AB Sanitas

Consolidated Financial Statements for the year 2005

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Company details

AB Sanitas
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Registered office: Vytauto pr. 3
Kaunas, Lithuania LT 44354

Supervisory Council

Darius Šulnis (Chairman)
Dailius Juozapas Mišeikis
Jurgis Nausėda
Darius Žaromskis

Management

Saulius Jurgelėnas (General Director)
Giedrius Gudas (Production Director)
Rytis Seniūnas (Sales Director)
Mindaugas Žvirblis (Procurement Director)
Ilona Žėglienė (Head of Quality Assurance)
Vytautas Macenavičius (Chief Engineer)
Rūta Milkuvienė (Head of Legal and General Affairs Division)
Dalia Švelnytė (Chief Financial Officer)
Piotras Grigorjevas (Project Director)

Auditors

KPMG Baltics, UAB

Banks

SEB Vilniaus Bankas
AB Sampo Bankas
AB Šiaulių Bankas
Nordea Bank Danmark A/S
Tatra Bank
Všeobecna uverova banka a.s.
HVB Bank Slovakia a.s.
Slovenska sporitelna a.s.
Caylon bank Slovakia

Annual report

The Supervisory Council and the Management have today discussed and authorized for issue the consolidated annual accounts and the annual report and have signed the consolidated annual accounts and report on behalf of the Company.

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate.

We recommend the consolidated accounts be approved at the Annual General Meeting.

Vilnius, 31 March 2006

Management:

Saulius Jurgelėnas
General Director

Supervisory Council:

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Darius Šulnis (Chairman)	Dailius Juozapas Mišeikis
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Jurgis Nausėda	Darius Žaromskis

Report of the auditor to the shareholders of AB Sanitas

We have audited the consolidated balance sheet of AB Sanitas (the "Company") as at 31 December 2005 and the related consolidated statements of income, changes in shareholders equity and cash flows for the year then ended. The consolidated financial statements are the responsibility of the Company. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the subsidiary Hoechst Biotika s.r.o., Slovakia, included in the consolidated financial statements of AB Sanitas group were audited by another independent auditor. The component of the consolidated financial statements audited by the other auditor comprises assets of 53,656 tLitas or 36% of total consolidated assets and revenue of 25,397 tLitas or 42% of total consolidated revenue. We base our opinion on the component of the consolidated financial statements comprising the subsidiary Hoechst Biotika s.r.o. solely on the audit report of the other auditor, dated 1 February 2006, which expressed an unqualified opinion on the financial statements of the subsidiary, prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

(i) The Group has accounted for investment in AB Endokrininiai Preparatai at cost until its liquidation in 2005, instead of applying IFRS 3. Had the Group applied IFRS 3, a negative goodwill of 2.5 million Litas would be recognized in the year 2004 increasing profit for 2004 to Litas 7.1 million. In 2005, instead of a gain on liquidation of Litas 4.3 million, the Group would recognize a negative goodwill of Litas 1.8 million and the profit for 2005 would decrease to Litas 9.7 million. The adjustments would have no effect on the closing equity as at 31 December 2005.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2005, and, except for the effect of the matter referred to in paragraph (i) above, of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on the Company's activities is presented separately from the financial statements. This is a requirement of Lithuanian legislation. We have read the report on the Company's activities for the year 2005 with the objective of considering whether it is consistent with the audited financial statements. Upon completion of the review, we have issued a separate review report, dated 31 March 2006, on the report on the Company's activities in which we state that there were no apparent or material inconsistencies with the financial statements that came to our attention.

Vilnius, 31 March 2006
KPMG Baltics, UAB

Leif Rene Hansen Danish State Authorised Public Accountant	Domantas Dabulis Certified Auditor

Consolidated profit and loss account for the year ended 31 December 2005

	Note	2005	2004
		Litas	Litas
Revenue	4	62,987,513	43,001,912
Cost of sales		-46,543,698	-29,354,406
Gross profit		16,443,815	13,647,506
Distribution expenses	6	-3,129,861	-1,094,144
Administrative expenses	7	-8,464,665	-5,395,891
Other operating income	8	2,143,197	665,524
Other operating expense	8	-1,254,138	-1,851,361
Operating profit before financing costs		5,738,348	5,971,634
Gain on liquidation of subsidiary	5	4,315,052	0
Excess of subsidiary's net assets acquired over the cost of acquisition	5	3,999,237	0
Operating profit before financing activities		14,052,637	5,971,634
Financial income	9	1,504,339	59,896
Financial expenses	9	-2,071,046	-571,943
Net financing cost		-566,707	-512,047
Profit before tax		13,485,930	5,459,587
Income tax	10	-1,246,701	-857,228
Profit for the year		12,239,229	4,602,359
Basic earnings per share	21	1.23	0.55

The notes set out in pages 10 to 51 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2005

