December 2006 (EUR 6.2 million as at 1 January 2006).
- As at 31 December 2006 the Group has an agreement with HVB Bank Romania for the purpose of issuing of letters guarantee in amount of EUR 325,000. The unused facility available to the Group as at 31 December 2006 was EUR 247,000.
- As at 31 December 2006 the Group has an agreement with ING Bank Romania for the purpose of issuing of letters guarantee in amount of EUR 900,000.The unused facility available to the Group as at 31 December 2006 was EUR 384,000.
- As at 1 January 2006 the Group had a credit facility opened at ING Bank Romania, with a ceiling of EUR 1.8 million for the purpose of issuing letters of guarantee. The unused facility available to the Group as at 1 January 2006 was EUR 1.1 million.

  As at 31 December 2006 this facility has been cancelled.
- As at 1 January 2006 the Group had a credit facility opened at HVB Bank Romania with a ceiling of EUR 20 million for both loan and letters of guarantee. The unused facility available to the Group as at 1 January 2006 was EUR 13.4 million.

  As at 31 December 2006 this facility had been cancelled.

## 26. FINANCIAL RISKS

*(i) Credit risk*

Financial assets, which potentially subject this Group to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.

The Group has no significant concentrations of credit risk, other than the case of Sensiblu SRL and Ideapharm SA with the amounts due from the Health Insurance Houses. Credit risk with respect to these receivables is limited, since these amounts are primarily due from the Romanian State and hence are considered to be ultimately recoverable. Accordingly, management believe that the Group has no significant net credit risk with regards to such balances.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

*(ii) Foreign currency risk*

The Group imports supplies from other European countries through its Romanian subsidiaries, which also attract significant foreign currency denominated borrowings. This exposes the Group to foreign exchange risk.

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro, U.S. Dollars (USD), Swiss Franc (CHF).

The Group hedges 50 percent of all monthly payments to suppliers denominated in Euro and USD. The Group uses forward exchange contracts to hedge its foreign currency risk. The forward exchange contracts have maturities of less than one year after the reporting date. Where necessary, the forward exchange contracts are rolled over at maturity.

*(iii) Interest rate risk*

The Group's income and operating cash flows are impacted by changes in market interest rates since the majority of interest rates on borrowings are variable, as disclosed in Note 15. The Group has no significant interest-bearing assets.

*(iv) Liquidity risk*

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| | (EURO'000) | (EURO'000) |
| Assets | | |
| Monetary assets in RON | 160,508 | 93,800 |
| Monetary assets in foreign currency | 1,519 | 6,668 |
| | 162,027 | 100,468 |
| Liabilities | | |
| Monetary liabilities in RON | (110,193) | (73,240) |
| Monetary liabilities in foreign currency | (145,028) | (92,964) |
| | (255,221) | (166,204) |
| Net monetary position in RON | 50,315 | 20,560 |
| Net monetary position in foreign currency | (143,509) | (86,296) |

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due; however, due to the Group's current financing structure, there is a significant risk that the Group will encounter liquidity problems in the foreseeable future.

## 27. POST BALANCE SHEET EVENTS

Recovery of debts from Romanian Ministry of Health

In January 2007, following the discussions between the Drugs Distribution Association, other associations and the Ministry of Health, a law bill regarding the acceptance and the payment method of the debts related to sales exceeding the settled ceilings for pharmacies, was proposed to Parliament for debate and approval.

CITIBANK Loan – utilization requests

In January 2007 the Group reimbursed an amount of EUR 5,500 thousand from Facility B.

In February 2007 the Group has drawn an amount of EUR 3,000 thousand from Facility B.

As at 28 February 2007 the amount withdrawn by the Group from Facility A and Facility B is of EUR 67,293 thousand.

## 28. PROFORMA FINANCIAL INFORMATION

The consolidated proforma financial information is presented by A&D Pharma Holdings SRL and they incorporate the results of the former group A&D Pharma Holdings NV, Netherlands Antilles (ADP Antilles), the ultimate parent company of the operating subsidiaries. The Group has preserved the same operational structure as that of ADP Antilles holding before 1 January 2006. Therefore, for comparative purposes, proforma income statement and cash flow figures for the year ended 31 December 2005 are extracted from the consolidated financial statements of ADP Antilles, as detailed below.

### Statements of income

| | ADP SRL 2006 | ADP Antilles 2005 |
|---|---|---|
| Sales | 331,593 | 247,294 |
| Operating costs | (308,324) | (225,465) |
| Operating profit | 23,269 | 21,829 |
| Financial income | 4,370 | 1,810 |
| Financial expense | (6,259) | (3,798) |
| Gain on net monetary position | | |
| Financial result | (1,889) | (1,988) |
| Profit before taxation | 21,380 | 19,841 |
| Taxation | (3,552) | (3,245) |
| Profit for the year | 17,828 | 16,596 |

(All amounts are expressed in EUR '000, unless otherwise stated)

### Statements of cash flows

| | ADP SRL 2006 | ADP Antilles2005 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | 21,380 | 19,841 |
| **Adjustments for:** | | |
| Depreciation and amortization | 4,794 | 3,174 |
| Loss on disposal of investments | - | 17 |
| Loss on disposal of tangible and intangible assets | (1,735) | 267 |
| Property, plant and equipment impairment | (360) | 790 |
| Interest income | (381) | (242) |
| Interest expense | 5,359 | 2,712 |
| **Operating profit before working capital changes** | **29,057** | **26,559** |
| Increase in receivables and prepayments | (51,338) | (15,713) |
| Increase in inventories | (26,833) | (11,547) |
| Increase in trade and other payables | 43,053 | 40,368 |
| **Changes in working capital** | **(35,118)** | **13,108** |
| Tax paid | (2,703) | (3,618) |
| **Net cash from operating activities** | **(8,764)** | **36,049** |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (17,430) | (7,417) |
| Purchases of intangibles | (1,481) | (1,478) |
| Acquisition of Ideapharm | - | (2,335) |
| Acquisition of other subsidiaries | (273) | - |
| Disposal of investments, net | - | (1,226) |
| Proceeds from sale of tangible and intangible assets | 5,116 | 698 |
| Interest received | 370 | 172 |
| **Net cash used in investing activities** | **(13,698)** | **(11,586)** |
| **Cash flow from financing activities** | | |
| Long term loans | 69,793 | - |
| Short term borrowings | (11,713) | (5,000) |
| Lease payments | (3,147) | (2,366) |
| Dividends paid | - | (12,766) |
| Interest paid | (3,271) | (3,157) |
| **Net cash from financing activities** | **51,662** | **(23,289)** |
| Translation effect | (733) | (1,896) |
| **Net decrease in cash and cash equivalents** | **28,467** | **(722)** |
| **Cash and cash equivalents at beginning of the year** | **(11,273)** | **(10,551)** |
| **Cash and cash equivalents at end of year** | **17,194** | **(11,273)** |

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(All amounts are expressed in EUR '000, unless otherwise stated)

### Operating costs

| | ADP SRL 2006 | ADP Antilles 2005 |
|---|---|---|
| Cost of sales | 243,431 | 175,842 |
| Salaries and benefits | 28,782 | 16,973 |
| Rent and administrative expenses | 11,913 | 10,380 |
| Third party services | 11,070 | 9,131 |
| Advertising and promotion | 13,419 | 5,539 |
| Depreciation and amortization | 4,794 | 3,174 |
| Receivable write off | - | 2,617 |
| Impairment for fixed assets | (360) | 790 |
| Provision for inventories | 487 | 366 |
| Inventory write off | 1,453 | 853 |
| Penalties and fines | 1,337 | 483 |
| Impairment on receivables | (515) | (1,137) |
| Operational foreign exchange (income)/ expense | (9,900) | (813) |
| Hedging loss | 1,590 | - |
| Other expenses | 822 | 1,267 |
| | 308,324 | 225,465 |

### Financial result

| | ADP SRL 2006 | ADP Antilles 2005 |
|---|---|---|
| *Foreign exchange differences, net* | 3,989 | 1,568 |
| Interest income | 381 | 242 |
| Interest expense | (3,810) | (2,225) |
| Interest (expense)/revenue financial instruments | (1,549) | (487) |
| Other financial expense | (900) | (1,086) |
| | (1,889) | (1,988) |

### Related parties

| Sales of goods and services | ADP SRL 2006 | ADP Antilles 2005 |
|---|---|---|
| Ozone Laboratories SRL | 3,054 | 3,615 |
| Employees | 1,195 | 159 |
| Miniblu SRL | 196 | 43 |
| Optical Network SRL | 191 | 77 |
| Consumer Product Network SRL | 149 | 1,558 |
| Gemisa Servicii SRL | 1 | - |
| Ozone Laboratories Ltd | - | 422 |
| Lauren Finance SRL | - | 23 |
| Others | - | 89 |
| | 4,786 | 5,986 |

(All amounts are expressed in EUR '000, unless otherwise stated)

| Sales of property, plant and equipment | ADP SRL2006 | ADP Antilles 2005 |
|---|---|---|
| Ozone Laboratories SRL | 41 | 180 |
| Consumer Product Network SRL | 52 | 21 |
| Optical Network SRL | 4 | 144 |
| Miniblu SRL | 2 | 76 |
| Group 3 Contracting | 159 | - |
| Gemisa Servicii SRL | 12 | - |
| Sales to Shareholders | 37 | - |
| Oxigen Plus | 9 | - |
| Others | - | 14 |
| | 316 | 435 |

| Purchases of goods and services | ADP SRL 2006 | ADP Antilles 2005 |
|---|---|---|
| Ozone Laboratories SRL | 24,409 | 13,796 |
| Consumer Product Network SRL | 2,131 | 575 |
| Fleet Management SRL | 532 | 100 |
| Oxigen Plus | 168 | - |
| Miniblu SRL | 120 | 168 |
| Ozone Laboratories Ltd | 37 | 8,977 |
| Optical Network SRL | 127 | 97 |
| Global Business Software SRL | 5 | 123 |
| Lauren Finance SRL | - | 18 |
| SC Cristal Diagnostic SRL | 121 | 35 |
| Adkit Serv SRL | 42 | 11 |
| Sensiblu Optica SRL | 13 | 11 |
| Others | 27 | 32 |
| | 27,732 | 23,943 |

| | ADP SRL 2006 | ADP Antilles 2005 |
|---|---|---|
| Management salaries | 2,477 | 1,327 |

## Segment information

| Statement of income ADP SRL | | | | | |
|---|---|---|---|---|---|
| **Year ended 31 December 2006** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
| Sales | 287,582 | 89,780 | - | (45,769) | 331,593 |
| Operating income and expenses | (260,327) | (94,331) | (87) | 46,421 | (308,324) |
| Segment result | 27,255 | (4,551) | (87) | 652 | 23,269 |
| Unallocated other operating income and expenses | - | - | - | - | - |
| Operating profit/(loss) | 27,255 | (4,551) | (87) | 652 | 23,269 |
| Finance costs, net | (1,679) | (210) | - | - | (1,889) |
| Profit/(loss) before taxation | 25,576 | (4,761) | (87) | 652 | 21,380 |
| Income tax expense | (4,058) | 506 | - | - | (3,552) |
| Net profit/(loss) for the year | 21,518 | (4,255) | (87) | 652 | 17,828 |

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(All amounts are expressed in EUR '000, unless otherwise stated)

**Statement of Income - ADP Antilles**

| **Year ended 31 December 2005** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
|---|---|---|---|---|---|
| Sales | 209,603 | 63,147 | - | (25,456) | 247,294 |
| Operating income and expenses | (184,438) | (66,323) | (829) | 26,125 | (225,465) |
| Segment result | 25,165 | (3,176) | (829) | 669 | 21,829 |
| Unallocated other operating income and expenses | - | - | - | - | - |
| Operating profit/(loss) | 25,165 | (3,176) | (829) | 669 | 21,829 |
| Finance costs, net | (2,201) | 67 | 362 | (216) | (1,988) |
| Monetary gain/(loss) | - | - | - | - | - |
| Profit/(loss) before taxation | 22,964 | (3,109) | (467) | 453 | 19,841 |
| Income tax expense | (2,988) | - | (51) | (206) | (3,245) |
| Net profit/(loss) for the year | 19,976 | (3,109) | (518) | 247 | 16,596 |

**ADP SRL**

| **Year ended 31 December 2006** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
|---|---|---|---|---|---|
| Capital expenditure | 18,053 | 4,688 | - | - | 22,741 |
| Depreciation and amortisation | (2,101) | (2,693) | - | - | (4,794) |
| ADP Antilles | | | | | |
| Year ended 31 December 2005 | Wholesale | Retail | Other | Eliminations | Group |
| Capital expenditure | 6,647 | 6,840 | - | - | 13,487 |
| Depreciation and amortisation | (1,763) | (1,411) | - | - | (3,174) |

IFRS does not prescribe an accounting treatment for common control business combinations and therefore it is management's decision to determine the appropriate accounting treatment to be applied. IFRIC decided not to prescribe precise treatments for all possible situations in this area only because there is too much diversity in practice and judgment will always remain.

According to IAS 8.10 "Accounting policies, Changes in accounting estimates and errors" in the absence of a Standard or an Interpretation that specifically applies to a transaction, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users.

The management of the company assessed inter alia that A&D Pharma Holdings SRL, (new "Company"), could be regarded as the acquirer if it is considered that the restructuring was linked to another future transaction, a future Initial Public Offering (IPO).

In these circumstances, given the substance of the transaction, the purchase method of accounting will provide users of the financial statements with more relevant information that an approach in which only one of the pre-existing entities is presented at fair value and the other one at book value as recommended by IFRS 3.22 under the reverse acquisition method. The Management of the Company has made this selection, considering all the pertinent facts and circumstances:

- It is more useful for future investors to apply an accounting method which would result in fair values being attributed to the assets, liabilities and contingent liabilities of the existing businesses, and the recognition of goodwill, relating to all of those businesses. The use of book value for the most important segment – wholesale and fair value for the smallest segment – retail would impair the usefulness of the information provided to users about the combination both comparability and reliability;
- IFRS 3 scopes out common control transactions and did not issue any guidance to prescribe or ban the method applied in this case;
- The accounting policy chosen did not misinform the public; the difference between reverse acquisition and fresh start accounting is an adjustment between goodwill and premium reserve. The value of the goodwill is tested yearly for impairment and any excess over the recoverable amount is recognised as an expense in the profit and loss account. The nature of the business strongly encourages the use of fair value for both businesses.
- The two subsidiaries are in the pharma industry – wholesale and retail distribution. While the retail distribution, the

smaller business is accounted at fair value, i.e. 60 million EUR, the wholesale business would not be allowed because, according to IFRS 3.22, it is considered the acquirer and should be accounted in the consolidation at book value.

If the Group had accounted for the business combination as reverse acquisition the following adjustments would have been made to the financial information (other items not being affected):

| | 31 December 2006 reverse acquisition | 31 December 2006 as presented | Adjustments |
|---|---|---|---|
| | EUR million | EUR million | EUR million |
| ASSETS | | | |
| Non current assets | | | |
| Goodwill | 55 | 249 | (194) |
| Shareholders' Equity | | | |
| Share capital | 11 | 260 | (249) |
| Reverse acquisition premium | 60 | - | 60 |
| Shareholder's contribution | 3 | - | 3 |
| Translation reserve | 7 | 23 | (16) |
| Retained earnings | 35 | 18 | 17 |
| Total shareholders' equity | 116 | 301 | (185) |
| Non-current liabilities | | | |
| Provisions | 6 | 15 | (9) |

If the Group had accounted for the business combination under reverse acquisition, comparative information as at 2005 presented in these consolidated financial statements would be that of Mediplus only:

| | 2006 consolidated | 2005 Mediplus only |
|---|---|---|
| | EUR million | EUR million |
| Sales | 332 | 205 |
| Operating costs | (308) | (187) |
| Operating profit | 24 | 18 |
| Financial result | (2) | (4) |
| Profit before taxation | 22 | 14 |
| Taxation | (4) | (3) |
| Profit for the year | 18 | 11 |

Comparative cash flow statements under reverse acquisition

| | 2006 consolidated | 2005 Mediplus only |
|---|---|---|
| | EUR million | EUR million |
| Net cash from operating activities | (9) | 14 |
| Net cash used in investing activities | (14) | (2) |
| Net cash from financing activities | 52 | (11) |
| Net increase / (decrease) in cash and cash equivalents | 29 | 1 |
| Cash and cash equivalents at beginning of the year | (11) | (12) |
| Translation reserve | (1) | - |
| Cash and cash equivalents at end of year | 17 | (11) |

The management considers that accounting for the business combination under the reverse acquisition method would impair the comparability of the financial position, performance and cash flow of the entity. Following the restructuring of the former ADP Antilles group, ADP SRL has preserved the same operating structure and such comparatives would not represent faithfully the financial position, performance and cash flows of the entity over the period.

17-09-2007

A&D Pharma

# A&D Pharma Holdings N.V.

## Consolidated financial statements as at and for the period from 24 May 2006 (date of incorporation) to 31 December 2006 prepared in accordance with international financial reporting standards

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17-09-2007

# INDEPENDENT AUDITORS' REPORT

### The Board of Directors of A&D Pharma Holdings NV

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of A&D Pharma Holdings NV (and its subsidiaries) (the "Group"), which comprises the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the seven month period started 24 May 2006 (incorporation date) and ended 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the seven month period started 24 May 2006 (incorporation date) and ended 31 December 2006 in accordance with International Financial Reporting Standards.

### Other Matters

This report is made solely to the Board of Directors of A&D Pharma Holdings NV. The consolidated financial statements are not statutory financial statements of the Group, nor are the financial statements intended for statutory filing purposes. Our audit work has been undertaken so that we might state to the Board of Directors of A&D Pharma Holdings NV those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Board of Directors of A&D Pharma Holdings NV, for our audit work, for this report, or for the opinions we have formed.

KPMG Romania SRL
Bucharest, Romania
26 April 2007

# GENERAL INFORMATION

## Description of the business

A&D Pharma Holdings NV and its subsidiaries' (together "the Group") principal activities include the import, wholesale and retail distribution of pharmaceutical products. The Group's facilities are based in Romania. The parent company, A&D Pharma Holdings NV (ADP NV or "the Company") was incorporated as a limited liability company in Delft, the Netherlands, on 24 May 2006. By means of the amendment of the articles of association dated 19 June 2006, the legal form of the incorporated limited liability company was changed into public company. The principal subsidiaries are disclosed in Note 22.

As at 31 December 2006 the Group have 3,173 employees. ADP NV has its registered office at 2 Martinus Nijhofflaan, 2624 ES Delft, Netherlands.

On 24 May 2006, Sograno set up ADP NV, a joint-stock company incorporated and organized under the laws of the Netherlands, and made an in-kind contribution to its share capital consisting of the shares held in the A&D Pharma SRL, Mediplus, Sensiblu, Ideapharm.

## Shareholders structure

The shareholder of the Company as at 31 December 2006 was:

| | Number of shares | Shareholding % |
|---|---|---|
| Sograno BV, Netherlands | 117,000,000 | 58.5000 |
| Defrin Investment Ltd | 4,454,600 | 2.2273 |
| Nezik Trading Ltd | 3,818,200 | 1.9091 |
| Wartfield Investments Ltd | 1,272,600 | 0.6363 |
| Mantin Ltd | 4,454,600 | 2.2273 |
| Citibank N.A. (Depositary) | 69,000,000 | 34.5000 |
| | 200,000,000 | 100 |

The shareholders of the Company as at 24 May 2006 were:

| | Number of shares | Shareholding % |
|---|---|---|
| Sograno BV | 2,500,000 | 100 |
| | 2,500,000 | 100 |

The ultimate parent company is Active Pharma Invest Limited, Cyprus.

The Board of Directors as at 31 December 2006 were the following:

| | |
|---|---|
| Dragos Dinu | Chief Executive Officer |
| Florin Buligoanea | Chief Financial Officer |
| Vivian Diaconescu | Chief Operating Officer Wholesale |
| Claudiu Opran | Chief Operating Officer Retail |
| David Raymond Ebsworth | Chaiman of the Board |
| Robert Ludovic Charles Simon | Non-Executive Director |
| Charles Eid Michel | Non-Executive Director |
| Roger Akoury | Non-Executive Director |
| Walid Abboud | Non-Executive Director |
| John Michel Wemms | Chaiman of Remuneration Committee |
| Urs Kamber | Chairman of Audit Committee |

**Consolidated Balance Sheet as at and for the period from 24 May 2006 (date of incorporation) to 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Note | 31 December 2006 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 4 | 35,592 |
| Intangible assets | 5 | 282,960 |
| Financial investments | 6 | 57 |
| Long term receivables | 7 | 6,231 |
| **Total non-current assets** | | **324,840** |
| | | |
| **Current assets** | | |
| Inventories | 8 | 63,455 |
| Accounts receivable | 9 | 119,787 |
| Other current assets | 10 | 11,849 |
| Restricted cash | 11 | 5,863 |
| Cash and cash equivalents | 11 | 17,194 |
| **Total current assets** | | **218,148** |
| **Total assets** | | **542,988** |
| | | |
| **Shareholders' equity and liabilities** | | |
| **Shareholders' equity** | | |
| Share capital | 12 | 200,000 |
| Share premium | | 59,075 |
| Translation reserve | | 12,178 |
| Retained earnings | | 8,783 |
| **Total shareholders' equity** | | **280,036** |
| | | |
| **Non-current liabilities** | | |
| Provisions | 16 | 14,966 |
| Long term payables | 17 | 1,562 |
| Long term borrowings | 15 | 69,793 |
| Deferred tax | 13 | 6,704 |
| Finance lease | 14 | 1,825 |
| **Total non-current liabilities** | | **94,850** |
| | | |
| **Current liabilities** | | |
| Short term borrowings | 15 | - |
| Accounts payable, accruals and other liabilities | 18 | 163,071 |
| Tax on profit | 18 | 2,580 |
| Finance lease | 14 | 2,451 |
| **Total current liabilities** | | **168,102** |
| **Total liabilities** | | **262,952** |
| **Total shareholders' equity and liabilities** | | **542,988** |



Authorised for issue by the Board of Directors on 26 April 2007 and authorised for signature on their behalf by:

Dragos Dinu
Chief Executive Officer

Florin Buligoanea
Chief Financial Officer

The notes 1 to 29 form an integral part of these Consolidated Financial Statements.

**Consolidated Statement of Income for the period from 24 May 2006 (date of incorporation) to 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Note | 31 December 2006 |
|---|---|---|
| Sales | | 212,039 |
| Operating costs | 19 | (200,967) |
| Operating profit | | 11,072 |
| Financial income | | 3,074 |
| Financial expense | | (2,292) |
| Financial result | 20 | 782 |
| Profit before taxation | | 11,854 |
| Taxation | 13 | (3,071) |
| Profit for the period | | 8,783 |
| Basic earnings per share | 24 | €0.04 |
| Diluted earnings per share | 24 | €0.04 |

Authorised for issue by the Board of Directors on 26 April 2007 and authorised for signature on their behalf by:

Dragos Dinu
Chief Executive Officer

Florin Buligoanea
Chief Financial Officer

The notes 1 to 29 form an integral part of these Consolidated Financial Statements.

**Consolidated Statement of Cash Flows for the period from 24 May 2006 (date of incorporation) to 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | 2006 |
|---|---|
| **Cash flows from operating activities** | |
| Profit before taxation | 11,854 |
| **Adjustments for:** | |
| Depreciation and amortization | 3,074 |
| Loss on disposal of tangible and intangible assets | (74) |
| Property, plant and equipment impairment | (443) |
| Interest income | (1,153) |
| Interest expense | 2,698 |
| **Operating profit before working capital changes** | **15,956** |
| Increase in receivables and prepayments | (34,626) |
| Increase in inventories | (28,052) |
| Increase in trade and other payables | 49,083 |
| **Changes in working capital** | **(13,595)** |
| Tax paid | (1,177) |
| **Net cash from operating activities** | **1,184** |
| **Cash flows from investing activities** | |
| Purchases of property, plant and equipment | (13,141) |
| Purchases of intangibles | (1,006) |
| Acquisition of other subsidiaries | (273) |
| Proceeds from sale of tangible and intangible assets | 803 |
| Interest received | 233 |
| **Net cash used in investing activities** | **(13,384)** |
| **Cash flow from financing activities** | |
| Long term loans | 69,793 |
| Short term borrowings | (5,614) |
| Lease payments | (2,263) |
| Dividends paid | (925) |
| Interest paid | **(2,291)** |
| Net cash from financing activities | **58,700** |
| Translation effect | **(178)** |
| Net increase in cash and cash equivalents | 46,322 |
| Cash and cash equivalents at beginning of the period | (29,128) |
| Cash and cash equivalents at end of period (Note 11) | 17,194 |



The notes 1 to 29 form an integral part of these Consolidated Financial Statements.

**Consolidated Statement of Changes in Shareholders' Equity for the period from 24 May 2006 (date of incorporation) to 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Share capital | Share premium | Translation reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance as at incorporation date (24 May 2006) | 2,500 | 257,500 | - | - | 260,000 |
| Conversion of share premium into the issued capital on June 28, 2006 | 197,500 | (197,500) | - | - | - |
| Share premium distribution on October 9, 2006 | - | (925) | - | - | (925) |
| *Profit for the period* | - | - | - | 8,783 | 8,783 |
| Translation reserve | - | - | 12,178 | - | 12,178 |
| Balance as at 31 December 2006 | 200,000 | 59,075 | 12,178 | 8,783 | 280,036 |

The Group is not allowed to declare and pay dividends without prior consent of Citibank (see Note 15).

The notes 1 to 29 form an integral part of these Consolidated Financial Statements.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 1. REPORTING ENTITY

These consolidated financial statements (alternatively referred to hereinafter as the "financial statements") are presented by A&D Pharma Holdings NV ("ADP NV" or the "Company") and they incorporate the results of the Company and its subsidiaries (together the "Group" or separately the "Entity" or "Entities"), as detailed in Note 22.

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by European Union ("EU"). These are not the statutory accounts of the Group, nor are the financial statements intended for the statutory filling purposes.

The consolidated financial statements are prepared based on the statutory records of the Entities, which are maintained on a going concern basis under the historical cost convention except for the derivative financial instruments, measured at fair value and financial instruments measured at amortized cost.

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates (Note 25).

### 2.2 Functional currency

Based on the primary economic environment in which the group entities operate and taking into account the other factors as described in IAS 21, the functional currencies of individual consolidated Group entities were determined as follows :

- ADP NV – EUR
- ADP SRL – functional currency was determined to be Romanian Leu ("RON")
- Mediplus – functional currency was determined to be Romanian Leu ("RON")
- Sensiblu – functional currency was determined to be Romanian Leu ("RON")
- Ideapharm – functional currency was determined to be Romanian Leu ("RON")
- Lauren – functional currency was determined to be Romanian Leu ("RON")

The RON is not convertible outside Romania. The management of the Company has decided to adopt EUR as presentation currency for the purpose of consolidated financial statements.

The balance sheet items have been translated into EUR by dividing the RON amounts at the National Bank of Romania ("NBR") official exchange rates as at the date of each balance sheet, as set out below:

| | 31 December 2006 |
|---|---|
| RON / 1 EUR | 3.3817 |

The statement of income items for the periods ended 31 December 2006 were translated using the RON/EUR monthly average exchange rates. The translation of the balance sheet and statement of income items into the presentation currency gave rise to a translation reserve as defined in Note 3.9. Cash flows are translated using appropriate average exchange rates. Components of equity are not retranslated.

Such computations and presentation of amounts in EUR should not be construed as a representation that the RON amounts have been or could be converted into EUR at these rates or any other rates.

## 2.3 Going concern

Management is satisfied that it is appropriate to prepare these financial statements on a going concern basis.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 3.1 Group accounting

### *a) Subsidiaries*

Subsidiaries, which are those Entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries (Note 29).

The cost of an acquisition is measured by the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

### *b) Associates and joint ventures*

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

### *c) Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as an acquisition at the date when business combination has occurred. The assets and liabilities acquired are recognised at fair value (Note 29).

### *d) Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 3.2 Segment reporting

Segment information is presented in respect of the Group's business segments, based on the Group's management and internal structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

**Primary reporting format – business segments**

The Group comprises the following main business segments:

- Wholesale
- Retail

**Secondary reporting format – geographical segments**

The operational activities of the Group are in Romania and accordingly no geographical segment is presented.

## 3.3 Property, plant and equipment

Property, plant and equipment is recorded at purchase or construction cost.

Depreciation is calculated on the amounts of property, plant and equipment on a straight-line basis down to the assets' estimated residual values.

The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

| Type | Useful life (years) |
|---|---|
| Buildings | 30-50 |
| Leasehold improvements | 3-10 |
| Computers and electronic equipment | 3-5 |
| Motor vehicles and trucks | 3-5 |
| Fixtures and fittings | 3-10 |

Land is not depreciated.

Repairs and maintenance are charged to the statement of income during the financial period in which they incur. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

All borrowing costs are expensed as incurred.

## Impairment

At each reporting date the management assess as to whether there is any indication of impairment of property, plant end equipment. If any such indication exists, the management estimates the recoverable amount which is determined as the higher of an asset's net selling price and its value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the circumstances leading to the impairment.

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## 3.4 Intangible assets

*a) Goodwill*

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested for impairment at each reporting date.

## Impairment

At each reporting date the management assess whether there is any indication of impairment of goodwill. If any such indication exists, the management estimates the recoverable amount which is determined as the higher of net selling price and its value in use of cash generating units it is allocated to. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income. An impairment loss in respect of goodwill is not reversed.

### *b) Brands*

Acquired brands are capitalized on the balance sheet. These brands are valued on acquisition by an independent valuer, using a discounted cash flow methodology based on management assumptions and estimates regarding future revenue growth, prices, costs and economic factors in valuing a brand. These assumptions reflect management's best estimates but these estimates involve inherent uncertainties, which may not be controlled by management.

No amortisation is charged on brand intangibles as the Group believes that the value of these brands is maintained indefinitely. The factors that result in the durability of brands capitalised are that there are no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangibles.

Furthermore:

- The Group expects to acquire, hold and support brands for an indefinite period. The Group supports these brands through spending on consumer marketing across the business and through significant investment in promotional support. The brands capitalised are expected to be in longstanding and profitable market sectors.
- The likelihood that market based factors could truncate a brand's life is relatively remote because the size and market share of the brands in question.

The brands are tested for impairment at each reporting date, irrespective of whether there is an indication that the related assets may be impaired, as well as whenever there is any indication that they may be impaired. Management estimates the recoverable amount which is determined as the higher of net selling price and the value in use of the cash generating units it is allocated to. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income.

### *c) Pharmacies licenses*

Expenditure to acquire operating licenses for pharmacies are capitalised at cost.

As licenses are tested for impairment at each reporting date. Impairment testing is performed in a similar way to that of brands and goodwill (see paragraph above). Licenses are stated at cost less any accumulated impairment losses.

### *d) Computer licences and software*

Expenditure to acquire licences and computer software is capitalised and amortised using the straight-line method over their useful lives, normally 1 to 5 years.

### *e) Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

## 3.5 Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortized cost using the effective yield method. Realized and unrealized gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the statement of income in the period in which they arise. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When securities classified as available-for-sale are sold or impaired the accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

## 3.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less any selling expenses. When necessary, provision is made for obsolete, slow moving and defective inventories.

## 3.7 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the collection terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is determined based on management risk assessment of the trade receivables collectibility.

## 3.8 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, cash held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are included with borrowings in current liabilities.

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## 3.9 Shareholders' equity

### *Share capital and Share Premium*

Ordinary and preferred shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium and any deficit is deducted from share premium and retained earnings, if available.

### *Translation reserve*

In translating the financial statements into EUR, all resulting exchange differences are classified as equity. The main differences arise on the translation of income and expense items at the monthly average exchange rates and assets and liabilities at the date of each balance sheet closing rate. Components of equity are not retranslated.

### *Dividends*

The Group can only pay dividends from its entities statutory retained earnings and share premium, based upon financial statements prepared in accordance with local accounting regulations.

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date, but before the financial statements are authorised for issue.

## 3.10 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

## 3.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## 3.12 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 3.13 Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The transaction costs incurred in issuing the liability are amortized over the life of the loan.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

## 3.14 Accounts payable

Liabilities for trade payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. After initial recognition, the Group measures trade payable at amortised cost using effective interest method.

## 3.15 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

### 3.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and when collection is reasonably assured.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 3.17 Employee benefits

The Group, in the normal course of business, makes payments to the Romanian State on behalf of its employees. All employees of the Group are members of the Romanian State pension plan. All such contributions to the mandatory government pension scheme are expensed when incurred. The Group does not operate any other pension scheme or post retirement benefit plan and, consequently, has no obligation in respect of pensions. In addition, the Group is not obliged to provide further benefits to current and former employees.

### 3.18 Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction cost, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described in the notes.

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. The amounts disclosed in the financial statements approximate their fair value.

The Group uses financial instruments that are subject to fluctuations in foreign currency exchanges (Note 27(ii) ) for the financial risks faced by the Group.

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss

### 3.19 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### *Intangible assets*

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets as detailed in Note 5.

#### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

## Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

## Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## 3.20 Earnings per share

Pursuant to IAS 33, earnings per share ("EPS") are calculated by dividing the profit or loss allocated to the shareholders of the Group by the weighted average number of shares outstanding during the fiscal period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time – weighting factor.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions. The objective of diluted earnings per share is consistent with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

## 3.21 Recent accounting pronouncements

### *(a) Adoption of standards effective from incorporation date*

As at 24 May 2006, the Company adopted the IFRSs below. The financial statements have been amended as required, in accordance with the relevant requirements.

- IAS 19 (Amendment), Employee Benefits
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intracompany Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adoption of the new or amended standards did not have a significant impact on the Company's financial statements.

### *(b) Adoption of standards effective from 1 January 2007*

Certain new standards, amendments and interpretations to existing standards that have been published are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted, as follows:

- IFRS 7 Financial Instruments: Disclosures - The Standard will require increased disclosure about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks.
- Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures - As a complimentary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Group's capital.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the

(All amounts are expressed in EUR '000, unless otherwise stated)

components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This standard which becomes mandatory for the Group's 2009 financial statements is not expected to have any impact on the financial statements.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006) addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 is not relevant to the Group's operations as the Group does not have the currency of a hyperinflationary economy as its functional currency.
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007) The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The interpretation states that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not relevant to the Group's operations.
- IFRIC 10 Interim Financial Reporting and Impairment - The Interpretation prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, investments in equity instruments or financial assets carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions - The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements.
- IFRIC 12 Service Concession Arrangements - The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Land & buildings | Leasehold improvements | Computers & electronic equipment | Motor vehicles | Fixtures & fittings | Assets in course of construction | Total |
|---|---|---|---|---|---|---|---|
| 24 May 2006 (Note 5) | 5,734 | 4,557 | 1,634 | 4,782 | 1,334 | 4,329 | 22,370 |
| Additions | 512 | 47 | 746 | 1,848 | 565 | 11,649 | 15,367 |
| Transfers | 824 | 1,195 | 29 | 192 | 338 | (2,578) | - |
| Disposals | (140) | - | (3) | (545) | (18) | (16) | (722) |
| Depreciation charge | (58) | (960) | (514) | (958) | (295) | - | (2,785) |
| Impairment | - | 369 | 13 | - | 61 | - | 443 |
| Translation differences | 258 | 189 | 55 | 165 | 53 | 199 | 919 |
| Closing net book amount | 7,130 | 5,397 | 1,960 | 5,484 | 2,038 | 13,583 | 35,592 |
| At 31 December 2006 | | | | | | | |
| Cost | 7,320 | 8,712 | 4,043 | 8,146 | 3,007 | 13,583 | 44,811 |
| Accumulated depreciation | (190) | (3,315) | (2,083) | (2,662) | (969) | - | (9,219) |
| Net book value as of 31 December 2006 | 7,130 | 5,397 | 1,960 | 5,484 | 2,038 | 13,583 | 35,592 |

Assets under construction represent mostly the building of new head office in Mogosoaia (EUR 12,128 thousand including the automatic warehousing system ), the building of new warehouses in Craiova (EUR 621 thousand) and Iasi

(All amounts are expressed in EUR '000, unless otherwise stated)

(EUR 394 thousand) and improvements made at the 29 new leased pharmacies which had not been opened until after the period end. The new head office in Mogosoaia has been operational from February 2007.

Leasehold improvements include services from related parties capitalised in amount of EUR 1,950 thousand.

Bank borrowings (Note 15) are secured over buildings and land with a net book value of EUR 5,367 thousand.

The impairment on leasehold improvements relates to the assets existing in some pharmacies which are intended to be relocated.

Included above are leased assets (mainly electronic equipment, motor vehicles and trucks), where the Group is a lessee under a finance lease as follows:

| | 31 December 2006 |
|---|---|
| Cost – capitalised finance leases | 10,431 |
| Accumulated depreciation | (3,235) |
| Net book value as at 31 December 2006 | 7,196 |

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

| | Goodwill | Brand Sensiblu | Licences | Software and other | Total |
|---|---|---|---|---|---|
| 24 May 2006 | 220,036 | 46,761 | 1,654 | 922 | 269,373 |
| Additions | 405 | - | - | 1,006 | 1,411 |
| Disposals | - | - | - | (6) | (6) |
| Amortisation charge | - | - | - | (289) | (289) |
| Translation reserve | 10,210 | 2,170 | 65 | 26 | 12,471 |
| Closing net book amount | 230,651 | 48,931 | 1,719 | 1,659 | 282,960 |
| At 31 December 2006 | | | | | |
| Cost | 230,651 | 48,931 | 2,168 | 2,419 | 284,169 |
| Accumulated amortisation | - | - | (449) | (760) | (1,209) |
| Net book value | 230,651 | 48,931 | 1,719 | 1,659 | 282,960 |

Goodwill was computed as follows:

| | |
|---|---|
| **Cost of investment in ADP SRL (See Note 12)** | **260,000** |
| Less: Fair value of net assets acquired (see table below) | (39,964) |
| Goodwill as at 24 May 2006 (date of incorporation) | 220,036 |
| Add: Goodwill in Mediplus Exim from the acquisition of Lauren Finance IFN SA | 405 |
| Translation reserve | 10,210 |
| Goodwill as at 31 December 2006 | 230,651 |

The fair value of the net assets of A&D Pharma SRL as at 24 May 2006 is as follows:

| | Fair value of net assets acquired |
|---|---|
| Property, plant and equipment | 22,370 |
| Intangibles | 49,333 |
| Receivables and other assets | 108,360 |
| Inventories | 35,403 |
| Cash | 7,989 |
| Payables | (130,053) |
| Interest-bearing debt | (46,351) |
| Deferred tax | (7,087) |
| Net Assets | 39,964 |

As at 31 December 2006, for impairment purposes, management has allocated goodwill to the Group's two main cash generating units, Mediplus Exim SA EUR 195,351 thousand as at 31 December 2006 and Sensiblu SRL EUR 35,300 thousand as at 31 December 2006. Goodwill was allocated taking into account the enterprise value assessed by the independent valuer for each entity and its net assets upon being acquired.

As at 24 May 2006, this Group acquired its only brand ("Sensiblu"), which has an indefinite economic life in accordance with management's estimation. The brand was valued by an independent valuer, using a discounted cash flow methodology based on management assumptions and estimates regarding future revenue growth, prices, costs and economic factors. The discount rate used in the computations was estimated at 15%, by the SCOR Interbrand and SCOR Brand Finance approaches.

The acquired goodwill represents a sum of non quantifiable intangible assets such as:

- Leading position in Romanian pharmaceutical wholesale and retail, a market of EUR 1,563 million and with a compound annual growth rate of 31% pa. This high growth rate is driven by the strong economic growth further supported also by the recent EU membership.
- Proven management track record
  ADP's management has a proven track record of delivering profitable growth and consistently increasing market share. ADP's management team has been involved with the Group since 1996 and has managed the business independently of the founding shareholders since July 2002. Under the supervision of the current management team, ADP has (i) become the leading pharmaceutical wholesaler and retailer in Romania, (ii) achieved national coverage in both the wholesale and retail markets, (iii) introduced various innovative services for both suppliers and clients in wholesale, (iv) introduced the loyalty card scheme for Sensiblu customers and (v) undertaken the first major private pharmacy chain acquisition in the pharmacy retail market in Romania through the acquisition of Ideapharm.
- Mediplus' consumer healthcare divisions and value added service
  Mediplus is differentiated from traditional wholesalers due to its consumer healthcare sales divisions which provide contract marketing services and promote OTC brands of international producers generating higher gross margins than the traditional wholesale business. Mediplus also provides a wide range of value added services to both producers and its pharmacy clients such as free pharmacy software, pharmacy refurbishment services and pharmacist training.
- Vertical integration: strong synergies on both revenues and costs
  There are significant strong synergies between the wholesale and retail businesses. Revenue synergies arise from the improved insight gained by Mediplus via Sensiblu into consumer behaviour and segmentation which enables Mediplus to offer greater value added services to its key suppliers. Cost synergies are generated by higher operations efficiency due to vertical integration. For example, fewer field sales force visits are required for Sensiblu which means that sales and marketing costs are reduced. Invoice processing costs and time are also reduced. Mediplus provides for Sensiblu with warehousing facilities, logistics infrastructure, the head office building and other central costs.

As at 31 December 2006 management tested goodwill, brands and licenses, as well as non-current fixed assets for impairment (see Note 25 (iv)).

## Pharmacy licence

Licences represent mainly the cost of the legal entities acquired by Sensiblu SRL during the years, in order to obtain their existing operating licences to open new pharmacies.

The life and the conditions for obtaining a pharmacy license are regulated under article 15 of the Norms approved by the Order no. 626/ 2001, issued by the Romanian Minister of Health, modified and completed by the Order no. 1196/ 2004. Article 15 stipulates that the pharmacy licenses obtained after the enforcement of the Order no. 1199 are to be permanent, under the amendment of preserving the initial conditions that have originated the authorization of such a license.

In respect to the licenses previously obtained, having a limited life of 5 years according to the Order no. 626, the new regulation states they will be re-authorized, under the provisions of the Order no. 1199.

Considering the changes in legislation mentioned above, and based on the fact that no license was cancelled since the Company's foundation, the management has decided to cease the amortisation of the current pharmacy licenses.

## Acquisition of Lauren Finance IFN SA

On 18 July 2006, the Group acquired 99.67% of Lauren Finance IFN SA ("Lauren") as follows: 94.97% from Gemisa

(All amounts are expressed in EUR '000, unless otherwise stated)

Investments Ltd (related party) and 4.69% from others, for the amount of EUR 450 thousand plus 2.3% of Lauren's monthly sales for at least 5 years, starting 1 January 2007.

Lauren was incorporated in 2004, and its object of activity is financial intermediation, specifically issuing of credit cards.

At the date of acquisition, Lauren's total statutory turnover was EUR 8 thousand and the net loss was EUR 28 thousand. Net assets at acquisition date are EUR 72 thousand. As at year end, Lauren's net sales are in amount of EUR 11 thousand and the net assets are at the level of EUR 42 thousand.