	Note	31 12 2005	31 12 2004
		Litas	Litas
ASSETS			
Non-current assets			
Property, plant and equipment	12	51,613,145	27,451,086
Intangible assets	13	915,591	245,036
Investments in equity securities	14	38,503,285	0
Deferred tax assets	10	2,499,575	71,000
Non current receivables		62,624	53,190
Total non-current assets		93,594,220	27,820,312
Current assets			
Inventories	15	11,498,144	4,920,879
Trade receivables	16	13,806,634	12,012,930
Income tax prepaid		700,281	0
Other receivables	17	1,334,848	1,883,331
Investments in associates	5	0	4,741,835
Assets held for sale	18	20,733,950	1,600,000
Cash and cash equivalents	19	4,846,639	779,114
Total current assets		52,920,496	25,938,089
TOTAL ASSETS		146,514,716	53,758,401

The notes set out in pages 10 to 51 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2005

	Note	31 12 2005	31 12 2004
		Litas	Litas
EQUITY AND LIABILITIES			
Equity	20		
Share capital		11,000,000	8,955,295
Share premium		17,553,588	0
Legal reserves		1,801,104	1,801,104
Other reserves (distributable)		(1,486,214)	4,450,367
Retained earnings		24,870,660	9,972,123
Total equity		53,739,138	25,178,889
Non current liabilities			
Interest bearing loans and borrowings	23	21,409,344	13,700,212
Deferred grant income	24	1,415,424	0
Total non current liabilities		22,824,768	13,700,212
Current liabilities			
Interest bearing loans and borrowings	23	53,821,245	959,064
Trade creditors		10,300,198	2,021,368
Income tax payable		2,112,519	881,228
Other creditors	22	3,716,848	11,017,640
Total current liabilities		69,950,810	14,879,300
Total liabilities		92,775,578	28,579,512
TOTAL EQUITY AND LIABILITIES		146,514,716	53,758,401

The notes set out in pages 10 to 51 form an integral part of these financial statements.

Consolidated statement of changes in shareholders' equity

Litas	Note	Share capital	Share premium	Treasury shares	Legal reserve	Fair value reserve	Translation reserve	Other reserves	Retained earnings	Total
Capital and reserves as at 1 January 2004	20	27,814,800	0	-22,454,307	1,769,872		0	12,760,417	864,854	20,755,636
Dividends		0	0	0	0			0	-179,106	-179,106
Decrease in share capital	20	-18,859,505	0	22,454,307				-3,594,802		0
Allocated to legal reserve		0	0	0	31,232			0	-31,232	0
Transfer from reserves		0	0	0	0			-4,715,248	4,715,248	0
Net profit of 2004		0	0	0	0			0	4,602,359	4,602,359
Capital and reserves as at 1 January 2005	20	8,955,295	0	0	1,801,104	0	0	4,450,367	9,972,123	25,178,889
Issue of shares	20	2,044,705	17,553,588	0	0		0	0	0	19,598,293
Transfer from reserves	20	0	0	0	0		0	-4,450,367	4,450,367	0
Dividends		0	0	0	0		0	0	-1,791,059	-1,791,059
Change in fair value of equity securities available for sale	14					-3,042,276				-3,042,276
Foreign exchange translation differences							1,556,062			1,556,062
Gains and losses recognized directly in equity		0	0	0	0	-3,042,276	1,556,062	0	0	-1,486,214
Net profit of 2005									12,239,229	12,239,229
Total income and expense for the period						-3,042,276	1,556,062		12,239,229	10,753,015
Capital and reserves as at 31 December 2005	20	11,000,000	17,553,588	0	1,801,104	-3,042,276	1,556,062	0	24,870,660	53,739,138

The notes set out in pages 10 to 51 form an integral part of these financial statements.