As at 31 December 2006 the National Bank of Romania ("NBR") did not give an official answer to the request to include Lauren in the General Register of Non-Banking Financial Institutions, the parties have agreed to extend the acquisition agreement until a decision will be formulated by NBR.

## 6. INVESTMENTS

As at 31 December 2006 all available for sale securities are carried at cost because they are not publicly traded and management of the Group is not able to measure reliably their fair value.

## 7. LONG TERM RECEIVABLES

| | 31 December 2006 |
|---|---|
| Long term trade receivables | 4,365 |
| Health Insurance Houses receivables | 1,562 |
| Other | 304 |
| | 6,231 |

As at 31 December 2006, the carrying value of long term receivables approximates their fair value of EUR 6,409 thousand.

As at 31 December 2006 amortised cost was computed based on an effective weighted average interest rate of 8.57 %.

As at 31 December 2006 bank borrowings (Note 15) are secured over EUR 4,365 thousand from the above long term trade receivables balance.

Following a three year analysis of receivables, it was determined that from the total population of customers with outstanding amounts ageing 60 days from the sale date, approximately 10% are "cashed" after a period longer than 1 year. This amount (EUR 4,365 thousand) was reclassified as long term receivables.

As at 31 December 2006, the Health Insurance Houses receivable balance in amount of EUR 1,562 thousand consists of amounts due from Health Insurance Houses for sales of items subsidized by the Romanian State, sales which exceeded the ceilings set out in the contractual agreements concluded by Ideapharm SA with the Health Insurance Houses for the year ended 31 December 2005. Since the sales were in excess of the contractual agreements, as at the date of this report the Health Insurance Houses do not recognize these amounts. However, these long term receivables from Health Insurance House are covered by a warranty undertaking from GlaxosmithKline SRL (GSK Group – Note 17).

According to the acquisition contract of Ideapharm SA, GSK Group must cover all the uncollected receivables from Health Insurance House, which were outstanding at the acquisition date.

In case the Health Insurance House will not pay its outstanding debts towards the Company within a period of 3 years, GSK Group will compensate these amounts with the debts of the Company.

## 8. INVENTORIES

| | 31 December 2006 |
|---|---|
| Goods held for sale | 64,827 |
| Provision for slow moving and obsolete inventory | (1,372) |
| | 63,455 |

As at 31 December 2006 bank borrowings (Note 15) are secured over EUR 63,136 thousand from the above inventories.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 9. ACCOUNTS RECEIVABLE

| | 31 December 2006 |
|---|---:|
| Trade receivables | 115,841 |
| Amounts due from related parties (Note 21) | 6,487 |
| Impairment for receivables | (2,541) |
| | 119,787 |

Trade receivables amortised cost was computed based on an effective weighted average interest rate of 4.43% as at 31 December 2006.

As at 31 December 2006 bank borrowings (Note 15) are secured over EUR 119,770 thousand from the above trade receivables balance.

The fair value of trade receivables (including related parties) as at 31 December 2006 is EUR 120,113 thousand.

## 10. OTHER CURRENT ASSETS

| | 31 December 2006 |
|---|---:|
| Prepayments | 4,886 |
| VAT recoverable | 3,505 |
| Other state receivables | 1,384 |
| Loans receivable from customers | 733 |
| Amounts receivable from shareholders (Note 21) | 587 |
| Advances to suppliers | 181 |
| Sundry debtors, net | 351 |
| Amounts due from related parties (Note 21) | 222 |
| | **11,849** |

In prepayments, the Group has included various forms of discounts granted in advance to clients.

## 11. CASH AND CASH EQUIVALENTS

| | 31 December 2006 |
|---|---:|
| Cash and bank in RON | 17,127 |
| Cash and bank in foreign currency | 67 |
| | 17,194 |
| Restricted cash | 5,863 |
| | 23,057 |

As at 31 December 2006 the value of short-term deposits included within cash and bank in RON was EUR 14.5 million, and the weighted average effective interest rate on short-term bank deposits was 3.36% p.a.

As at 31 December 2006 bank borrowings (Note 15) are secured over EUR 589 thousand from the above cash balance.

For the purpose of the cash flow statement, the cash and cash equivalents comprise the following:

| | 31 December 2006 |
|---|---:|
| Cash and bank balances | 23,057 |
| Less restricted cash | (5,863) |
| Bank overdrafts (Note 15) | - |
| | 17,194 |

## 12. SHARE CAPITAL AND SHARE PREMIUM

The statutory issued share capital and share premium were contributed as set out below:

| | Date | Share capital (EUR '000) | Share premium (EUR '000) |
|---|---|---|---|
| In-kind contribution by Sograno BV of shares in ADP SRL | 24 May 2006 | 2,500 | 257,500 |
| Conversion of the share premium into the issued share capital | 28 June 2006 | 197,500 | (197,500) |
| Dividends distribution | 9 October 2006 | - | (925) |
| | | 200,000 | 59,075 |

Shares have a nominal value of EUR 1 each and all have equal voting rights. The total statutory value of share capital is EUR 200 million.

The shares of ADP SRL, contributed by Sograno BV into the share capital of the Company, have been valued by an independent valuer using the market comparison approach, whereby price data ("multiples") for shares of similar companies which are traded in public markets (the "Comparable Companies") were applied to the Entities' financial data to estimate their marketable value. As value measures, the valuer used price/earnings, price/sales, price/EBITDA, and price/EBIT ratios as of the valuation date. The Comparable Companies used in developing these ratios were drawn from the same industry as the Entities.

For the purposes of these financial statements drawn up under IFRS, the fair value of the shares of ADP SRL was estimated at 260,000, which results in a share capital of the Company of 200,000 and share premium of 59,075 as at 31 December 2006.

The issued share capital consists of the following:

| | Number of shares (thousand) | Ordinary shares (EUR '000) |
|---|---|---|
| At 24 May 2006 | 2,500 | 2,500 |
| At 31 December 2006 | 200,000 | 200,000 |

## 13. TAXATION

| | 2006 |
|---|---|
| Income tax expense – current | 3,757 |
| Deferred tax (income)/expense | (686) |
| Income tax | 3,071 |

The Romanian subsidiaries accrue income tax at the rate of 16% on profits as at 31 December 2006 computed in accordance with the Romanian tax legislation.

The profit before taxation for financial reporting purposes is reconciled to the total tax expense as follows:

| | 2006 |
|---|---|
| Profit before tax charge | 11,854 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 1,897 |
| Tax effect of items which are not deductible or assessable for taxation purposes | |
| Non-deductible expenses | 962 |
| Other non-temporary adjustments | 212 |
| Income tax | 3,071 |

(All amounts are expressed in EUR '000, unless otherwise stated)

## Deferred tax

Deferred tax assets/liabilities arise from the Romanian subsidiaries operations. These subsidiaries are subject to the statutory tax rate of 16% on taxable profits. Deferred tax assets/liabilities are measured at the enacted statutory effective tax rate of 16%. The net effect of the change on deferred tax balances recognised as at 31 December 2006 is reflected in the statement of income for the period then ended.

| | 31-Dec-06 | |
|---|---|---|
| | Cumulative temporary differences | Deferred tax asset/(liability) |
| Property, plant and equipment | (1,118) | (179) |
| Inventories | 7,830 | 1,253 |
| Receivables | 5,953 | 952 |
| Investments | (442) | (71) |
| Borrowings | - | - |
| Payables and other accruals | (13,085) | (2,094) |
| Deferred tax asset for statutory unused loss relief | 7,892 | 1,263 |
| Brand | (48,922) | (7,828) |
| Deferred tax asset not recognised | - | - |
| Deferred tax asset/(liability) | (41,892) | (6,704) |

The movement in deferred tax liability balance is as follows:

| | **Deferred tax (liability)/asset** |
|---|---|
| 24 May 2006 | (7,087) |
| Deferred tax (expense)/income | 686 |
| Translation reserve | (303) |
| 31 December 2006 | (6,704) |

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even when there is a net consolidated tax loss. Therefore, a deferred tax asset of one of the companies is not offset against the deferred tax liability of another company in the Group.

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## 14. FINANCE LEASE

Finance lease liabilities – minimum lease payments:

| | **31 December 2006** |
|---|---|
| Gross obligations under finance leases | |
| Less than 1 year | 2,694 |
| Between 1 year and 5 years | 1,924 |
| | 4,618 |
| Future finance charges | (342) |
| Present value of finance lease liabilities | 4,276 |

(All amounts are expressed in EUR '000, unless otherwise stated)

The present value of finance lease liabilities is as follows:

| | 31 December 2006 |
|---|---|
| Less than 1 year | 2,451 |
| Between 1 year and 5 years | 1,825 |
| Present value of finance lease liabilities | 4,276 |

The carrying amounts of lease obligations approximate their fair value.

## 15. BORROWINGS

As at 13 July 2006, the Company has contracted the syndicated loan with Citibank. The balance as at 31 December 2006 is as follows:

| | 31 December 2006 |
|---|---|
| CITIBANK - EUR (Syndicated Loan) | 71,718 |
| Prepaid fees – less than 1 year | (745) |
| Prepaid fees – between 1 year and 5 years | (1,180) |
| | 69,793 |

Long term loans are presented as follows:

| Lender | Maturity | Interest | 31 December 2006 |
|---|---|---|---|
| CITIBANK – Facility A | 31 July 2011 | EURIBOR 6m + 1.95% p.a. | 4,000 |
| CITIBANK – Facility B2 | 31 July 2009 | EURIBOR 3m + 1.7% p.a. | 50,580 |
| CITIBANK – Facility B 1 | 31 July 2009 | EURIBOR 3m + 1.7% p.a. | 17,138 |
| | | | **71,718** |

This financing facility replaced the overdraft facilities provided by HVB Bank and ING Bank.

The bank has agreed to split the total facility as follows:

- Facility A -capital expenditure requirements and/or repayment of existing indebtedness of any member of the Group, over a period of 5 years;
- Facility B1 - working capital requirements and/or repayment of existing indebtedness of any member of the Group (revolving), over a period of 3 years;
- Facility B2 -capital expenditure requirements and/or repayment of existing indebtedness of any member o lf the Group, over a period of 3 years;
- Facility B3 -issuance of letters of guarantee to the extent required in the ordinary course of the business of any member of the Group, over a period of 3 years;

Limitations and utilisations:

- The maximum amount can be utilised for facility A is EUR 10 million at the date of the agreement;
- The maximum amount that can be utilised for facility B2 is EUR 45 million;
- The maximum amount of all letters of guarantee issued under facility B3 shall not exceed EUR 10 million;
- The maximum total amount that can be utilised for facility B is EUR 90 million at the date of the agreement.

The Citibank Loan Agreement contains certain affirmative covenants, including, without limitation, certain financial ratio covenants to be observed and, in some cases, restrictions on dividend payments, unless a certain debt/EBITDA ratio is met.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 16. PROVISIONS

As at 31 December 2006, the Group recognized in its balance sheet a part of the acquired contingent liabilities of Mediplus Exim SA and Sensiblu SRL. The contingent liabilities not recognized – due to management's not being able to make reliable estimations of their impact - are described in Note 26(i).

The Group was subject to a Romanian Customs Authority control regarding the classification of certain imported goods which were not considered as nutritional supplements and taxed with 18%, but taxed as exempted products. The control of the Romanian Customs National Authority covered the period from 2001 to 2003 and resulted in additional custom duties, VAT, and related interest and late payments in amount of EUR 0.8 million, which is included in the amount of EUR 15 million.

Management is actively challenging the imposition of these charges.

Thus the legal and fiscal environment in Romania and its implementation into practice can change and is subject to different interpretation by various Ministries of the Government and their agencies that are authorised to conduct audits ("controls") of Romanian companies. Management has therefore made provision for tax or other liabilities in the financial statements where they consider that tax or other authorities could take differing positions with regards to the interpretation of these issues.

## 17. LONG TERM PAYABLES

As at 31 December 2006, the long term payables of the Group to GlaxoSmithKline SRL (GSK Group) guarantee for the receivable balance of EUR 1,562 thousand of the Group, in relation with Health Insurance House (Note 7).

Long term trade payables amortized cost was computed based on an effective weighted average interest rate of 5.24 % p.a. as at 31 December 2006. The fair value of long term trade payables as at 31 December 2006 is EUR 1,685 thousand.

## 18. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

| | 31 December 2006 |
|---|---|
| Trade payables | 147,779 |
| Amounts owing to related parties (Note 21) | 9,369 |
| Due to State | 2,548 |
| Financial liabilities | 1,590 |
| Due to employees | 1,140 |
| Interest payable | 432 |
| Advances for sale of land and building | - |
| Other payables | 213 |
| Accounts payable, accruals and other liabilities | 163,071 |
| Tax on profit | 2,580 |
| | **165,651** |

Short term trade payables amortised cost was computed based on an effective weighted average interest rate of 4.96% as at 31 December 2006.

The fair value of trade payables (including related parties) as at 31 December 2006 is EUR 156,960 thousand.

Financial instruments at fair value through profit or loss

The Group entered into a number of foreign currencies enhanced non-deliverable forward contracts to mitigate its foreign currency exposure with trade payables. All gains and losses on foreign currency contracts are recognised in the income statement. The unrealised losses as at 31 December 2006 on these non deliverable forward contracts are EUR 1,590 thousand.

The table below summarizes, by major currency, the contractual amounts of the Group non-deliverable forward foreign exchange contracts as at 31 December 2006, with details of the contracted exchange rates versus the RON. Foreign currency amounts are translated at market rates ruling at the balance sheet date.

(All amounts are expressed in EUR '000, unless otherwise stated)

| | Enhanced forward exchange rates | Participation exchange rates | Notional amount in EUR |
|---|---|---|---|
| Buy US Dollars | 2.72 | 2.92 | 15,185 |
| Buy US Dollars | 2.60 | 2.70 | 5,315 |
| Buy Euro | 3.47 | 3.60 | 18,000 |
| Buy Euro | 3.40 | 3.50 | 8,000 |

The "Enhanced forward rate" represents the rate at which the Group buys the notional amounts in foreign currency as long as the spot rate is below the "Participation rate". In case the spot rate reaches or goes above the Participation rate, the Group exits the hedge.

## 19. OPERATING COSTS

| | 2006 |
|---|---|
| Cost of sales | 155,121 |
| Salaries and benefits | 18,684 |
| Rent and administrative expenses | 8,542 |
| Third party services | 7,606 |
| Advertising and promotion | 8,723 |
| Depreciation and amortization | 3,074 |
| Impairment for fixed assets | (443) |
| Provision for inventories | 648 |
| Inventory write off | 485 |
| Penalties and fines | 1,064 |
| Impairment on receivables | 520 |
| Operational foreign exchange (income)/ expense | (5,366) |
| Hedging loss | 1,590 |
| Other expenses | 719 |
| | **200,967** |

## 20. FINANCIAL RESULT

| | 2006 |
|---|---|
| Foreign exchange differences, net | 2,830 |
| Interest income | 244 |
| Interest expense | (2,698) |
| Interest (expense)/revenue financial instruments | 909 |
| Other financial expense | (503) |
| | **782** |

## 21. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosure". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely to the legal form.

(All amounts are expressed in EUR '000, unless otherwise stated)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the period ended 31 December 2006 or had significant balances outstanding at 31 December 2006 are detailed below. Transactions were entered into with related parties during the ordinary course of business on both normal and preferential commercial terms.

| Controlled by the same ultimate shareholders | Activity | Country of incorporation |
|---|---|---|
| Consumer Product Network SRL (formerly Farmactiv SRL) | Importer and distributor of parapharmaceutical products | Romania |
| Global Business Software SRL | Software development | Romania |
| Ozone Laboratories Ltd | Holding company of Ozone Laboratories SRL | United Kingdom |
| Ozone Laboratories SRL | Pharmaceutical manufacturer | Romania |
| Fleet Management Services SRL | Car fleet maintenance | Romania |
| Press Pro International SRL | Media promotion | Romania |
| Arishop Pharma AD | Importer and distributor of pharmaceutical products | Bulgaria |
| Oxigen Plus SRL | Oxigen products distributor | Romania |

| Controlled by the same ultimate shareholders | Activity | Country of incorporation |
|---|---|---|
| Miniblu SRL | Baby clothing and toys | Romania |
| Optical Network SRL | Optical products | Romania |
| Gemisa Investments Ltd | Investment fund | Cyprus |
| Lauren Finance SRL | Merchant card | Romania |
| Adkit Serv SRL | Management services | Romania |
| Grup 3 Contracting SRL | Construction | Romania |
| Cristal Diagnostic SRL | Laboratory tests | Romania |
| Sograno BV | | The Netherlands |

During the period, the following transactions were carried out with related parties:

| Sales of goods and services | 2006 |
|---|---|
| Ozone Laboratories SRL | 2,660 |
| Employees | 789 |
| Miniblu SRL | 132 |
| Optical Network SRL | 141 |
| Consumer Product Network SRL | 98 |
| Gemisa Servicii SRL | 1 |
| | 3,821 |

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(All amounts are expressed in EUR '000, unless otherwise stated)

Mediplus Exim SA and Ozone Laboratories SRL have entered into an agreement dated 1 January 2006, based on which the former undertook to provide the latter storage and distribution services, as well as logistic services related to the transport and management of Ozone Laboratories products, up to a yearly limit set out by the parties in the agreement. The agreement remains in force until 31 December 2007. The fees that Ozone Laboratories must pay to Mediplus Exim SA are calculated by applying certain percentages to the value of the Ozone Laboratories finished products acquired by Mediplus Exim SA from Ozone Laboratories.

On 2 August 2006 Sensiblu SRL and Ozone Laboratories SRL entered into a service agreement according to which the former undertook to provide to the latter certain services for the merchandising of Ozone Laboratories products in 159 of Sensiblu SRL's pharmacies. The number of the pharmacies where these services are to be provided will increase to 190 by the end of 2006 and to 210 by 1 July 2007. The agreement is entered into for a 12 month period, namely from 1 July 2006 to 1 July 2007. The tariffs to be paid by Ozone Laboratories SRL are set out for each type of services provided. Given the significant package of services acquired, Ozone Laboratories SRL benefits from a 17 per cent discount applied to the aggregate value of the purchased services.

| **Purchases of goods and services** | **2006** |
|---|---|
| Ozone Laboratories SRL | 16,265 |
| Consumer Product Network SRL | 1,299 |
| Fleet Management SRL | 328 |
| Miniblu SRL | 10 |
| Optical Network SRL | 66 |
| SC Cristal Diagnostic SRL | 109 |
| Adkit Serv SRL | 27 |
| Sensiblu Optica SRL | 8 |
| Others | 18 |
| | **18,130** |

The goods and services purchased are presented net of discounts received from Ozone Laboratories SRL during the 7 months period ended 31 December 2006. The value of discounts received by the Group in the period is of EUR 3,468 thousand.

| **Sales of property, plant and equipment** | **2006** |
|---|---|
| Consumer Product Network SRL | 52 |
| Ozone Laboratories SRL | 41 |
| Other | 24 |
| | 117 |

| **Purchases of property plant and equipment** | **2006** |
|---|---|
| Grup 3 Contracting | 9,594 |
| Fleet Management SRL | 12 |
| | 9,606 |

| | **2006** |
|---|---|
| Management salaries | 1,688 |

| **Interest related to loan granted by related parties** | **2006** |
|---|---|
| Interest paid to Sograno BV | 188 |

(All amounts are expressed in EUR '000, unless otherwise stated)

The following balances were outstanding with related parties:

| **Trade receivables from related parties** | **31 December 2006** |
|---|---|
| Ozone Laboratories SRL | 4,286 |
| Employees | 1,516 |
| Ozone Laboratories Ltd | 453 |
| Optical Network SRL | 109 |
| Miniblu SRL | 100 |
| Consumer Product Network SRL | 23 |
| Others | - |
| | 6,487 |

For the above receivable, the Company has provided the amount of EUR 1.5 million as at 31 December 2006.

| Other receivables from related parties | **31 December 2006** |
|---|---|
| Ozone Laboratories SRL | 64 |
| Receivable from shareholders | 587 |
| Miniblu SRL | 36 |
| Oxigen Plus SRL | 60 |
| Optical Network SRL | 40 |
| Gemisa Servicii SRL | 12 |
| Others | 10 |
| | 809 |

| **Trade payables to related parties** | **31 December 2006** |
|---|---|
| Ozone Laboratories SRL | 7,323 |
| Grup 3 Contracting SRL | 1,286 |
| Consumer Product Network SRL | 579 |
| Optical Network SRL | 74 |
| Fleet Management SRL | 60 |
| SC Cristal Diagnostic SRL | 23 |
| Miniblu SRL | 18 |
| Global Business Software SRL | - |
| Ozone Laboratories Ltd | - |
| Others | 6 |
| | 9,369 |

As at 1 January 2006 a contract was signed between Mediplus Exim SA and Ozone Laboratories SRL, related party of the Group (Note 9), related to the transfer of the Mediplus's outstanding receivables balances older than 210 days on Ozone products.

The contract concerns the compensation of third parties receivables balances towards the Group against the Ozone Laboratories SRL payable balance.

(All amounts are expressed in EUR '000, unless otherwise stated)

## Transactions with shareholders

| Balances from/(due) to shareholders | 31 December 2006 |
|---|---|
| To recover from founding shareholders (Note 10) | 39 |
| Other amounts receivable/(payable) (Note 10) | 548 |
| Net amount receivable from shareholders | 587 |

The founding shareholders have provided goods to its employees, as benefits in kind, in amount of EUR 767 thousand. The receivable of the Company from the founding shareholders for the amount mentioned above were written off by management decision.

Other amounts receivable comprise the withholding tax due to the state in relation with past transactions involving the founding shareholders.

Based on administrator's decision of Mediplus Exim and Sensiblu from 7 March 2007, the shareholders have committed themselves to repay the amount of EUR 548 thousand to the two companies.

## Other transactions with key management personnel

Directors of the Company control 7% of the voting shares of the Group's parent company, A&D Pharma Holdings NV, Netherlands.

| | 2006 |
|---|---|
| Board of Directors Salaries | 507 |

The 4 founding shareholders which are Non-Executive Directors are not remunerated for their services rendered to the Company.

## 22. MAIN SUBSIDIARIES

The consolidated subsidiaries included within the Group and the degree of control exercised by A&D Pharma Holdings N.V. are as follows:

| Entity | Country of incorporation | Activity | % share 31 December 2006 |
|---|---|---|---|
| A&D Pharma Holdings SRL | Romania | Romanian holding company of Mediplus and Sensiblu | 100 |
| Mediplus Exim SRL | Romania | Import and wholesale distribution of pharmaceutical products in Romania | 100 |
| Sensiblu SRL | Romania | Retail distribution of pharmaceutical products in Romania | 100 |
| Ideapharm SA | Romania | Retail distribution of pharmaceutical products in Romania | - |
| Lauren Finance SRL | Romania | Financial activities | 100 |

In September 2006 Ideapharm SA merged with Sensiblu SRL.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 23. SEGMENT INFORMATION

**Statement of Income**

| Period from 24 May 2006 (date of incorporation) to 31 December 2006 | Wholesale | Retail | Other | Eliminations | Group |
|---|---|---|---|---|---|
| Sales | 183,597 | 56,236 | - | (27,794) | 212,039 |
| Operating income and expenses | (170,115) | (57,636) | (1,033) | 27,817 | (200,967) |
| Segment result | 13,482 | (1,400) | (1,033) | 23 | 11,072 |
| Operating profit/(loss) | 13,482 | (1,400) | (1,033) | 23 | 11,072 |
| Finance costs, net | 647 | 223 | (88) | - | 782 |
| Profit/(loss) before taxation | 14,129 | (1,177) | (1,121) | 23 | 11,854 |
| Income tax expense | (3,120) | 49 | - | - | (3,071) |
| Net profit/(loss) for the period | 11,009 | (1,128) | (1,121) | 23 | 8,783 |

**Balance sheet**

| As at 31 December 2006 | Wholesale | Retail | Other | Eliminations | Group |
|---|---|---|---|---|---|
| Segment assets | 245,820 | 49,275 | 269,832 | (21,939) | 542,988 |
| Unallocated assets | - | - | - | - | - |
| Total assets | 245,820 | 49,275 | 269,832 | (21,939) | 542,988 |
| Segment liabilities | 220,025 | 62,619 | 2,015 | (21,708) | 262,952 |
| Unallocated liabilities | - | - | - | - | - |
| Total liabilities | 220,025 | 62,619 | 2,015 | (21,708) | 262,952 |
| Capital expenditure | 13,253 | 3,104 | 15 | - | 16,373 |
| Depreciation and amortisation | (1,037) | (1,980) | (58) | - | (3,074) |

Included in operating income and expenses are depreciation and amortisation charges in amount of EUR 3,074 thousand out of which wholesale accounts for EUR 1,037 thousand and retail segment for EUR 1,980 thousand.

*Primary reporting format - business segments*

There are material sales and other transactions between the business segments. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and investments. Segment liabilities comprise operating liabilities, lease liabilities and borrowings. Eliminations comprise mainly intercompany commercial and service transactions.

Capital expenditure comprises additions to property, plant and equipment and intangibles

The secondary segmental information based on geographical area is not material to be disclosed as almost all the activity is carried out in Romania.

## 24. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

A capitalisation which has the effect of increasing the number of shares in issue without any inflow of resources and further ordinary shares are issued to existing shareholders for no consideration - the additional shares should be treated as having been in issue for the whole period as also included in the EPS calculation of all earlier periods.

As at period end, basic earnings per share value are as follows:

| | 2006 |
|---|---|
| Net Profit | 8,783 |
| Number of shares | 200,000,000 |
| Basic earnings per share (€) | 0.04 |

Also, in accordance with group's accounting policies, as at period end, diluted earnings per share value are as follows:

| | 2006 |
|---|---|
| Net Profit | 8,783 |
| Number of shares | 200,000,000 |
| Diluted earnings per share (€) | 0.04 |

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 25. USE OF ESTIMATES

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *(i) Interest income and expenses*

Interest income and expenses for financial instruments is recognised in the income statement at amortised cost using the effective interest rate method for receivables and payables.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The linear amortisation method used to determine the amortised cost for both receivable and payables represents the management's best estimate for the value of the corresponding amortisation.

### *(ii) Impairment losses on receivable*

In accordance with the internal impairment assessment methodology, the Company reviews its receivable portfolios to assess impairment on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is objective evidence of impairment that has an impact on the estimated future cash flows from an individual or from entire portfolio of receivables. Management uses estimates based on historical loss experience; in the same time the calculation of the present value of future cash flows requires judgement by the management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### *(iii) Carrying value of inventories*

The Company assesses at each balance-sheet date the requirement for a provision against its inventories. The Company uses its judgement, based on the expiry date of goods in order to estimate the level of the provision required.

### *(iv) Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(All amounts are expressed in EUR '000, unless otherwise stated)

Identification of cash generating units requires judgment and is based on ability to generate independent cash inflows. Both the wholesale and retail segments are treated by the Management as cash generating units as their operations are interdependent and there are no smaller units that have the ability to generate revenues largely independent from others within the group.

Goodwill is allocated at the acquisition date before the end of the first annual reporting period. As at 31 December 2006 management tested goodwill, brands and licenses for impairment. Goodwill acquired through business combination, indefinite lived intangibles and net book value of fixed assets have been allocated to cash generating units as follows:

| Cash-generating unit | Carrying amount of goodwill | Carrying amount of indefinite lived brand | Carrying amount of pharmacy licences | Carrying amount of tangible assets | Total Carrying value | Value in Use | Excess of recoverable amount over carrying amount |
|---|---|---|---|---|---|---|---|
| Wholesale | 195,351 | - | - | 26,690 | 222,041 | 338,986 | 116,945 |
| Retail | 35,300 | 48,931 | 1,719 | 8,887 | 94,837 | 134,797 | 39,960 |
| | 230,651 | 48,931 | 1,719 | 35,577 | 316,878 | 473,783 | 156,905 |

In determining the values in use, the management uses four-year detailed free cash flow forecasts (for period 2007-2010) and then simplified free cash flow forecasts in perpetuity with a discount rate of 9.6%, using data for 2010. The value in use of the cash generating units was based on a growth factor of 2% for all cash flows beyond the detailed projections.

Key assumptions are based on a local pharma market of EUR 1,268 million as at 31 December 2005.

Over the four-year period, the Compound Annual Growth Rate ("CAGR") of the total pharma market is estimated at 19% (i.e. EUR 2,976 mill as at 31 December 2010). The ADP Wholesale's CAGR is expected at 31% yearly, up to 31 December 2010 (from net sales of EUR 286 mill as at 31 December 2005 to EUR 824.3 million in 2010).

Over the same period, the retail market's CAGR is 20% (from EUR 286 mill as at 31 December 2006 to EUR 815 million as at 31 December 2010). The estimated ADP Retail segment CAGR of 56%, up to 31 December 2010 (from net sales of EUR 89.8 million as at 31 December 2005 to EUR 370 million in 2010).

The key assumptions in the value in use calculations determining recoverable amounts for the specific cash-generating units noted above are:

## Wholesale segment

For the wholesale business, the Company projects sales and gross margins by product group based on estimated market growth dynamics and expected market shares. Management believes the assumed improvements and margins are reasonably achievable.

## Retail segment

For the retail business, the Company based its forecasts on the projected future number of pharmacies, and how sales per pharmacy are expected to evolve. Management believes the assumed improvements and margins are reasonably achievable.

As at 31 December 2006, management tested goodwill and brands for impairment by reference to the Entities' business plans drawn up for the period 2006-2010. The assumptions and estimates used in the preparation of these business plans are detailed above. Following these tests, management has reached the conclusion that the above-mentioned assets are not impaired as at 31 December 2006.

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The value of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

Management is confident that the projections are reasonable in the context of consolidating the leadership position on the local market.

## 26. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

### (i) Contingencies

*a) Taxation*

The Romanian taxation system is undergoing a process of consolidation and harmonisation with the European Union legislation.

Even if the current Romanian Fiscal Code is meant to create a stable tax framework, tax legislation is still subject to a significant amount of changes and contradictory interpretations, which may apply retroactively.

Moreover, in practice, the tax authorities can take an aggressive approach and assess additional tax liabilities and related late payment penalties (2006: 0.06% per day plus 0.5% per month of delay) based on questionable interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the State.

Contingent liabilities may arise in relation to additional taxes that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period.

*b) Transfer pricing*

The Romanian Fiscal legislation includes detailed regulations regarding transfer pricing between related parties and includes specific methods for determining transfer prices between related prices at arm's length.

Although transfer pricing is a relatively new issue in Romania and the authorities have minimal experience in dealing with it, continuous development of legislation indicates that the authorities are becoming aware of its growing importance.

The company entered into various transactions with companies within the group, as well as other transactions with related parties.

Although no formal transfer pricing documentation is required under the domestic legislation, in practice the Romanian tax authorities may request specific documentation on a case-to-case basis.

In light of this, if observance of arm's length principle cannot be proved, a future tax control could challenge the values of transactions between related parties and adjust the fiscal result with additional taxable revenues/non-deductible expenses (i.e. assess additional profit tax liability and related penalties).

*c) Competition laws*

The group has various contracts with suppliers which may be classified by Competition Council as potential prohibited practices. Should the Competition Council open an investigation on any of these contracts and decide that Prohibited Practices exist, the Group and relevant suppliers may be subject to an Anti-Trust Fine for each offence. The fine may be up to 10% of annual turnover for the financial years prior to the investigation. Management is confident that it is not probable that such a risk will materialise, and is taking the necessary measures to alter those agreements to be fully in line with Competition laws.

*d) Operating environment*

The Romanian economy continues to display some characteristics of an emerging market.

The Group's subsidiaries have been involved in various practices which may constitute violations of specific Romanian laws and regulations regarding the wholesale, retail and advertising of medical products and medication, including of prescription drugs.

These practices are common in the Romanian pharmaceutical market and, to the Company's knowledge, in relation to these practices no investigations have been undertaken or sanctions applied to date. However, if investigated and proved, such practices may result in either the reclassification of certain transaction from a tax standpoint or fines and other sanctions. The tax exposure may result into additional EUR 9.3 million profit tax, VAT and late payment interest and also confiscation of revenues in amount of EUR 2.9 million.

However, the inspection performed by the Fiscal Authorities covering the financial periods to 31 December 2004, did not result in any additional tax liabilities or penalties in connection with this matter. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, or reasonably determinable, or both.

The accompanying financial statements do not include any provision for such matters.

### *e) Legal proceedings*

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

### *f) Insurance policies*

The Group holds insurance policies covering its office building, warehouses and inventory balances as well as insurance policies covering its losses resulting from malpractice for the retail business. The Group holds no other insurance policies in relation to its assets, operations, product liability, or in respect of public liability or other insurable risks.

### *g) Benefits in kind to employees*

Over time, the Group has given benefits in kind to its employees, which could be regarded as salaries by the fiscal authorities and taxed accordingly. However, the inspection performed by the Fiscal Authorities covering the financial periods up to 31 December 2004, did not result in any additional tax liabilities or penalties in connection with this matter. Therefore, Group management considers the risk of such taxes being imposed to be remote and the accompanying financial statements do not include any provision for such matters.

## (ii) Contractual commitments

### *a) Operating lease contracts for pharmacies*

The Group has operating lease contracts for pharmacies location in total amount of EUR 30.8 million, for a period from 3 to 10 years, with future minimum lease payments as follows:

i) less than 1 year EUR 6.6 million;
ii) between 1 and 5 years EUR 18.7 million;
iii) more than 5 years EUR 5.5 million.

### *b) Construction Agreement for Mogosoaia office building and warehouse*

As at 23 June 2005, Mediplus has entered into an agreement for the construction of an office building and a warehouse in the Mogosoaia village with Grup 3 Contracting (related party).

The agreement was further amended as at 1 March 2006 and sets out the following deadlines for the construction works: (i) 31 July 2006 for the warehouse, and (ii) 30 September 2006 for the office building and for completing ancillary outfitting works. In case of delays in carrying out the relevant construction works the contractor is liable for penalties of EUR 2,500 per day of delay.

Although the deadlines were not achieved as at 31 December 2006, no penalties were perceived or collected.

The value of the agreement is of EUR 10.8 million exclusive of VAT, payable by Mediplus in several instalments upon the acceptance of different categories of construction works.

As at 31 December 2006, future services in an amount of approximately EUR 2.0 million should be rendered by Grup 3 Contracting (related party) to Mediplus related to this agreement.

*c) Contracts concluded for improvements to leased pharmacies*

The Group concluded agreements with Riga International and Grup 3 Contracting (related party) for improvements which were performed in 2006 to leased pharmacies. The total value of payments in 2006 for improvements was in amount of EUR 1 million.

*d) Construction Agreement for warehouses in the country*

Mediplus has agreements for the construction of warehouses in Craiova with Grup 3 Contracting (related party) in amount of EUR 780 thousand, and in Oradea with Ecolution, in amount of EUR 594 thousand.

Deposits in Constanta and Oradea are considered to be set up, and for the moment no constructors were designated.

### (iii) Guarantees

- As at 31 December 2006, the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the business the Group has given guarantees amounting to EUR 4.7 million to third parties as at 31 December 2006.
- As at 31 December 2006 the Group has an agreement with HVB Bank Romania for the purpose of issuing of letters guarantee in amount of EUR 325,000. The unused facility available to the Group as at 31 December 2006 was EUR 247,000.
- As at 31 December 2006 the Group has an agreement with ING Bank Romania for the purpose of issuing of letters guarantee in amount of EUR 900,000.The unused facility available to the Group as at 31 December 2006 was EUR 384,000.

## 27. FINANCIAL RISKS

*(i) Credit risk*

Financial assets, which potentially subject this Group to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.

The Group has no significant concentrations of credit risk, other than the case of Sensiblu SRL and Ideapharm SA with the amounts due from the Health Insurance Houses. Credit risk with respect to these receivables is limited, since these amounts are primarily due from the Romanian State and hence are considered to be ultimately recoverable. Accordingly, management believe that the Group has no significant net credit risk with regards to such balances.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

### (ii) Foreign currency risk

The Group imports supplies from other European countries through its Romanian subsidiaries, which also attract significant foreign currency denominated borrowings. This exposes the Group to foreign exchange risk.

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro, U.S. Dollars (USD), Swiss Franc (CHF).

The Group hedges 50 percent of all monthly payments to suppliers denominated in Euro and USD. The Group uses forward exchange contracts to hedge its foreign currency risk. The forward exchange contracts have maturities of less than one year after the reporting date. Where necessary, the forward exchange contracts are rolled over at maturity.

### (iii) Interest rate risk

The Group's income and operating cash flows are impacted by changes in market interest rates since the majority of interest rates on borrowings are variable, as disclosed in Note 15. The Group has no significant interest-bearing assets.

(All amounts are expressed in EUR '000, unless otherwise stated)

### (iv) Liquidity risk

| | 31 December 2006 |
|---|---|
| Assets | |
| Monetary assets in RON | 160,346 |
| Monetary assets in foreign currency | 578 |
| | 160,924 |
| Liabilities | |
| Monetary liabilities in RON | (111,225) |
| Monetary liabilities in foreign currency | (145,023) |
| | (256,248) |
| Net monetary position in RON | 49,121 |
| Net monetary position in foreign currency | (144,445) |

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due; however, due to the Group's current financing structure, there is a significant risk that the Group will encounter liquidity problems in the foreseeable future.

## 28. POST BALANCE SHEET EVENTS

**Recovery of debts from Romanian Ministry of Health**

In January 2007, following the discussions between the Drugs Distribution Association, other associations and the Ministry of Health, a law bill regarding the acceptance and the payment method of the debts related to sales exceeding the settled ceilings for pharmacies, was proposed to Parliament for debate and approval.

The Company has receivables not recognised as a consequence of ceiling exceeds in amount of EUR 900 thousand. No provision was recognised.

**CITIBANK Loan – utilization requests**

As at 30 April 2007 the amount withdrawn by the Group from Facility A, Facility B and Facility B3 is of EUR 76,329 thousand.

**CITIBANK Loan – mortgage**

As part of the loan agreement, the Group has agreed with Citibank to conclude an addendum to the mortgage contract for Mogosoaia building during the week 14-18 May 2007.

**Land sale**

In January 2007 the Group sold a land in Constanta County having the GBV of EUR 197 thousand , obtaining proceeds in amount of EUR 475 thousand.

## 29. PROFORMA FINANCIAL INFORMATION

IFRS does not prescribe an accounting treatment for common control business combinations and therefore it is management's decision to determine the appropriate accounting treatment to be applied. IFRIC decided not to prescribe precise treatments for all possible situations in this area only because there is too much diversity in practice and judgment will always remain.

According to IAS 8.10 "Accounting policies, changes in accounting estimates and errors" in the absence of a Standard or an Interpretation that specifically applies to a transaction, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users.

The management of the Company assessed inter alia that A&D Pharma Holdings NV, (new "Company"), could be regarded as the acquirer if it is considered that the restructuring was linked to another future transaction, a future Initial Public Offering (IPO).

In these circumstances, given the substance of the transaction, the purchase method of accounting will provide users of the financial statements with more relevant information than an approach in which only one of the pre-existing entities is presented at fair value and the other one at book value as recommended by IFRS 3.22 under the reverse acquisition method. The Management of the Company has made this selection, considering all the pertinent facts and circumstances:

- It is more useful for future investors to apply an accounting method which would result in fair values being attributed to the assets, liabilities and contingent liabilities of the existing businesses, and the recognition of goodwill, relating to all of those businesses. The use of book value for the most important segment – wholesale and fair value for the smallest segment – retail would impair the usefulness of the information provided to users about the combination both comparability and reliability;
- IFRS 3 scopes out common control transactions and did not issue any guidance to prescribe or ban the method applied in this case;
- The accounting policy chosen did not misinform the public; the difference between reverse acquisition and fresh start accounting is an adjustment between goodwill and premium reserve. The value of the goodwill is tested yearly for impairment and any excess over the recoverable amount is recognised as an expense in the profit and loss account. The nature of the business strongly encourages the use of fair value for both businesses.
- The two operating subsidiaries are in the pharma industry – wholesale and retail distribution. While the retail distribution, the smaller business is accounted at fair value, i.e. 60 million EUR, the wholesale business would not be allowed because, according to IFRS 3.22, it is considered the acquirer and should be accounted in the consolidation at book value.

If the Group had accounted for the business combination as reverse acquisition, the following adjustments would have been made to the financial information (other items not being affected):

| | 31 December 2006 reverse acquisition EUR million | 31 December 2006 as presented EUR million | Adjustments EUR million |
|---|---|---|---|
| ASSETS | | | |
| Non current assets | | | |
| Goodwill | 55 | 283 | (228) |
| Shareholders' Equity | | | |
| Share capital | 11 | 200 | (189) |
| Reverse acquisition premium | 59 | - | 59 |
| Share premium | - | 59 | (59) |
| Shareholder's contribution | 3 | - | 3 |
| Translation reserve | 7 | 12 | (5) |
| Retained earnings | 34 | 9 | 25 |
| Total shareholders' equity | 114 | 280 | (166) |
| Non-current liabilities | | | |
| Provisions | 6 | 15 | (9) |

If the Group had accounted for the business combination under reverse acquisition, comparative information for 2005 presented in these consolidated financial statements would be that of Mediplus only:

| | 2006 Consolidated Reverse Acquisition | 2006 consolidated as presented | Adjustments | 2005 Mediplus only |
|---|---|---|---|---|
| | EUR million | EUR million | EUR million | EUR million |
| Sales | 332 | 212 | 120 | 205 |
| Operating costs | (309) | (201) | (108) | (187) |
| Operating profit | 23 | 11 | 12 | 18 |
| Financial result | (2) | 1 | (3) | (4) |
| Profit before taxation | 21 | 12 | 9 | 14 |
| Taxation | (4) | (3) | (1) | (3) |
| Profit for the year | 17 | 9 | 8 | 11 |

## Comparative cash flow statements under reverse acquisition

| | 2006 Consolidated Reverse Acquisition | 2006 consolidated as presented | Adjustments | 2005 Mediplus only |
|---|---|---|---|---|
| | EUR million | EUR million | EUR million | EUR million |
| Net cash from operating activities | (8) | 1 | (9) | 14 |
| Net cash used in investing activities | (14) | (14) | - | (2) |
| Net cash from financing activities | 51 | 59 | (8) | (11) |
| Net increase / (decrease) in cash and cash equivalents | 29 | 46 | (17) | 1 |
| Cash and cash equivalents at beginning of the year | (11) | (29) | 18 | (12) |
| Translation reserve | (1) | - | (1) | - |
| Cash and cash equivalents at end of year | 17 | 17 | - | (11) |

The management considers that accounting for the business combination under the reverse acquisition method would impair the comparability of the financial position, performance and cash flow of the entity. Following the restructuring of the former ADP Antilles group, ADP NV has preserved the same operating structure and such comparatives would not represent faithfully the financial position, performance and cash flows of the entity over the period.

17-09-2007

A&D Pharma

A&D Pharma Holdings N.V.

Statutory company and consolidated financial statements as at and for the period from 24 May 2006 (date of incorporation) to 31 December 2006

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17-09-2007

# GENERAL INFORMATION

## Description of the business

A&D Pharma Holdings NV and its subsidiaries' (together "the Group") principal activities include the import, wholesale and retail distribution of pharmaceutical products. The Group's facilities are based in Romania. The parent company, A&D Pharma Holdings NV (ADP NV or "the Company") was incorporated as a limited liability company in Delft, the Netherlands, on 24 May 2006. By means of the amendment of the articles of association dated 19 June 2006, the legal form of the incorporated limited liability company was changed into public company. The principal subsidiaries are disclosed in Note 21 to the Consolidated Financial Statements.

As at 31 December 2006 the Group have 3,173 employees (2,813 as at 24 May 2006). The registered office of the Company is Martinus Nijhoflaan 2, 2624 ES Delft, The Netherlands.

On 24 May 2006, Sograno set up ADP NV, a joint-stock company incorporated and organized under the laws of the Netherlands, and made an in-kind contribution to its share capital consisting of the shares held in the A&D Pharma SRL holding the shares of Mediplus, Sensiblu and Ideapharm.

## Shareholders structure

The shareholders of the Company as at 31 December 2006 were:

| | Number of shares | Shareholding % |
|---|---|---|
| Sograno BV, Netherlands | 117,000,000 | 58.5000 |
| Defrin Investment Ltd | 4,454,600 | 2.2273 |
| Nezik Trading Ltd | 3,818,200 | 1.9091 |
| Wartfield Investments Ltd | 1,272,600 | 0.6363 |
| Mantin Ltd | 4,454,600 | 2.2273 |
| Citibank N.A. (Depositary) | 69,000,000 | 34.5000 |
| | **200,000,000** | **100** |

The shareholder of the Company as at 24 May 2006 was:

| | Number of shares | Shareholding % |
|---|---|---|
| Sograno BV | 2,500,000 | 100 |
| | **2,500,000** | **100** |

The ultimate parent company is Active Pharma Invest Limited, Cyprus.

The persons who held office during the year ended 31 December 2006 were the following:

| | |
|---|---|
| Dragos Dinu | Chief Executive Officer |
| Florin Buligoanea | Chief Financial Officer |
| Vivian Diaconescu | Chief Operating Officer Wholesale |
| Claudiu Opran | Chief Operating Officer Retail |
| Dr. David Ebsworth | Chairman of the Board |
| Ludovic Robert | Non-Executive Director |
| Michel Eid | Non-Executive Director |
| Roger Akoury | Non-Executive Director |
| Walid Abboud | Non-Executive Director |
| Michael Wemms | Chairman of Remuneration Committee |
| Urs Kamber | Chairman of Audit Committee |

# STATUTORY COMPANY FINANCIAL STATEMENTS

## Balance Sheet

| | Note | 31 December 2006 | 24 May 2006 |
|---|---|---|---|
| | | EUR'000 | EUR'000 |
| **ASSETS** | | | |
| | | | |
| **Non-current assets** | | | |
| Financial assets | 3 | 281,926 | 260,000 |
| | | 281,926 | 260,000 |
| | | | |
| **Current receivables** | | | |
| Trade and other receivables | 2 | 16 | - |
| Cash and cash equivalents | | | |
| | | 16 | - |
| | | | |
| **Current liabilities** | 6 | 956 | - |
| | | 956 | - |
| **Current assets minus current liabilities** | | (940) | - |
| | | | |
| **Long term liabilities** | 5 | 950 | - |
| | | | |
| **Shareholders' equity** | | | |
| Issued capital | 4 | 200,000 | 2,500 |
| Share premium | 4 | 59,075 | 257,500 |
| Translation reserve | | 12,178 | - |
| Profit for the year | | 8,783 | - |
| Total shareholders' equity | | 280,036 | 260,000 |

## Profit and loss account

| | 24 May 2006 - 31 December 2006 |
|---|---|
| | EUR' 000 |
| | |
| Profit of participation interests after taxation | 9,748 |
| Other income and expenses after taxation | (965) |
| | |
| Profit for the year | 8,783 |

17-09-2007

# NOTES TO THE STATUTORY COMPANY FINANCIAL STATEMENTS

## 1. GENERAL

The company financial statements are prepared in accordance with Title 9 of Book 2 of the Netherlands Civil Code. The Company uses the option provided in section 2:362 (8) of the Netherlands Civil Code in that the principles for the recognition and measurement of assets and liabilities and determination of result (hereinafter referred to as principles for recognition and measurement) as applied in the consolidated financial statements are also applied in the company financial statements. Reference is made to the notes to the statutory consolidated financial statements for a description of the principles for recognition and measurement.

The Company's parent-only income statement has been prepared in accordance with section 2:402 of the Netherlands Civil Code.

For the information on group companies of A&D Pharma Holdings N.V. please refer to note 21 of the consolidated financial statements.

## 2. TRADE AND OTHER RECEIVABLES

The amount represents a payment made in error to Mr. Florin. Buligoanea, Group CFO.

As at 15 May 2007 the entire amount has been repaid to the company.

## 3. FINANCIAL ASSETS

Investments in group companies are carried at net asset value, calculated according to the group accounting policies. Non-consolidated participating interests where the company has got no significant influence are carried at cost less any impairment losses.

The financial assets consist solely of participating interests in group companies.

Movement in the net asset value was as follows:

| | 2006 |
|---|---:|
| | EUR' 000 |
| Balance at 24 May | 260,000 |
| Additions | - |
| Shares of profit of participating interests | 9,748 |
| Translation differences | 12,178 |
| Dividend received | - |
| Balance at 31 December | 281,926 |

## 4. ISSUED CAPITAL

The authorized share capital amounts to Euro 220,000,000 divided into 220,000,000 ordinary shares of Euro 1.00 nominal value each. The issue and fully paid up capital is Euro 200,000,000.

For the movement schedule of issued capital, share premium, other reserves and profit for the year please refer to the specification of the consolidate statements of changes in equity for the for the seven month period ended 31 December 2006 included in the consolidated financial statements.

## 5. LONG TERM LIABILITIES

The long term liabilities represent a loan group.

## 6. CURRENT LIABILITIES

The current liabilities can be broken down as follows:

| | 31 December 2006 |
|---|---|
| | EUR' 000 |
| Accounts payable | 452 |
| Accrued expenses | 400 |
| Current account shareholder | 73 |
| Taxation | 19 |
| Other liabilities | 12 |
| | 956 |

Accrued expenses include audit fees due to HLB Den Hartog, KPMG, fees for assistance to management in cascading objectives to organization, insurance premiums, and other professional fees.

Current account shareholder comprises an intra group loan and share premium distribution due to Sograno BV, which is not interest bearing.

## 7. EMPLOYEES

During 2006 the company employed no personnel.

As at 31 December 2006 the Group has 3,173 employees (2,813 as at 24 May 2006).

## 3 August 2007

**The Board:**

Dr. David Ebsworth

Urs Kamber

Michael Wemms

Walid Abboud

Roger Akoury

Michel Eid

Ludovic Robert

Dragos Dinu

Florin Buligoanea

Vivian Diaconescu

Claudiu Opran

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**Statutory Consolidated Balance Sheets as at 31 December 2006**
***(All amounts are expressed in EUR '000, unless otherwise stated)***

| | Note | 31 December 2006 | 24 May 2006 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 5 | 282,960 | 269,373 |
| Property, plant and equipment | 4 | 35,592 | 22,370 |
| Financial fixed assets | 6 | 6,288 | 4,858 |
| **Total non-current assets** | | **324,840** | **296,601** |
| **Current assets** | | | |
| Inventories | 7 | 63,455 | 35,403 |
| Receivables | 8 | 131,636 | 103,505 |
| Cash and cash equivalents | 10 | 23,057 | 7,989 |
| **Total current assets** | | **218,148** | **146,897** |
| **Current liabilities** | | | |
| Short term borrowings | 14 | - | 42,038 |
| Accounts payable, accruals and other liabilities | 17 | 165,651 | 114,264 |
| Finance lease | 13 | 2,451 | 2,647 |
| **Total current liabilities** | | **168,102** | **158,949** |
| **Current assets minus current liabilities** | | **50,046** | **(12,052)** |
| **Provisions** | | | |
| Deferred tax | 12 | 6,704 | 7,087 |
| Provisions | 15 | 14,966 | 14,303 |
| **Total provisions** | | **21,670** | **21,390** |
| **Non-current liabilities** | | | |
| Long term payables | 16 | 1,562 | 1,493 |
| Long term borrowings | 14 | 69,793 | - |
| Finance lease | 13 | 1,825 | 1,666 |
| **Total non-current liabilities** | | **73,180** | **3,159** |
| **Shareholders' equity** | | | |
| Share capital | 11 | 200,000 | 2,500 |
| Share Premium | | 59,075 | 257,500 |
| Translation reserve | | 12,178 | - |
| Retained earnings | | 8,783 | - |
| **Total shareholders' equity** | | **280,036** | **260,000** |

The notes 1 to 28 form an integral part of these Statutory Consolidated Financial Statements.

## Statutory Consolidated Statement of Income for the period from 24 May 2006 (date of incorporation) to 31 December 2006
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Note | 24 May 2006 - 31 December 2006 |
|---|---|---|
| Sales | | 212,039 |
| Cost of goods sold | | (155,121) |
| **Gross margin** | | **56,918** |
| General and administrative expenses | 18 | (45,846) |
| **Operating profit** | | **11,072** |
| Financial income | | 3,074 |
| Financial expense | | (2,292) |
| **Financial result** | **19** | **782** |
| **Profit before taxation** | | **11,854** |
| Taxation | 12 | (3,071) |
| **Profit for the year** | | **8,783** |
| Basic earnings per share | 23 | €0.04 |
| **Diluted earnings per share** | **23** | **€0.04** |

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The notes 1 to 28 form an integral part of these Statutory Consolidated Financial Statements.

Statutory Consolidated Statement of Cash Flows for the period from 24 May 2006 (date of incorporation) to 31 December 2006
(All amounts are expressed in EUR '000, unless otherwise stated)

| | 24 May 2006 – 31 December 2006 |
|---|---|
| **Cash flows from operating activities** | |
| Profit before taxation | 11,854 |
| **Adjustments for:** | |
| Depreciation and amortization | 3,074 |
| Loss on disposal of tangible and intangible assets | (74) |
| Property, plant and equipment impairment | (443) |
| Interest income | (1,153) |
| Interest expense | 2,698 |
| **Operating profit before working capital changes** | **15,956** |
| Increase in receivables and prepayments | (34,626) |
| Increase in inventories | (28,052) |
| Increase in trade and other payables | 49,083 |
| **Changes in working capital** | **(13,595)** |
| Tax paid | (1,177) |
| **Net cash from operating activities** | **1,184** |
| **Cash flows from investing activities** | |
| Purchases of property, plant and equipment | (13,141) |
| Purchases of intangibles | (1,006) |
| Acquisition of other subsidiaries | (273) |
| Proceeds from sale of tangible and intangible assets | 803 |
| Interest received | 233 |
| Net cash used in investing activities | (13,384) |
| Cash flow from financing activities | |
| Long term loans | 69,793 |
| Short term borrowings | (5,614) |
| Lease payments | (2,263) |
| Share premium distribution | (925) |
| Interest paid | (2,291) |
| **Net cash from financing activities** | **58,700** |
| *Translation effect* | (178) |
| **Net increase in cash and cash equivalents** | **46,322** |
| **Cash and cash equivalents at beginning of the year** | **(29,128)** |
| **Cash and cash equivalents at end of year (Note 9)** | **17,194** |

The notes 1 to 28 form an integral part of these Statutory Consolidated Financial Statements.

**Statutory Consolidated Statement of Changes in Shareholders' Equity for the period from 24 May 2006 (date of incorporation) to 31 December 2006**
**(All amounts are expressed in EUR '000, unless otherwise stated)**

| | Share capital | Share premium | Translation reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| **24 May 2006** | **2,500** | **257,500** | - | - | **260,000** |
| Conversion of share premium into the issued capital on June 28, 2006 | 97,500 | (197,500) | - | - | - |
| Share premium distribution on October 9, 2006 | - | (925) | - | - | (925) |
| Profit for the year | | | | 8,783 | 8,783 |
| Translation reserve | | | 12,178 | | 12,178 |
| **31 December 2006** | **200,000** | **59,075** | **12,178** | **8,783** | **280,036** |

The Group is not allowed to declare and pay dividends without prior consent of Citibank (see Note 14).





The notes 1 to 28 form an integral part of these Statutory Consolidated Financial Statements.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 1. REPORTING ENTITY

These consolidated financial statements (alternatively referred to hereinafter as the "financial statements") are presented by A&D Pharma Holdings NV ("ADP NV" or the "Company") and they incorporate the results of the Company and its subsidiaries (together the "Group" or separately the "Entity" or "Entities"), as detailed in Note 21.

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by European Union ("EU").

The consolidated financial statements are prepared based on the statutory records of the Entities, which are maintained on a going concern basis under the historical cost convention except for the derivative financial instruments, measured at fair value and financial instruments measured at amortized cost.

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates (Note 24).

### 2.2 Functional currency

Based on the primary economic environment in which the group entities operate and taking into account the other factors as described in IAS 21, the functional currencies of individual consolidated Group entities were determined as follows:

- ADP NV – EUR
- ADP SRL – functional currency was determined to be Romanian Leu ("RON")
- Mediplus – functional currency was determined to be Romanian Leu ("RON")
- Sensiblu – functional currency was determined to be Romanian Leu ("RON")
- Ideapharm – functional currency was determined to be Romanian Leu ("RON")
- Lauren – functional currency was determined to be Romanian Leu ("RON")

The RON is not convertible outside Romania. The management of the Company has decided to adopt EUR as presentation currency for the purpose of consolidated financial statements.

The balance sheet items have been translated into EUR by dividing the RON amounts at the National Bank of Romania ("NBR") official exchange rates as at the date of each balance sheet, as set out below:

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| RON / 1 EUR | 3.3817 | 3.5386 |

The statement of income items for the periods ended 31 December 2006 were translated using the RON/EUR monthly average exchange rates. The translation of the balance sheet and statement of income items into the presentation currency gave rise to a translation reserve as defined in Note 3.9. Cash flows are translated using appropriate average exchange rates. Components of equity are not retranslated.

Such computations and presentation of amounts in EUR should not be construed as a representation that the RON amounts have been or could be converted into EUR at these rates or any other rates.

## 2.3 Going concern

Management is satisfied that it is appropriate to prepare these financial statements on a going concern basis.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 3.1 Group accounting

*a) Subsidiaries*

Subsidiaries, which are those Entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries (Note 28).

The cost of an acquisition is measured by the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

*b) Associates and joint ventures*

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

*c) Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as an acquisition at the date when business combination has occurred. The assets and liabilities acquired are recognised at fair value (Note 27).

*d) Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 3.2 Segment reporting

Segment information is presented in respect of the Group's business segments, based on the Group's management and internal structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

***Primary reporting format – business segments***

The Group comprises the following main business segments:

- Wholesale
- Retail

***Secondary reporting format – geographical segments***

The operational activities of the Group are in Romania and accordingly no geographical segment is presented.

## 3.3 Property, plant and equipment

Property, plant and equipment is recorded at purchase or construction cost.

Depreciation is calculated on the amounts of property, plant and equipment on a straight-line basis down to the assets' estimated residual values.

The depreciation periods, which approximate the useful economic lives of the respective assets, are as follows:

| Type | Useful life (years) |
|---|---|
| Buildings | 30-50 |
| Leasehold improvements | 3-10 |
| Computers and electronic equipment | 3-5 |
| Motor vehicles and trucks | 3-5 |
| Fixtures and fittings | 3-10 |

Land is not depreciated.

Repairs and maintenance are charged to the statement of income during the financial period in which they incur. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

All borrowing costs are expensed as incurred.

***Impairment***

At each reporting date the management assess as to whether there is any indication of impairment of property, plant end equipment. If any such indication exists, the management estimates the recoverable amount which is determined as the higher of an asset's net selling price and its value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the circumstances leading to the impairment.

## 3.4 Intangible assets

### *a) Goodwill*

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested for impairment at each reporting date.

*Impairment*

At each reporting date the management assesses whether there is any indication of impairment of goodwill. If any such indication exists, the management estimates the recoverable amount which is determined as the higher of net selling price and its value in use of cash generating units it is allocated to. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income. An impairment loss in respect of goodwill is not reversed.

### *b) Brands*

Acquired brands are capitalized on the balance sheet. These brands are valued on acquisition by an independent valuer, using a discounted cash flow methodology based on management assumptions and estimates regarding future revenue growth, prices, costs and economic factors in valuing a brand. These assumptions reflect management's best estimates but these estimates involve inherent uncertainties, which may not be controlled by management.

No amortisation is charged on brand intangibles as the Group believes that the value of these brands is maintained indefinitely. The factors that result in the durability of brands capitalised are that there are no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangibles.

Furthermore:

- The Group expects to acquire, hold and support brands for an indefinite period. The Group supports these brands through spending on consumer marketing across the business and through significant investment in promotional support. The brands capitalised are expected to be in longstanding and profitable market sectors.
- The likelihood that market based factors could truncate a brand's life is relatively remote because the size and market share of the brands in question.

The brands are tested for impairment at each reporting date, irrespective of whether there is an indication that the related assets may be impaired, as well as whenever there is any indication that they may be impaired. Management estimates the recoverable amount which is determined as the higher of net selling price and the value in use of the cash generating units it is allocated to. The carrying amount is reduced to the recoverable amount and the difference is recognised as expense (impairment loss) in the statement of income.

### *c) Pharmacies licenses*

Expenditure to acquire operating licenses for pharmacies are capitalised at cost.

Licenses are tested for impairment at each reporting date. Impairment testing is performed in a similar way to that of brands and goodwill (see paragraph above). Licenses are stated at cost less any accumulated impairment losses.

### *d) Computer licences and software*

Expenditure to acquire licences and computer software is capitalised and amortised using the straight-line method over their useful lives, normally 1 to 5 years.

### *e) Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

## 3.5 Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular

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basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortized cost using the effective yield method. Realized and unrealized gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the statement of income in the period in which they arise. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When securities classified as available-for-sale are sold or impaired the accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

## 3.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less any selling expenses. When necessary, provision is made for obsolete, slow moving and defective inventories.

## 3.7 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the collection terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is determined based on management risk assessment of the trade receivables collectibility.

## 3.8 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, cash held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are included with borrowings in current liabilities.

## 3.9 Shareholders' equity

### *Share capital and Share Premium*

Ordinary and preferred shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium and any deficit is deducted from share premium and retained earnings, if available.

### *Translation reserve*

In translating the financial statements into EUR, all resulting exchange differences are classified as equity. The main differences arise on the translation of income and expense items at the monthly average exchange rates and assets and liabilities at the date of each balance sheet closing rate. Components of equity are not retranslated.

*Dividends*

The Group can only pay dividends from its entities statutory retained earnings and share premium, based upon financial statements prepared in accordance with local accounting regulations.

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date, but before the financial statements are authorised for issue.

### 3.10 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

### 3.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### 3.12 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### 3.13 Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The transaction costs incurred in issuing the liability are amortized over the life of the loan.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

### 3.14 Accounts payable

Liabilities for trade payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. After initial recognition, the Group measures trade payable at amortised cost using effective interest method.

### 3.15 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

### 3.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and when collection is reasonably assured.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 3.17 Employee benefits

The Group, in the normal course of business, makes payments to the Romanian State on behalf of its employees. All employees of the Group are members of the Romanian State pension plan. All such contributions to the mandatory government pension scheme are expensed when incurred. The Group does not operate any other pension scheme or post retirement benefit plan and, consequently, has no obligation in respect of pensions. In addition, the Group is not obliged to provide further benefits to current and former employees.

### 3.18 Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction cost, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described in the notes.

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. The amounts disclosed in the financial statements approximate their fair value.

The Group uses financial instruments that are subject to fluctuations in foreign currency exchanges (Note 26(ii) ) for the financial risks faced by the Group.

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss

### 3.19 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Intangible assets*

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets as detailed in Note 5.

*Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

*Derivatives*

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

*Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## 3.20 Earnings per share

Pursuant to IAS 33, earnings per share ("EPS") are calculated by dividing the profit or loss allocated to the shareholders of the Group by the weighted average number of shares outstanding during the fiscal period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time – weighting factor.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions. The objective of diluted earnings per share is consistent with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

## 3.21 Recent accounting pronouncements

*(a) Adoption of standards effective from incorporation date*

As at 24 May 2006, the Company adopted the IFRSs below. The financial statements have been amended as required, in accordance with the relevant requirements.

- IAS 19 (Amendment), Employee Benefits
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intracompany Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adoption of the new or amended standards did not have a significant impact on the Company's financial statements.

### (b) *Adoption of standards effective from 1 January 2007*

Certain new standards, amendments and interpretations to existing standards that have been published are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted, as follows:

- IFRS 7 Financial Instruments: Disclosures - The Standard will require increased disclosure about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks.
- Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures - As a complimentary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect of the Group's capital.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This standard which becomes mandatory for the Group's 2009 financial statements is not expected to have any impact on the financial statements.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006) addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 is not relevant to the Group's operations as the Group does not have the currency of a hyperinflationary economy as its functional currency.
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007) The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 24 May 2006). The interpretation states that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not relevant to the Group's operations.
- IFRIC 10 Interim Financial Reporting and Impairment - The Interpretation prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, investments in equity instruments or financial assets carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions - The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements.
- IFRIC 12 Service Concession Arrangements - The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Land & buildings | Leasehold improvements | Computers & electronic equipment | Motor vehicles | Fixtures & fittings | Assets in course of construction | Total |
|---|---|---|---|---|---|---|---|
| **Opening net book amount as of 24 May 2006** | 5,734 | 4,557 | 1,634 | 4,782 | 1,334 | 4,329 | 22,370 |
| Translation differences | 258 | 189 | 55 | 165 | 53 | 199 | 919 |
| Additions | 512 | 47 | 746 | 1,848 | 565 | 11,649 | 15,367 |
| Transfers | 824 | 1,195 | 29 | 192 | 338 | (2,578) | - |
| Disposals | (140) | - | (3) | (545) | (18) | (16) | (722) |
| Depreciation charge | (58) | (960) | (514) | (958) | (295) | - | (2,785) |
| Impairment | - | 369 | 13 | - | 61 | - | 443 |
| **Closing net book amount** | **7,130** | **5,397** | **1,960** | **5,484** | **2,038** | **13,583** | **35,592** |
| **At 31 December 2006** | | | | | | | |
| **Cost** | 7,320 | 8,712 | 4,043 | 8,146 | 3,007 | 13,583 | 44,811 |
| **Accumulated depreciation** | (190) | (3,315) | (2,083) | (2,662) | (969) | - | (9,219) |
| **Net book value as of 31 December 2006** | **7,130** | **5,397** | **1,960** | **5,484** | **2,038** | **13,583** | **35,592** |

Assets under construction represent mostly the building of new head office in Mogosoaia (EUR 12,128 thousand including the automatic warehousing system), the building of new warehouses in Craiova (EUR 621 thousand) and Iasi (EUR 394 thousand) and improvements made at the 29 new leased pharmacies which had not been opened until after the period end. The new head office in Mogosoaia has been operational from February 2007.

Leasehold improvements include services from related parties capitalised in amount of EUR 1,950 thousand.

Bank borrowings (Note 14) are secured over buildings and land with a net book value of EUR 5,367 thousand (24 May 2006: EUR 5,734 thousand).

The impairment on leasehold improvements relates to the assets existing in some pharmacies which are intended to be relocated.

Included above are leased assets (mainly electronic equipment, motor vehicles and trucks), where the Group is a lessee under a finance lease as follows:

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Cost – capitalised finance leases | 10,431 | 9,227 |
| Accumulated depreciation | (3,235) | (2,691) |
| **Net book value as of 31/12/2006** | **7,196** | **6,536** |

(All amounts are expressed in EUR '000, unless otherwise stated)

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

| | Goodwill | Brand Sensiblu | Licenses | Software and other | Total |
|---|---|---|---|---|---|
| **At 24 May 2006** | | | | | |
| Opening net book amount | 220,036 | 46,761 | 1,654 | 922 | 269,373 |
| Translation reserve | 10,210 | 2,170 | 65 | 26 | 12,471 |
| Additions | 405 | - | - | 1,006 | 1,411 |
| Disposals | - | - | - | (6) | (6) |
| Depreciation charge | - | - | - | (289) | (289) |
| **Closing net book amount** | **230,651** | **48,931** | **1,719** | **1,659** | **282,960** |
| | | | | | |
| **At 31 December 2006** | | | | | |
| Cost | 230,651 | 48,931 | 2,168 | 2,419 | 284,169 |
| Accumulated depreciation | - | - | (449) | (760) | (1,209) |
| **Net book value** | **230,651** | **48,931** | **1,719** | **1,659** | **282,960** |

Goodwill was computed as follows:

| | |
|---|---|
| The value of ADP SRL established by the Company (See Note 12) | 260,000 |
| Less: Fair value of net assets acquired (see table below) | (39,964) |
| **Goodwill as at 24 May 2006** | **220,036** |
| Add: Goodwill in Mediplus Exim from the acquisition of Lauren Finance IFN SA | 405 |
| Translation reserve | 10,210 |
| **Goodwill as at 31 December 2006** | **230,651** |

The fair value of the net assets of A&D Pharma SRL as at 24 May 2006 is as follows:

| | Fair value of net assets acquired |
|---|---|
| Property, plant and equipment | 22,370 |
| Intangibles | 49,333 |
| Receivables and other assets | 108,360 |
| Inventories | 35,403 |
| Cash | 7,989 |
| Payables | (130,053) |
| Interest-bearing debt | (46,351) |
| Deferred tax | (7,087) |
| **Net Assets** | **39,964** |

As at 31 December 2006, for impairment purposes, management has allocated goodwill to the Group's two main cash generating units, Mediplus Exim SA EUR 195,351 thousand as at 31 December 2006 and Sensiblu SRL EUR 35,300 thousand as at 31 December 2006. Goodwill was allocated taking into account the enterprise value assessed by the independent valuer for each entity and its net assets upon being acquired.

As at 24 May 2006, this Group acquired its only brand ("Sensiblu"), which has an indefinite economic life in accordance with management's estimation. The brand was valued by an independent valuer, using a discounted cash flow methodology based on management assumptions and estimates regarding future revenue growth, prices, costs and economic factors. The discount rate used in the computations was estimated at 15%, by the SCOR Interbrand and SCOR Brand Finance approaches.

The acquired goodwill represents a sum of non-quantifiable intangible assets such as:

- Leading position in Romanian pharmaceutical wholesale and retail, a market of EUR 1,563 million and with a compound annual growth rate of 31% pa. This high growth rate is driven by the strong economic growth further supported also by the recent EU membership.

- Proven management track record

  ADP's management has a proven track record of delivering profitable growth and consistently increasing market share. ADP's management team has been involved with the Group since 1996 and has managed the business independently of the founding shareholders since July 2002. Under the supervision of the current management team, ADP has (i) become the leading pharmaceutical wholesaler and retailer in Romania, (ii) achieved national coverage in both the wholesale and retail markets, (iii) introduced various innovative services for both suppliers and clients in wholesale, (iv) introduced the loyalty card scheme for Sensiblu customers and (v) undertaken the first major private pharmacy chain acquisition in the pharmacy retail market in Romania through the acquisition of Ideapharm.

- Mediplus' consumer healthcare divisions and value added service

  Mediplus is differentiated from traditional wholesalers due to its consumer healthcare sales divisions which provide contract marketing services and promote OTC brands of international producers generating higher gross margins than the traditional wholesale business. Mediplus also provides a wide range of value added services to both producers and its pharmacy clients such as free pharmacy software, pharmacy refurbishment services and pharmacist training.

- Vertical integration: strong synergies on both revenues and costs

  There are significant strong synergies between the wholesale and retail businesses. Revenue synergies arise from the improved insight gained by Mediplus via Sensiblu into consumer behaviour and segmentation, which enables Mediplus to offer greater value added services to its key suppliers. Cost synergies are generated by higher operations efficiency due to vertical integration. For example, fewer field sales force visits are required for Sensiblu, which means that sales and marketing costs are reduced. Invoice processing costs and time are also reduced. Mediplus provides for Sensiblu with warehousing facilities, logistics infrastructure, the head office building and other central costs.

As at 31 December 2006 management tested goodwill, brands and licenses, as well as non-current fixed assets for impairment (see Note 24 (iv)).

## Pharmacy licence

Licences represent mainly the cost of the legal entities acquired by Sensiblu SRL during the years, in order to obtain their existing operating licences to open new pharmacies.

The life and the conditions for obtaining a pharmacy license are regulated under article 15 of the Norms approved by the Order no. 626/ 2001, issued by the Romanian Minister of Health, modified and completed by the Order no. 1196/ 2004. Article 15 stipulates that the pharmacy licenses obtained after the enforcement of the Order no. 1199 are to be permanent, under the amendment of preserving the initial conditions that have originated the authorization of such a license.

In respect to the licenses previously obtained, having a limited life of 5 years according to the Order no. 626, the new regulation states they will be re-authorized, under the provisions of the Order no. 1199.

Considering the changes in legislation mentioned above, and based on the fact that no license was cancelled since the Company's foundation, the management has decided to cease the amortisation of the current pharmacy licenses.

## Acquisition of Lauren Finance IFN SA

On 18 July 2006, the Group acquired 99.67% of Lauren Finance IFN SA ("Lauren") as follows: 94.97% from Gemisa Investments Ltd (related party) and 4.69% from others, for the amount of EUR 450 thousand plus 2.3% of Lauren's monthly sales for at least 5 years, starting 1 January 2007.

Lauren was incorporated in 2004, and its object of activity is financial intermediation, specifically issuing of credit cards.

At the date of acquisition, Lauren's total statutory turnover was EUR 8 thousand and the net loss was EUR 28 thousand. Net assets at acquisition date are EUR 72 thousand. As at year-end, Lauren's net sales are in amount of EUR 11 thousand

(All amounts are expressed in EUR '000, unless otherwise stated)

and the net assets are at the level of EUR 42 thousand.

As at 31 December 2006 the National Bank of Romania ("NBR") did not give an official answer to the request to include Lauren in the General Register of Non-Banking Financial Institutions, the parties have agreed to extend the acquisition agreement until a decision will be formulated by NBR.

## 6. FINANCIAL FIXED ASSETS

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Investments | 57 | 10 |
| Long term trade receivables | 4,365 | 3,071 |
| Health Insurance Houses receivables | 1,562 | 1,493 |
| Other | 304 | 284 |
| | **6,288** | **4,858** |

As at 31 December 2006, all available for sale securities are carried at cost because they are not publicly traded and management of the Group is not able to measure reliably their fair value.

As at 31 December 2006, the carrying value of long-term receivables approximates their fair value of EUR 6,409 thousand (24 May 2006: EUR 4,870 thousand).

As at 31 December 2006 amortised cost was computed based on an effective weighted average interest rate of 8.57% (10.80% as at 24 May 2006).

Bank borrowings (Note 14) are secured over EUR 4,365 thousand from the above long term trade receivables balance.

Following a three year analysis of receivables, it was determined that from the total population of customers with outstanding amounts ageing 60 days from the sale date, approximately 10% are "cashed" after a period longer than 1 year. This amount (EUR 4,365 thousand) was reclassified as long term receivables.

As at 31 December 2006, the Health Insurance Houses receivable balance in amount of EUR 1,562 thousand (as at 24 May 2006 EUR 1,493 thousand) consists of amounts due from Health Insurance Houses for sales of items subsidized by the Romanian State, sales which exceeded the ceilings set out in the contractual agreements concluded by Ideapharm SA with the Health Insurance Houses for the year ended 31 December 2005. Since the sales were in excess of the contractual agreements, as at the date of this report the Health Insurance Houses do not recognize these amounts. However, these long term receivables from Health Insurance House are covered by a warranty undertaking from GlaxosmithKline SRL (GSK Group – Note 16).

According to the acquisition contract of Ideapharm SA, GSK Group must cover all the uncollected receivables from Health Insurance House, which were outstanding at the acquisition date.

In case the Health Insurance House will not pay its outstanding debts towards the Company within a period of 3 years, GSK Group will compensate these amounts with the debts of the Company.

## 7. INVENTORIES

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Goods held for sale | 64,827 | 36,071 |
| Provision for slow moving and obsolete inventory | (1,372) | (668) |
| | **63,455** | **35,403** |

Bank borrowings (Note 14) are secured over EUR 63,136 thousand from the above inventories. (24 May 2006: EUR 35,403).

(All amounts are expressed in EUR '000, unless otherwise stated)

## 8. RECEIVABLES

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Trade receivables | 115,841 | 93,161 |
| Amounts due from related parties (Note 20) | 6,487 | 4,177 |
| Impairment for receivables | (2,541) | (1,588) |
| Other current assets (Note 9) | 11,849 | 7,755 |
| | **131,636** | **103,505** |

Trade receivables amortised cost was computed based on an effective weighted average interest rate of 4.43% p.a. as at 31 December 2006 (24 May 2006: 4.04%).

Bank borrowings (Note 14) are secured over EUR 119,770 thousand from the above trade receivables balance. (24 May 2006: EUR 95,992).

The fair value of trade receivables (including related parties) as at 31 December 2006 and 24 May 2006 is EUR 120,113 thousand and EUR 96,894 thousand, respectively.

## 9. OTHER CURRENT ASSETS

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Prepayments | 4,886 | 1,540 |
| VAT recoverable | 3,505 | 2,239 |
| Other state receivables | 1,384 | 231 |
| Loans receivable from customers | 733 | 1,002 |
| Amounts receivable from shareholders (Note 20) | 587 | 1 |
| Advances to suppliers | 181 | 825 |
| Sundry debtors, net | 351 | 1,446 |
| Amounts due from related parties (Note 20) | 222 | 471 |
| | **11,849** | **7,755** |

In prepayments the Group has included various forms of discounts granted in advance to clients.

## 10. CASH AND CASH EQUIVALENTS

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Cash and bank in RON | 17,127 | 7,235 |
| Cash and bank in foreign currency | 67 | 61 |
| | 17,194 | 7,296 |
| Restricted cash | 5,863 | 693 |
| | **23,057** | **7,989** |

As at 31 December 2006 the value of short-term deposits included within cash and bank in RON was EUR 14.5 million, and the weighted average effective interest rate on short-term bank deposits was 3.36% p.a. As at 24 May 2006 there were no short-term deposits.

Bank borrowings (Note 14) are secured over EUR 589 thousand from the above cash balance (24 May 2006 bank borrowings are secured over all cash accounts).

For the purpose of the cash flow statement, the cash and cash equivalents comprise the following:

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Cash and bank balances | 23,057 | 7,989 |
| Less restricted cash | (5,863) | (693) |
| Bank overdrafts (Note 14) | - | (36,424) |
| | **17,194** | **(29,128)** |

## 11. SHARE CAPITAL and SHARE PREMIUM

The statutory issued share capital and share premium were contributed as set out below:

| | Date | Share capital (EUR '000) | Share premium (EUR '000) |
|---|---|---|---|
| In-kind contribution by Sograno BV of shares in ADP SRL | May 2006 | 2,500 | 257,500 |
| Conversion of the share premium into the issued share capital | June 2006 | 197,500 | (197,500) |
| Share premium distribution | October 2006 | - | (925) |
| | | **200,000** | **59,075** |

The company's authorized share capital amounts to EUR 220,000 dividend into 220,000,000 ordinary shares with a nominal value of EUR 1 each. The number of shares issued and fully paid up at 31 December 2006 amounted to 200,000,000 (24 May 2006: 2,500,000).

The shares of ADP SRL, contributed by Sograno BV into the share capital of the Company, have been valued by an independent valuer using the market comparison approach, whereby price data ("multiples") for shares of similar companies which are traded in public markets (the "Comparable Companies") were applied to the Entities' financial data to estimate their marketable value. As value measures, the valuer used price/earnings, price/sales, price/EBITDA, and price/EBIT ratios as of the valuation date. The Comparable Companies used in developing these ratios were drawn from the same industry as the Entities.

For the purposes of these financial statements drawn up under IFRS, the fair value of the shares of ADP SRL was estimated at 260,000, which results in a share capital of the Company of 200,000 and share premium of 59,075 as at 31 December 2006.

## 12. TAXATION

| | 2006 |
|---|---|
| Income tax expense – current | 3,757 |
| Deferred tax (income)/expense | (686) |
| **Income tax** | **3,071** |

The Romanian subsidiaries accrue income tax at the rate of 16% on profits as at 31 December 2006 computed in accordance with the Romanian tax legislation.

The profit before taxation for financial reporting purposes is reconciled to the total tax expense as follows:

| | 2006 |
|---|---|
| Profit before tax charge | 11,854 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 1,897 |
| Tax effect of items which are not deductible or assessable for taxation purposes | |
| Non-deductible expenses | 962 |
| Other non-temporary adjustments | 212 |
| **Income tax** | **3,071** |

(All amounts are expressed in EUR '000, unless otherwise stated)

## Deferred tax

Deferred tax assets/liabilities arise from the Romanian subsidiaries operations. These subsidiaries are subject to the statutory tax rate of 16% on taxable profits. Deferred tax assets/liabilities are measured at the enacted statutory effective tax rate of 16%. The net effect of the change on deferred tax balances recognised as at 31 December 2006 is reflected in the statement of income for the period then ended.

| | 31-December-06 | | 24-May-06 | |
|---|---|---|---|---|
| | Cumulative temporary differences | Deferred tax asset/ (liability) | Cumulative temporary differences | Deferred tax asset/ (liability) |
| Property, plant and equipment | (1,118) | (179) | (699) | (112) |
| Inventories | 7,830 | 1,253 | 4,875 | 780 |
| Receivables | 5,953 | 952 | 3,854 | 617 |
| Investments | (442) | (71) | (422) | (68) |
| Borrowings | - | - | (344) | (55) |
| Payables and other accruals | (13,085) | (2,094) | (10,669) | (1,707) |
| Deferred tax asset for statutory unused loss relief | 7,892 | 1,263 | 5,875 | 940 |
| Brand | (48,922) | (7,828) | (46,761) | (7,482) |
| Deferred tax asset not recognised | - | - | | - |
| Deferred tax asset/(liability) | (41,892) | (6,704) | (44,291) | (7,087) |

The movement in deferred tax liability balance is as follows:

| | Deferred tax (liability)/asset |
|---|---|
| 24 May 2006 | (7,087) |
| Deferred tax (expense)/income | 686 |
| Translation reserve | (303) |
| **31 December 2006** | **(6,704)** |

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In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even when there is a net consolidated tax loss. Therefore, a deferred tax asset of one of the companies is not offset against the deferred tax liability of another company in the Group.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 13. FINANCE LEASE

Finance lease liabilities – minimum lease payments:

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Gross obligations under finance leases | | |
| Less than 1 year | 2,694 | 2,904 |
| Between 1 year and 5 years | 1,924 | 1,771 |
| | 4,618 | 4,675 |
| Future finance charges | (342) | (362) |
| **Present value of finance lease liabilities** | **4,276** | **4,313** |

The present value of finance lease liabilities is as follows:

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Less than 1 year | 2,451 | 2,647 |
| Between 1 year and 5 years | 1,825 | 1,666 |
| **Present value of finance lease liabilities** | **4,276** | **4,313** |

The carrying amounts of lease obligations approximate their fair value.

## 14. BORROWINGS

As at 13 July 2006, the Company has contracted the syndicated loan with Citibank. The balance as at 31 December 2006 is as follows:

| | 31 December 2006 |
|---|---|
| CITIBANK - EUR (Syndicated Loan) | 71,718 |
| Prepaid fees – less than 1 year | (745) |
| Prepaid fees – between 1 year and 5 years | (1,180) |
| | **69,793** |

Long term loans are presented as follows:

| Lender | Maturity | Interest | 31 December 2006 |
|---|---|---|---|
| CITIBANK – Facility A | 31 July 2011 | EURIBOR 6m + 1.95% p.a. | 4,000 |
| CITIBANK – Facility B2 | 31 July 2009 | EURIBOR 3m + 1.7% p.a. | 50,580 |
| CITIBANK – Facility B 1 | 31 July 2009 | EURIBOR 3m + 1.7% p.a. | 17,138 |
| | | | 71,718 |

This financing facility replaced the overdraft facilities provided by HVB Bank and ING Bank.

The bank has agreed to split the total facility as follows:

- Facility A -capital expenditure requirements and/or repayment of existing indebtedness of any member of the Group, over a period of 5 years;

(All amounts are expressed in EUR '000, unless otherwise stated)

- Facility B1 - working capital requirements and/or repayment of existing indebtedness of any member of the Group (revolving), over a period of 3 years;
- Facility B2 -capital expenditure requirements and/or repayment of existing indebtedness of any member olf the Group, over a period of 3 years;
- Facility B3 -issuance of letters of guarantee to the extent required in the ordinary course of the business of any member of the Group, over a period of 3 years;

Limitations and utilisations:

- The maximum amount can be utilised for facility A is EUR 10 million at the date of the agreement;
- The maximum amount that can be utilised for facility B2 is EUR 45 million;
- The maximum amount of all letters of guarantee issued under facility B3 shall not exceed EUR 10 million;
- The maximum total amount that can be utilised for facility B is EUR 90 million at the date of the agreement.

The Citibank Loan Agreement contains certain affirmative covenants, including, without limitation, certain financial ratio covenants to be observed and, in some cases, restrictions on dividend payments, unless a certain debt/EBITDA ratio is met.

Short term borrowings and bank overdrafts are analysed below:

| | 24 May 2006 |
|---|---|
| HVB BANK - EUR | 25,420 |
| ING BANK- EUR | 7,118 |
| CITIBANK- EUR | 3,886 |
| Total Overdraft | 36,424 |
| SOGRANO - EUR (Short term loan) | 5,615 |
| | **42,039** |

Detailed bank overdrafts and short term loans are presented as follows:

| Lender | Maturity | Interest | 24 May 2006 |
|---|---|---|---|
| HVB BANK – EUR Mediplus Exim SRL | 31 August 2006 | EURIBOR 3m + 3% p.a. | 15,000 |
| HVB BANK – EUR Sensiblu SRL | 31 August 2006 | Overnight RBOR + 3% p.a. | 1,109 |
| HVB BANK – RON Mediplus SRL | 31 August 2006 | Overnight RBOR + 3% p.a. | 9,311 |
| ING BANK- EUR Sensiblu SRL | 31 August 2006 | BUBOR 1m +1.5% p.a. | 7,118 |
| CITIBANK- EUR Sensiblu SRL | 30 July 2006 | Overnight EURIBOR+ 1.7% p.a. | 3,886 |
| Bank overdrafts | | | 36,424 |
| SOGRANO - EUR (Short term loan) Mediplus Exim SRL | 30 June 2006 | 9% | 5,334 |
| SOGRANO - EUR (Short term loan) Sensiblu SRL | 30 June 2006 | 9% | 281 |
| | | | **42,039** |

There are no short-term borrowings payable by the Group as at 31 December 2006.

Overdraft 1 was contracted with HVB Bank Romania under an umbrella agreement, having a ceiling of EUR 35 million and was obtained jointly by the Romanian subsidiaries. The facility is divided into two parts:

- one facility of EUR 20 million which can be used only for RON withdrawals or for RON and foreign currency letters of credit or letters of guarantee. As at 24 May 2006, the Group used EUR 10.4 million for refinancing and EUR 4.4 million for issuance of letters of guarantee. At 24 May 2006, the un-drawn facility available to the Group amounted to EUR 5.1 million.

- a second facility of EUR 15 million, used in full for the repayment of previous loans granted by the bank.

Overdraft 2 was jointly obtained by Romanian subsidiaries from ING Bank Romania, having a ceiling of EUR 11.4 million (RON 38,400,000) and EUR 1.8 million for issuance of letters of guarantee.

As at 24 May 2006 the Group used EUR 7.1 million for working capital requirements, and EUR 0.7 million for issuing guarantees for supplier.

At 24 May 2006, the un-drawn facility available to the Group amounted to EUR 4.3 million and EUR 1.1 million for issuance of letters of guarantee.

Overdraft 3 was jointly obtained by Romanian subsidiaries from Citibank Romania, of EUR 3.9 million (USD 5 million) out of which the Group used EUR 3.89 million (USD 4.95 million) for working capital requirements.

The short term loan from the Group's main shareholder, Sograno BV, is unsecured, the interest rate at 31 May 2006 is 9% and it had the maturity date 30 June 2006. This loan is subordinated to all the other liabilities of the Group. As at 30 June 2006, Mediplus Exim has outstanding the last instalment. The fair value of the loan as at 24 May 2006 is EUR 5,615 thousand.

## 15. PROVISIONS

As at 24 May 2006, the Group recognized in its balance sheet a part of the acquired contingent liabilities of Mediplus Exim SA and Sensiblu SRL. The change in balance at 31 December 2006 as compared with 24 May 2006 is due to a translation effect on opening balances. The contingent liabilities not recognized – due to management's not being able to make reliable estimations of their impact - are described in Note 25(i).

The Group was subject to a Romanian Customs Authority control regarding the classification of certain imported goods which were not considered as nutritional supplements and taxed with 18%, but taxed as exempted products. The control of the Romanian Customs National Authority covered the period from 2001 to 2003 and resulted in additional custom duties, VAT, and related interest and late payments in amount of EUR 0.8 million, which is included in the amount of EUR 15 million.

Management is actively challenging the imposition of these charges.

Thus the legal and fiscal environment in Romania and its implementation into practice can change and is subject to different interpretation by various Ministries of the Government and their agencies that are authorised to conduct audits ("controls") of Romanian companies. Management has therefore made provision for tax or other liabilities in the financial statements where they consider that tax or other authorities could take differing positions with regards to the interpretation of these issues.

## 16. LONG TERM PAYABLES

As at 31 December 2006, the long term payables of the Group to GlaxoSmithKline SRL (GSK Group) guarantee for the receivable balance of EUR 1,562 thousands of the Group, in relation with Health Insurance House (Note 6) (EUR 1,493 as at 24 May 2006).

Long trade payables amortized cost was computed based on an effective weighted average interest rate of 5.24% p.a. as at 31 December 2006. The fair value of long-term trade payables as at 31 December 2006 and 24 May 2006 is EUR 1,685 thousand and EUR 1,474 thousand, respectively.

## 17. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

(All amounts are expressed in EUR '000, unless otherwise stated)

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Trade payables | 147,779 | 99,454 |
| Amounts owing to related parties (Note 20) | 9,369 | 13,176 |
| Tax on profit | 2,580 | - |
| Due to State | 2,548 | 698 |
| Financial liabilities | 1,590 | - |
| Due to employees | 1,140 | 826 |
| Interest payable | 432 | 25 |
| Advances for sale of land and building | - | |
| Other payables | 213 | 85 |
| | **165,651** | **114,264** |

Short trade payables amortised cost was computed based on an effective weighted average interest rate of 4.96% as at 31 December 2006 (24 May 2006: 4.58%).

The fair value of trade payables (including related parties) as at 31 December 2006 and 24 May 2006 is EUR 156,960 thousand and EUR 129,382 thousand, respectively.

Financial instruments at fair value through profit or loss

The Group entered into a number of foreign currencies enhanced non-deliverable forward contracts to mitigate its foreign currency exposure with trade payables. All gains and losses on foreign currency contracts are recognised in the income statement. The unrealised losses as at 31 December 2006 on these non-deliverable forward contracts are EUR 1,590 thousands.

The table below summarizes, by major currency, the contractual amounts of the Group non-deliverable forward foreign exchange contracts as at 31 December 2006, with details of the contracted exchange rates versus the RON. Foreign currency amounts are translated at market rates ruling at the balance sheet date.

| | Enhanced forward exchange rates | Participation exchange rates | Notional amount in EUR |
|---|---|---|---|
| Buy US Dollars | 2.72 | 2.92 | 15,185 |
| Buy US Dollars | 2.60 | 2.70 | 5,315 |
| Buy Euro | 3.47 | 3.60 | 18,000 |
| Buy Euro | 3.40 | 3.50 | 8,000 |

The "Enhanced forward rate" represents the rate at which the Group buys the notional amounts in foreign currency as long as the spot rate is below the "Participation rate". In case the spot rate reaches or goes above the Participation rate, the Group exits the hedge.

## 18. OPERATING COSTS

| | 24 May 2006- 31 December 2006 |
|---|---|
| Salaries and benefits | 18,684 |
| Rent and administrative expenses | 8,542 |
| Third party services | 7,606 |
| Advertising and promotion | 8,723 |
| Depreciation and amortization | 3,074 |
| Impairment for fixed assets | (443) |
| Provision for inventories | 648 |
| Inventory write off | 485 |
| Penalties and fines | 1,064 |

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(All amounts are expressed in EUR '000, unless otherwise stated)

| | 24 May 2006- 31 December 2006 |
|---|---|
| Impairment on receivables | 520 |
| Operational foreign exchange (income)/ expense | (5,366) |
| Hedging loss | 1,590 |
| Other expenses | 719 |
| **TOTAL** | **45,846** |

## 19. FINANCIAL RESULT

| | 24 May 2006 – 31 December 2006 |
|---|---|
| Foreign exchange differences, net | 2,830 |
| Interest income | 244 |
| Interest expense | (2,698) |
| Interest (expense)/revenue financial instruments | 909 |
| Other financial expense | (503) |
| | **782** |

## 20. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosure". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely to the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the period ended 31 December 2006 or had significant balances outstanding at 31 December 2006 are detailed below. Transactions were entered into with related parties during the ordinary course of business on both normal and preferential commercial terms.

| Controlled by the same ultimate shareholders | Activity | Country of incorporation |
|---|---|---|
| Consumer Product Network SRL (formerly Farmactiv SRL) | Importer and distributor of parapharmaceutical products | Romania |
| Global Business Software SRL | Software development | Romania |
| Ozone Laboratories Ltd | Holding company of Ozone Laboratories SRL | United Kingdom |
| Ozone Laboratories SRL | Pharmaceutical manufacturer | Romania |
| Fleet Management Services SRL | Car fleet maintenance | Romania |
| Press Pro International SRL | Media promotion | Romania |
| Arishop Pharma AD | Importer and distributor of pharmaceutical products | Bulgaria |
| Oxigen Plus SRL | Oxigen products distributor | Romania |

| Controlled by the same ultimate shareholders | Activity | Country of incorporation |
|---|---|---|
| Miniblu SRL | Baby clothing and toys | Romania |
| Optical Network SRL | Optical products | Romania |
| Gemisa Investments Ltd | Investment fund | Cyprus |
| Lauren Finance SRL | Merchant card | Romania |
| Adkit Serv SRL | Management services | Romania |
| Grup 3 Contracting SRL | Construction | Romania |
| Cristal Diagnostic SRL | Laboratory tests | Romania |
| Sograno BV | | The Netherlands |

During the period, the following transactions were carried out with related parties:

| Sales of goods and services | 24 May 2006 – 31 December 2006 |
|---|---|
| Ozone Laboratories SRL | 2,660 |
| Employees | 789 |
| Miniblu SRL | 132 |
| Optical Network SRL | 141 |
| Consumer Product Network SRL | 98 |
| Gemisa Servicii SRL | 1 |
| | **3,821** |

Mediplus Exim SA and Ozone Laboratories SRL have entered into an agreement dated 1 January 2006, based on which the former undertook to provide the latter storage and distribution services, as well as logistic services related to the transport and management of Ozone Laboratories products, up to a yearly limit set out by the parties in the agreement. The agreement remains in force until 31 December 2007. The fees that Ozone Laboratories must pay to Mediplus Exim SA are calculated by applying certain percentages to the value of the Ozone Laboratories finished products acquired by Mediplus Exim SA from Ozone Laboratories.

On 2 August 2006 Sensiblu SRL and Ozone Laboratories SRL entered into a service agreement according to which the former undertook to provide to the latter certain services for the merchandising of Ozone Laboratories products in 159 of Sensiblu SRL's pharmacies. The number of the pharmacies where these services are to be provided will increase to 190 by the end of 2006 and to 210 by 1 July 2007. The agreement is entered into for a 12 month period, namely from 1 July 2006 to 1 July 2007. The tariffs to be paid by Ozone Laboratories SRL are set out for each type of services provided. Given the significant package of services acquired, Ozone Laboratories SRL benefits from a 17 per cent discount applied to the aggregate value of the purchased services.

| Purchases of goods and services | 24 May 2006 – 31 December 2006 |
|---|---|
| Ozone Laboratories SRL | 16,265 |
| Consumer Product Network SRL | 1,299 |
| Fleet Management SRL | 328 |
| Miniblu SRL | 10 |
| Optical Network SRL | 66 |
| SC Cristal Diagnostic SRL | 109 |
| Adkit Serv SRL | 27 |
| Sensiblu Optica SRL | 8 |
| Others | 18 |
| | **18,130** |

The goods and services purchased are presented net of discounts received from Ozone Laboratories SRL during the

(All amounts are expressed in EUR '000, unless otherwise stated)

7 months period ended 31 December 2006. The value of discounts received by the Group in the period is of EUR 3,468 thousand.

| Sales of property, plant and equipment | 24 May 2006 – 31 December 2006 |
|---|---|
| Grup 3 Contracting | |
| Consumer Product Network SRL | 52 |
| Ozone Laboratories SRL | 41 |
| Other | 24 |
| | 117 |

| Purchases of property plant and equipment | 24 May 2006 – 31 December 2006 |
|---|---|
| Grup 3 Contracting | 9,594 |
| Fleet Management SRL | 12 |
| | 9,606 |

| | 24 May 2006 – 31 December 2006 |
|---|---|
| **Management salaries** | 1,688 |

Included in the management salaries are, besides the salaries of the board of the directors, the remuneration of senior management.

| Interest related to loan granted by related parties | 24 May 2006 – 31 December 2006 |
|---|---|
| **Interest paid to Sograno BV** | 188 |

### *The following balances were outstanding with related parties:*

| Trade receivables from related parties | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Ozone Laboratories SRL | 4,286 | 2,217 |
| Employees | 1,516 | 649 |
| Ozone Laboratories Ltd | 453 | 432 |
| Optical Network SRL | 109 | 9 |
| Miniblu SRL | 100 | 160 |
| Consumer Product Network SRL | 23 | 699 |
| Others | - | 11 |
| | 6,487 | 4,177 |

For the above receivable, the Company has provided the amount of EUR 1.5 million as at 31 December 2006. and EUR 0.7 million as at 31 May 2006.

| Other receivables from related parties | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Ozone Laboratories SRL | 64 | 20 |
| Receivable from shareholders | 587 | 1 |
| Miniblu SRL | 36 | 236 |
| Oxigen Plus SRL | 60 | 109 |
| Optical Network SRL | 40 | 99 |
| Gemisa Servicii SRL | 12 | - |
| Others | 10 | 6 |
| | 809 | 471 |

(All amounts are expressed in EUR '000, unless otherwise stated)

| Trade payables to related parties | 31 December 2006 | 24 May 2006 |
|---|---|---|
| Ozone Laboratories SRL | 7,323 | 12,429 |
| Grup 3 Contracting SRL | 1,286 | 211 |
| Consumer Product Network SRL | 579 | 185 |
| Optical Network SRL | 74 | 51 |
| Fleet Management SRL | 60 | 46 |
| SC Cristal Diagnostic SRL | 23 | 2 |
| Miniblu SRL | 18 | 43 |
| Global Business Software SRL | - | 10 |
| Ozone Laboratories Ltd | - | 190 |
| Others | 6 | 9 |
| | 9,369 | 13,176 |

As at 1 January 2006 a contract was signed between Mediplus Exim SA and Ozone Laboratories SRL, related party of the Group (Note 8), related to the transfer of the Mediplus's outstanding receivables balances older than 210 days on Ozone products.

The contract concerns the compensation of third parties receivables balances towards the Group against the Ozone Laboratories SRL payable balance.

| Loan from related parties | 31 December 2006 | 24 May 2006 |
|---|---|---|
| **Sograno BV** | - | 5,615 |

## Transactions with shareholders

| Balances from/(due) to shareholders | 31 December 2006 | 24 May 2006 |
|---|---|---|
| To recover from founding shareholders (Note 9) | 39 | - |
| Other amounts receivable/(payable) (Note 9) | 548 | (3) |
| Amounts due from founding shareholders in respect of the price adjustment on the shares purchased in Sensiblu SRL | - | 792 |
| **Net amount recoverable from shareholders** | 587 | 789 |

In the past, the founding shareholders assigned to Mediplus part of their shareholding in Sensiblu. The initial consideration was determined based on the founding shareholders' own valuation, which was subsequently reduced based on a valuation from an independent consultant. This generated a payable towards Mediplus which was fully settled by the founding shareholders in September 2006.

The founding shareholders have provided goods to its employees, as benefits in kind, in amount of EUR 767 thousand. The receivable of the Company from the founding shareholders for the amount mentioned above were written off by the management decision.

Other amounts receivable comprise the withholding tax due to the state in relation with past transactions involving the founding shareholders.

Based on administrator's decision of Mediplus Exim and Sensiblu from 7 March 2007, the shareholders have committed themselves to repay the amount of EUR 548 thousands to the two companies.

## Other transactions with key management personnel

Directors of the Company control 7% of the voting shares of the Group's parent company, A&D Pharma Holdings NV, Netherlands.

(All amounts are expressed in EUR '000, unless otherwise stated)

## Directors' remuneration

The 4 founding shareholders which are Non-Executive Directors are not remunerated for their services rendered to the Company.

The remuneration of each director for the 7 months period ended 31 December 2006 is set out below:

| | Basic salary/ fees EUR | Annual performance related bonus EUR | Pension EUR | Total EUR |
|---|---|---|---|---|
| **Executive directors 1** | | | | |
| Dragos Dinu | 122,621 | - | - | 122,621 |
| Florin Buligoanea | 102,967 | - | - | 102,967 |
| Vivian Diaconescu | 111,383 | - | - | 111,383 |
| Claudiu Opran | 61,019 | - | - | 61,019 |
| **Non-executive directors 2** | | | | |
| David Ebsworth | 72,000 | - | - | 72,000 |
| Michael Wemms | 17,500 | - | - | 17,500 |
| Urs Kamber | 20,000 | - | - | 20,000 |
| Walid Abboud | - | - | - | - |
| Roger Akoury | - | - | - | - |
| Michel Eid | - | - | - | - |
| Ludovic Robert | - | - | - | - |
| | **507,490** | - | - | **507,490** |

**Note 1:** The Executive Directors also receive the benefit of a company car (the purchase value of which is between €45,000 and €55,000).
**Note 2:** The Non-Executive Directors were appointed on the 9th October 2006 and the payments relate to the period from this date.

## 21. MAIN SUBSIDIARIES

The consolidated subsidiaries included within the Group and the degree of control exercised by A&D Pharma Holdings N.V. are as follows:

| Entity | Country of incorporation | Activity | % share 31 December 2006 | % share 24 May 2006 |
|---|---|---|---|---|
| A&D Pharma Holdings SRL | Romania | Romanian holding company of Mediplus and Sensiblu | 100 | 100 |
| Mediplus Exim SRL | Romania | Import and wholesale distribution of pharmaceutical products in Romania | 100 | 100 |
| Sensiblu SRL | Romania | Retail distribution of pharmaceutical products in Romania | 100 | 100 |
| Ideapharm SA | Romania | Retail distribution of pharmaceutical products in Romania | - | 100 |
| Lauren Finance SRL | Romania | Financial activities | 100 | - |

In September 2006 Ideapharm SA merged with Sensiblu SRL.

(All amounts are expressed in EUR '000, unless otherwise stated)

## 22. SEGMENT INFORMATION

| Statement of Income | | | | | |
|---|---|---|---|---|---|
| **Period from 24 May 2006 (date of incorporation) to 31 December 2006** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
| Sales | 183,597 | 56,236 | - | (27,794) | 212,039 |
| Operating income and expenses | (170,115) | (57,636) | (1,033) | 27,817 | (200,967) |
| Segment result | 13,482 | (1,400) | (1,033) | 23 | 11,072 |
| **Operating profit/(loss)** | **13,482** | **(1,400)** | **(1,033)** | **23** | **11,072** |
| Finance costs, net | 647 | 223 | (88) | - | 782 |
| **Profit/(loss) before taxation** | **14,129** | **(1,177)** | **(1,121)** | **23** | **11,854** |
| Income tax expense | (3,120) | 49 | - | - | (3,071) |
| **Net profit/(loss) for the period** | **11,009** | **(1,128)** | **(1,121)** | **23** | **8,783** |

| Balance sheet | | | | | |
|---|---|---|---|---|---|
| **As at 31 December 2006** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
| Segment assets | 245,820 | 49,275 | 269,832 | (21,939) | 542,988 |
| Unallocated assets | - | - | - | - | - |
| **Total assets** | **245,820** | **49,275** | **269,832** | **(21,939)** | **542,988** |
| Segment liabilities | 220,025 | 62,619 | 2,015 | (21,708) | 262,952 |
| Unallocated liabilities | - | - | - | - | - |
| **Total liabilities** | **220,025** | **62,619** | **2,015** | **(21,708)** | **262,952** |
| Capital expenditure | 13,253 | 3,104 | 15 | - | 16,373 |
| Depreciation and amortisation | (1,037) | (1,980) | (1) | (57) | (3,074) |

Included in operating income and expenses are depreciation and amortisation charges in amount of EUR 3,074 thousands out of which wholesale accounts for EUR 1,037 thousands and retail segment for EUR 1,980 thousands.

| Balance sheet | | | | | |
|---|---|---|---|---|---|
| **As at 24 May 2006** | **Wholesale** | **Retail** | **Other** | **Eliminations** | **Group** |
| Segment assets | 160,086 | 35,781 | 269,453 | (21,822) | 443,498 |
| **Total assets** | **160,086** | **35,781** | **269,453** | **(21,822)** | **443,498** |
| Segment liabilities | 136,363 | 42,950 | - | 4,185 | 183,498 |
| **Total liabilities** | **136,363** | **42,950** | **-** | **4,185** | **183,498** |

### Primary reporting format - business segments

There are material sales and other transactions between the business segments. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash and investments. Segment liabilities comprise operating liabilities, lease liabilities and borrowings. Eliminations comprise mainly inter-company commercial and service transactions.

Capital expenditure comprises additions to property, plant and equipment and intangibles

The secondary segmental information based on geographical area is not material to be disclosed as almost all the activity is carried out in Romania.

## 23. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

A capitalisation which has the effect of increasing the number of shares in issue without any inflow of resources and further ordinary shares are issued to existing shareholders for no consideration - the additional shares should be treated as having been in issue for the whole period as also included in the EPS calculation of all earlier periods.

As at period end, basic earnings per share value are as follows:

| | 2006 |
|---|---|
| Net Profit | 8,783 |
| Number of shares | 200,000,000 |
| **Earnings per share (€)** | **0.04** |

Also, in accordance with group's accounting policies, as at period end, diluted earnings per share value are as follows:

| | 2006 |
|---|---|
| Net Profit | 8,783 |
| Number of shares | 200,000,000 |
| **Earnings per share (€)** | **0.04** |

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 24. USE OF ESTIMATES

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *(i) Interest income and expenses*

Interest income and expenses for financial instruments is recognised in the income statement at amortised cost using the effective interest rate method for receivables and payables.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The linear amortisation method used to determine the amortised cost for both receivable and payables represents the management's best estimate for the value of the corresponding amortisation.

### *(ii) Impairment losses on receivable*

In accordance with the internal impairment assessment methodology, the Company reviews its receivable portfolios to assess impairment on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is objective evidence of impairment that has an impact on the estimated future cash flows from an individual or from entire portfolio of receivables. Management uses estimates based on historical loss experience; in the same time the calculation of the present value of future cash flows requires judgement by the management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(All amounts are expressed in EUR '000, unless otherwise stated)

### *(iii) Carrying value of inventories*

The Company assesses at each balance-sheet date the requirement for a provision against its inventories. The Company uses its judgement, based on the expiry date of goods in order to estimate the level of the provision required.

### *(iv) Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Identification of cash generating units requires judgment and is based on ability to generate independent cash inflows. Both the wholesale and retail segments are treated by the Management as cash generating units as their operations are interdependent and there are no smaller units that have the ability to generate revenues largely independent from others within the group.

Goodwill is allocated at the acquisition date before the end of the first annual reporting period. As at 31 December 2006 management tested goodwill, brands and licenses for impairment. Goodwill acquired through business combination, indefinite lived intangibles and net book value of fixed assets have been allocated to cash generating units as follows:

| Cash-generating unit | Carrying amount of goodwill | Carrying amount of indefinite lived brand | Carrying amount of pharmacy licenses | Carrying amount of tangible assets | Total Carrying value | Value in Use | Excess of recoverable amount over carrying amount |
|---|---|---|---|---|---|---|---|
| Wholesale | 195,351 | - | - | 26,690 | 222,041 | 338,986 | 116,945 |
| Retail | 35,300 | 48,931 | 1,719 | 8,887 | 94,837 | 134,797 | 39,960 |
| | **230,651** | **48,931** | **1,719** | **35,577** | **316,878** | **473,783** | **156,905** |

In determining the values in use, the management uses four-year detailed free cash flow forecasts (for period 2007-2010) and then simplified free cash flow forecasts in perpetuity with a discount rate of 9.6%, using data for 2010. The value in use of the cash generating units was based on a growth factor of 2% for all cash flows beyond the detailed projections.

Key assumptions are based on a local pharmaceutical market of EUR 1,268 million as at 31 December 2005.

Over the four-year period, the Compound Annual Growth Rate ("CAGR") of the total pharmaceutical market is estimated at 19% (i.e. EUR 2,976 mill as at 31 December 2010). The ADP Wholesale's CAGR is expected at 31% yearly, up to 31 December 2010 (from net sales of EUR 286 mill as at 31 December 2005 to EUR 824.3 million in 2010).

Over the same period, the retail market's CAGR is 20% (from EUR 286 mill as at 31 December 2006 to EUR 815 million as at 31 December 2010). The estimated ADP Retail segment CAGR of 56%, up to 31 December 2010 (from net sales of EUR 89.8 million as at 31 December 2005 to EUR 370 million in 2010).

The key assumptions in the value in use calculations determining recoverable amounts for the specific cash-generating units noted above are:

## Wholesale segment

For the wholesale business, the Company projects sales and gross margins by product group based on estimated market growth dynamics and expected market shares. Management believes the assumed improvements and margins are reasonably achievable.

## Retail segment

For the retail business, the Company based its forecasts on the projected future number of pharmacies, and how sales per pharmacy are expected to evolve. Management believes the assumed improvements and margins are reasonably achievable.

As at 31 December 2006, management tested goodwill and brands for impairment by reference to the Entities' business plans drawn up for the period 2006-2010. The assumptions and estimates used in the preparation of these business plans are detailed above. Following these tests, management has reached the conclusion that the above-mentioned assets are not impaired as at 31 December 2006.

Pre-acquisition carrying amounts were determined based on applicable IFRS's immediately before the acquisition. The value of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

Management is confident that the projections are reasonable in the context of consolidating the leadership position on the local market.

## 25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

### *(i) Contingencies*

#### *a) Taxation*

The Romanian taxation system is undergoing a process of consolidation and harmonisation with the European Union legislation.

Even if the current Romanian Fiscal Code is meant to create a stable tax framework, tax legislation is still subject to a significant amount of changes and contradictory interpretations, which may apply retroactively.

Moreover, in practice, the tax authorities can take an aggressive approach and assess additional tax liabilities and related late payment penalties (2006: 0.06% per day plus 0.5% per month of delay) based on questionable interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the State.

Contingent liabilities may arise in relation to additional taxes that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period.

#### *b) Transfer pricing*

The Romanian Fiscal legislation includes detailed regulations regarding transfer pricing between related parties and includes specific methods for determining transfer prices between related prices at arm's length.

Although transfer pricing is a relatively new issue in Romania and the authorities have minimal experience in dealing with it, continuous development of legislation indicates that the authorities are becoming aware of its growing importance.

The company entered into various transactions with companies within the group, as well as other transactions with related parties.

Although no formal transfer pricing documentation is required under the domestic legislation, in practice the Romanian tax authorities may request specific documentation on a case-to-case basis.

In light of this, if observance of arm's length principle cannot be proved, a future tax control could challenge the values of transactions between related parties and adjust the fiscal result with additional taxable revenues/non-deductible expenses (i.e. assess additional profit tax liability and related penalties).

#### *c) Competition laws*

The group has various contracts with suppliers, which may be classified by Competition Council as potential prohibited practices. Should the Competition Council open an investigation on any of these contracts and decide that Prohibited Practices exist, the Group and relevant suppliers may be subject to an Anti-Trust Fine for each offence. The fine may be up to 10% of annual turnover for the financial years prior to the investigation. Management is confident that it is not probable that such a risk will materialise, and is taking the necessary measures to alter those agreements to be fully in line with Competition laws.

#### *d) Operating environment*

The Romanian economy continues to display some characteristics of an emerging market.

The Group's subsidiaries have been involved in various practices which may constitute violations of specific Romanian laws and regulations regarding the wholesale, retail and advertising of medical products and medication, including of prescription drugs.

These practices are common in the Romanian pharmaceutical market and, to the Company's knowledge, in relation to these practices no investigations have been undertaken or sanctions applied to date. However, if investigated and proved, such practices may result in either the reclassification of certain transaction from a tax standpoint or fines and other sanctions. The tax exposure may result into additional EUR 9.3 million profit tax, VAT and late payment interest and also confiscation of revenues in amount of EUR 2.9 million.

However, the inspection performed by the Fiscal Authorities covering the financial periods to 31 December 2004, did not result in any additional tax liabilities or penalties in connection with this matter. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, or reasonably determinable, or both.

The accompanying financial statements do not include any provision for such matters.

*e) Legal proceedings*

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

*f) Insurance policies*

The Group holds insurance policies covering its office building, warehouses and inventory balances as well as insurance policies covering its losses resulting from malpractice for the retail business. The Group holds no other insurance policies in relation to its assets, operations, product liability, or in respect of public liability or other insurable risks.

*g) Benefits in kind to employees*

Over time, the Group has given benefits in kind to its employees, which could be regarded as salaries by the fiscal authorities and taxed accordingly. However, the inspection performed by the Fiscal Authorities covering the financial periods up to 31 December 2004, did not result in any additional tax liabilities or penalties in connection with this matter. Therefore, Group management considers the risk of such taxes being imposed to be remote and the accompanying financial statements do not include any provision for such matters.

***(ii) Contractual commitments***

*a) Operating lease contracts for pharmacies*

The Group has operating lease contracts for pharmacies location in total amount of EUR 30.8 million, for a period from 3 to 10 years, with future minimum lease payments as follows:

i) less than 1 year EUR 6.6 million;

ii) between 1 and 5 years EUR 18.7 million;

iii) more than 5 years EUR 5.5 million.

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*b) Construction Agreement for Mogosoaia office building and warehouse*

As at 23 June 2005, Mediplus has entered into an agreement for the construction of an office building and a warehouse in the Mogosoaia village with Grup 3 Contracting (related party).

The agreement was further amended as at 1 March 2006 and sets out the following deadlines for the construction works: (i) 31 July 2006 for the warehouse, and (ii) 30 September 2006 for the office building and for completing ancillary outfitting works. In case of delays in carrying out the relevant construction works the contractor is liable for penalties of EUR 2,500 per day of delay.

Although the deadlines were not achieved as at 31 December 2006, no penalties were perceived or collected.

The value of the agreement is of EUR 10.8 million exclusive of VAT, payable by Mediplus in several instalments upon the acceptance of different categories of construction works.

As at 31 December 2006, future services in an amount of approximately EUR 2.0 million should be rendered by Group 3 Contracting (related party) to Mediplus related to this agreement.

*c) Contracts concluded for improvements to leased pharmacies*

The Group concluded agreements with Riga International and Grup 3 Contracting (related party) for improvements which were performed in 2006 to leased pharmacies. The total value of payments in 2006 for improvements was in amount of EUR 1 million.

*d) Construction Agreement for warehouses in the country*

Mediplus has agreements for the construction of warehouses in Craiova with Grup 3 Contracting (related party) in amount of EUR 780 thousand, and in Oradea with Ecolution, in amount of EUR 594 thousand.

Deposits in Constanta and Oradea are considered to be set up, and for the moment no constructors were designated.

### *(iii) Guarantees*

- As at 31 December 2006, the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business the business the Group has given guarantees amounting to EUR 4.7 million to third parties as at 31 December 2006 (EUR 5.7 million as at 24 May 2006).
- As at 31 December 2006 the Group has an agreement with HVB Bank Romania for the purpose of issuing of letters guarantee in amount of EUR 325,000. The unused facility available to the Group as at 31 December 2006 was EUR 247,000.
- As at 31 December 2006 the Group has an agreement with ING Bank Romania for the purpose of issuing of letters guarantee in amount of EUR 900,000.The unused facility available to the Group as at 31 December 2006 was EUR 384,000.
- As at 24 May 2006 the Group had a credit facility opened at ING Bank Romania, with a ceiling of EUR 1.8 million for the purpose of issuing letters of guarantee. The unused facility available to the Group as at 24 May 2006 was EUR 1.1 million.

  As at 31 December 2006 this facility has been cancelled.
- As at 24 May 2006 the Group had a credit facility opened at HVB Bank Romania with a ceiling of EUR 20 million for both loan and letters of guarantee. The unused facility available to the Group as at 24 May 2006 was EUR 5.1 million.

  As at 31 December 2006 this facility had been cancelled.

## 26. FINANCIAL RISKS

### (i) Credit risk

Financial assets, which potentially subject this Group to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.

The Group has no significant concentrations of credit risk, other than the case of Sensiblu SRL and Ideapharm SA with the amounts due from the Health Insurance Houses. Credit risk with respect to these receivables is limited, since these amounts are primarily due from the Romanian State and hence are considered to be ultimately recoverable. Accordingly, management believe that the Group has no significant net credit risk with regards to such balances.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

### *(ii) Foreign currency risk*

The Group imports supplies from other European countries through its Romanian subsidiaries, which also attract significant foreign currency denominated borrowings. This exposes the Group to foreign exchange risk.

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro, U.S. Dollars (USD), Swiss Franc (CHF).

The Group hedges 50 percent of all monthly payments to suppliers denominated in Euro and USD. The Group uses forward exchange contracts to hedge its foreign currency risk. The forward exchange contracts have maturities of less than one year after the reporting date. Where necessary, the forward exchange contracts are rolled over at maturity.

### *(iii) Interest rate risk*

The Group's income and operating cash flows are impacted by changes in market interest rates since the majority of interest rates on borrowings are variable, as disclosed in Note 14. The Group has no significant interest-bearing assets.

### *(iv) Liquidity risk*

| | 31 December 2006 | 24 May 2006 |
|---|---|---|
| | (EURO'000) | (EURO'000) |
| Assets | | |
| Monetary assets in RON | 160,346 | 115,994 |
| Monetary assets in foreign currency | 578 | 348 |
| | 160,924 | 116,342 |
| **Liabilities** | | |
| Monetary liabilities in RON | (111,225) | (87,151) |
| Monetary liabilities in foreign currency | (145,023) | (89,260) |
| | **(256,248)** | **(176,411)** |
| Net monetary position in RON | **49,121** | **28,843** |
| Net monetary position in foreign currency | **(144,445)** | **(88,912)** |

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due; however, due to the Group's current financing structure, there is a significant risk that the Group will encounter liquidity problems in the foreseeable future.

## 27. POST BALANCE SHEET EVENTS

### Recovery of debts from Romanian Ministry of Health

In January 2007, following the discussions between the Drugs Distribution Association, other associations and the Ministry of Health, a law bill regarding the acceptance and the payment method of the debts related to sales exceeding the settled ceilings for pharmacies, was proposed to Parliament for debate and approval.

The Company has receivables not recognised as a consequence of ceiling exceeds in amount of EUR 900 thousand. No provision was recognised.

### CITIBANK Loan – utilization requests

As at 30 April 2007 the amount withdrawn by the Group from Facility A, Facility B and Facility B3 is of EUR 76,329 thousand.

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## CITIBANK Loan – mortgage

As part of the loan agreement, the Group has agreed with Citibank to conclude an addendum to the mortgage contract for Mogosoaia building during the week 14-18 May 2007.

## Land sale

In January 2007 the Group sold a land in Constanta County having the GBV of EUR 197 thousand, obtaining proceeds in amount of EUR 475 thousand.

## 28. REVERSE AQUISITION

IFRS does not prescribe an accounting treatment for common control business combinations and therefore it is management's decision to determine the appropriate accounting treatment to be applied. IFRIC decided not to prescribe precise treatments for all possible situations in this area only because there is too much diversity in practice and judgment will always remain.

According to IAS 8.10 "Accounting policies, Changes in accounting estimates and errors" in the absence of a Standard or an Interpretation that specifically applies to a transaction, management shall use its judgment in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users.

The management of the Company assessed inter alia that A&D Pharma Holdings NV, (new "Company"), could be regarded as the acquirer if it is considered that the restructuring was linked to another future transaction, a future Initial Public Offering (IPO).

In these circumstances, given the substance of the transaction, the purchase method of accounting will provide users of the financial statements with more relevant information than an approach in which only one of the pre-existing entities is presented at fair value and the other one at book value as recommended by IFRS 3.22 under the reverse acquisition method. The Management of the Company has made this selection, considering all the pertinent facts and circumstances:

- It is more useful for future investors to apply an accounting method which would result in fair values being attributed to the assets, liabilities and contingent liabilities of the existing businesses, and the recognition of goodwill, relating to all of those businesses. The use of book value for the most important segment – wholesale and fair value for the smallest segment – retail would impair the usefulness of the information provided to users about the combination both comparability and reliability;
- IFRS 3 scopes out common control transactions and did not issue any guidance to prescribe or ban the method applied in this case;
- The accounting policy chosen did not misinform the public; the difference between reverse acquisition and fresh start accounting is an adjustment between goodwill and premium reserve. The value of the goodwill is tested yearly for impairment and any excess over the recoverable amount is recognised as an expense in the profit and loss account. The nature of the business strongly encourages the use of fair value for both businesses.
- The two operating subsidiaries are in the pharmaceutical industry – wholesale and retail distribution. While the retail distribution, the smaller business is accounted at fair value, i.e. 60 million EUR, the wholesale business would not be allowed because, according to IFRS 3.22, it is considered the acquirer and should be accounted in the consolidation at book value.

If the Group had accounted for the business combination as reverse acquisition, the following adjustments would have been made to the financial information (other items not being affected):

| | 31 December 2006 reverse acquisition | 31 December 2006 as presented | Adjustments |
|---|---|---|---|
| | **EUR million** | **EUR million** | **EUR million** |
| **ASSETS** | | | |
| Non current assets | | | |
| Goodwill | 55 | 283 | (228) |

| | 31 December 2006 reverse acquisition | 31 December 2006 as presented | Adjustments |
|---|---|---|---|
| **Shareholders' Equity** | | | |
| Share capital | 11 | 200 | (189) |
| Reverse acquisition premium | 59 | - | 59 |
| Share premium | - | 59 | (59) |
| Shareholder's contribution | 3 | - | 3 |
| Translation reserve | 7 | 12 | (5) |
| Retained earnings | 34 | 9 | 25 |
| **Total shareholders' equity** | **114** | **280** | **(166)** |
| **Non-current liabilities** | | | |
| Provisions | 6 | 15 | (9) |

If the Group had accounted for the business combination under reverse acquisition, comparative information for 2005 presented in these consolidated financial statements would be that of Mediplus only:

| | 2006 Consolidated Reverse Acquisition | 2006 consolidated as presented | Adjustments | 2005 Mediplus only |
|---|---|---|---|---|
| | **EUR million** | **EUR million** | **EUR million** | **EUR million** |
| Sales | 332 | 212 | 120 | 205 |
| Operating costs | (309) | (201) | (108) | (187) |
| **Operating profit** | **23** | **11** | **12** | **18** |
| **Financial result** | **(2)** | **1** | **(3)** | **(4)** |
| **Profit before taxation** | **21** | **12** | **9** | **14** |
| Taxation | (4) | (3) | (1) | (3) |
| **Profit for the year** | **17** | **9** | **8** | **11** |

## Comparative cash flow statements under reverse acquisition

| | 2006 Consolidated Reverse Acquisition | 2006 consolidated as presented | Adjustments | 2005 Mediplus only |
|---|---|---|---|---|
| | **EUR million** | **EUR million** | **EUR million** | **EUR million** |
| Net cash from operating activities | (8) | 1 | (9) | 14 |
| Net cash used in investing activities | (14) | (14) | - | (2) |
| Net cash from financing activities | 51 | 59 | (8) | (11) |
| **Net increase / (decrease) in cash and cash equivalents** | **29** | **46** | **(17)** | **1** |
| Cash and cash equivalents at beginning of the year | (11) | (29) | 18 | (12) |
| Translation reserve | (1) | - | (1) | - |
| **Cash and cash equivalents at end of year** | **17** | **17** | - | **(11)** |

The management considers that accounting for the business combination under the reverse acquisition method would impair the comparability of the financial position, performance and cash flow of the entity. Following the restructuring of the former ADP Antilles group, ADP NV has preserved the same operating structure and such comparatives would not represent faithfully the financial position, performance and cash flows of the entity over the period.

**3 August 2007**

## The Board:

Dr. David Ebsworth

Urs Kamber

Michael Wemms

Walid Abboud

Roger Akoury

Michel Eid

Ludovic Robert

Dragos Dinu

Florin Buligoanea

Vivian Diaconescu

Claudiu Opran

# OTHER INFORMATION

## 1. AUDITOR'S REPORT

*To: A&D Pharma Holdings N.V.*

### Report on the financial statements

We have audited the accompanying statutory financial statements 2006 of A&D Pharma Holdings N.V., Delft, included in Section C (page C1 to C45) of this annual report and accountants 2006. The statutory financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the statement of income, statement of changes in equity and cash flow statement for the period from 24 May 2006 (date of incorporation) to 31 December 2006, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company statement of income for the period from 24 May 2006 (date of incorporation) to 31 December 2006 and the notes.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the statutory financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion with respect to the statutory consolidated financial statements*

In our opinion, the statutory consolidated financial statements give a true and fair view of the financial position of A&D Pharma Holdings N.V. as at 31 December 2006, and of its result and its cash flows for the period from 24 May 2006 (date of incorporation) to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

#### *Opinion with respect to the statutory company financial statements*

In our opinion, the company statutory financial statements give a true and fair view of the financial position of A&D Pharma Holdings N.V. as at 31 December 2006, and of its result for the period from 24 May 2006 (date of incorporation) to 31 December 2006 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

## Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report from page 1 to 72 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Utrecht, August 3, 2007

(for and on behalf of)

BDO CampsObers Audit & Assurance B.V.

w.g. H. Kroeze RA

## 2. ARTICLES OF ASSOCIATION PROVISIONS GOVERNING THE APPROPRIATION OF PROFIT

The salient points of Article 22 of the Articles of Association governing the appropriation of profit are:

The General Meeting shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

Distributions can only take place up to the amount of the distributable part of the net assets.

Distribution of profits shall take place after the adoption of the Annual Accounts from which it appears it is approved.

## 3. PROPOSAL FOR DISTRIBUTION OF PROFIT

The foregoing in conjunction with article 23.2.c of the Articles of Association constitutes that the General Meeting is authorized to adopt the reservation and dividend policy. For the Annual General Meeting of Shareholders of 21 June 2007, the Board of Directors proposed to the General Meeting to adopt a policy which mandates the Board of Directors to submit a reservation proposal to the GM each year and to determine that in principal the net profit of the Company decreased with the amount of such reservation as determined by the Board of Directors will be available for distribution of a dividend to the shareholders in order to make a meaningful part of the annual net operating results of the activities of the Company and its group available to the shareholders each year. In addition, the reservation and dividend policy will be scheduled for discussion with the shareholders each year. The resolution regarding reservation and dividend policy if the Company was duly passed at the General Meeting held on 21 June 2007.

In anticipation of the adoption of a reservation and dividend policy by the GM in accordance with this proposal and in view of the satisfactory results of the Company's group in 2006 as explained in this Annual Report, the Board of Directors proposed to the General Meeting held on 21 June 2007 to resolve to make a dividend distribution out of the net profit for the year 2006 under article 22.1 of the Articles of Association in an aggregate amount of EUR 3,565,600, equaling EUR 0.017828 per share and payable as of 3 July 2007. In the opinion of the Board this proposal is in line with the spirit of proposed reservation and dividend policy and the intention of the Company to make a meaningful part of the annual net operating results of the activities of the Company and its group available to the shareholders each year.

It was initially intended that this dividend distribution would be an end of year dividend payment out of the net profit for the year 2006 under article 22.1 of the Articles of Association and to add the remainder of the net profit in the amount of EUR 5,198,000 to retained earnings. In light of the events outlined in the introduction of the revised Annual Report, the annual accounts could not be adopted at the AGM on 21 June 2007 and therefore this dividend proposal could not be put to a vote at that AGM. However, the Company continued to propose a resolution at the AGM held on 21 June 2007 relating to the dividend announced on 24 May 2007. This dividend was proposed as an interim dividend under article 22.4 of the Articles of Association (the payment, ex-dividend and record dates remaining as announced on 24 May 2007). It was the Board's opinion that such distribution was possible with due observance of the provisions of the Articles of Association and Dutch law.

The above mentioned resolution regarding interim dividend distribution proposal has been duly passed. The shareholders received an interim dividend distribution on 3 July 2007 in the amount of the initially announced end of year dividend for 2006. The ex-dividend date for the London Stock Exchange listed Global Depositary Receipts in the Company was 25 June 2007 and the record date 27 June 2007. Therefore, the Board proposed to the AGM that at the further Extraordinary General Meeting of shareholders, yet to be convened, to resolve not to make any dividend distribution out of the net profit for 2006 and to add the net profit to the reserved earnings in full.

17-09-2007

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