Consolidated cash flow statement

Litas	2005	2004
Profit before taxation	13,485,930	5,459,587
Adjustments for:		
Depreciation and amortization	7,026,507	3,810,829
Loss on disposals of non current assets	25,583	28,046
Impairment of receivables	-458,751	280,695
Write down of inventories	259,093	328,708
Reversal of impairment/ impairment of prepayments for non current assets	-196,613	393,118
Excess of subsidiary's net assets acquired over the cost of acquisition	-3,999,237	0
Gain on liquidation of subsidiary	-4,315,052	0
Unrealised foreign exchange loss	366,088	98,355
Interest expense	1,215,029	454,271
Interest income	-19,002	-585
Net cash inflow from ordinary activities before any change in working capital	13,389,575	10,853,024
Change in trade and other receivables	23,273,616	-3,692,431
Change in inventories	10,786,924	344,681
Change in trade creditors and other creditors	-19,828,072	11,296,982
Interest paid	-1,215,029	-454,271
Interest received	19,002	585
Income tax paid	-1,809,216	0
Net cash inflow from operating activities	25,202,523	18,348,570
Acquisition of property, plant and equipment	-9,701,829	-16,977,416
Capitalization of intangible fixed assets	-732,163	-224,976
Proceeds from disposal of property, plant and equipment	179,115	21,982
Acquisition of subsidiary net of cash acquired	-43,027,548	-1,413,440
Acquisition of and prepayment for shares of AB Endokrininiai Preparatai	-1,926,391	-5,972,550
Acquisition of investments in other equity securities	-42,259,181	0
Acquisition of assets held for sale	-3,323,651	0
Proceeds from liquidation of subsidiary	12,213,993	0
Net cash outflow from investing activities	-88,577,654	-24,566,400
Dividends paid	-1,791,059	-179,106
Proceeds from issuance of share capital	19,598,293	0
Proceeds of non current borrowings	7,709,132	9,970,213
Proceeds of current borrowings	41,096,589	0
Repayments of current loans	0	-3,686,044
Grants received	1,415,424	0
Net cash inflow/(outflow) from financing, net	68,028,379	6,105,063
Net cash inflow/outflow from operating activities, investing activities and financing	4,067,525	-112,767
Cash and cash equivalents at 1 January	779,114	891,881
Cash and cash equivalents at 31 December	4,846,639	779,114

The notes set out in pages 10 to 51 form an integral part of these financial statements.

Notes

1 Significant accounting policies

The joint stock company AB Sanitas (the Company) is domiciled in Kaunas, Lithuania. The Company's shares were listed in the Current List on the National Stock Exchange of Lithuania until 21 November 2005. From 21 November 2005 the shares are listed in the Official List on the National Stock Exchange of Lithuania.

AB Sanitas is involved in production and trade of generic medicines, namely injection preparations, tablets, capsules, galenic solutions and ointments.

In May 2004, AB Sanitas acquired a 40% interest in a limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in the production of pharmaceutical preparations. From May 2004, after accession to EU, new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory periods allowed. The relevant certifications were not acquired by Endokrininiai Preparatai and, consequently, on 15 April 2005 liquidation procedures of AB Endokrininiai Preparatai started. On 29 April 2005, AB Sanitas increased its holding to 67% of the shares acquiring control over the company. The liquidation was completed by the end of 2005, when final distributions were made to shareholders, with only the formalities of the cancellation of the registration remaining.

In July 2004, AB Sanitas acquired a 100% interest in a limited liability company Altisana UAB, Lithuania. The subsidiary is involved in holding real estate in Kaunas, Lithuania.

In July 2005, AB Sanitas acquired a 100% interest in a limited liability company Hoechst-Biotika s.r.o, Slovakia. The subsidiary is involved in the production and trade of medicines, mainly injection preparations, tablets and ointments.

The consolidated financial statements of AB Sanitas for the year ended 31 December 2005 comprise the financial statements of the Company and its subsidiaries, Hoechst-Biotika s.r.o., Slovakia and Altisana UAB, Lithuania (together the Group).

As at 31 December 2005 the major shareholders were as follows:

Name and address	Number of shares	Shareholding %
AB Invalda	4,313,095	39.21
UAB Finasta Investicijų Valdymas	601,870	5.47
Alvydas Banys	123,440	1.12
Algirdas Bučas	95,265	0.87
Dailius Juozapas Mišeikis	95,265	0.87
UAB Finasta Rizikos Valdymas	88,313	0.80
UAB Finasta Investicijų Valdymas	84,110	0.76
AB FMĮ Finasta *	30,925	0.28
Others	5,567,717	50.62
Total	11,000,000	100

*AB FMĮ Finasta by power of attorney represents 405,410 votes (3.7%).

All the above mentioned companies holding shares of AB Sanitas are part of AB Invalda group.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), further to the IAS Regulation (EC 1606/2002).

The financial statements were authorised for issue and signed by Management on behalf of the Company on 31 March 2006.

Basis of preparation

The financial statements are presented in Litas. They are prepared on the historical cost basis except that financial assets available-for-sale are stated at fair value. Non current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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. Actual results may differ from these estimates.

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies of the Group as set out below have been applied consistently by Group entities and are consistent with those of the preceding year, except as a result of change in accounting policies resulting from amendments to existing IFRSs and the introduction of new IFRSs applicable as of 1 January 2005 which are described in Note 2.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases or until the associate is reclassified as held for sale.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. If an associate is reclassified as held for sale, equity accounting is stopped and the associate is carried at the lower of the carrying amount and the fair value less cost to sell.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The functional currency of the Group is Litas, except for Hoechst Biotika, the functional currency of which is the Slovak crown.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Litas at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Litas at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal.

Derivative financial instruments

The Group does not have derivative financial instruments.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item or major overhaul when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. At recognition of replacing part or major overhaul, carrying amount of parts replaced or previous major overhaul are derecognised. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and construction in progress are not depreciated. The estimated useful lives are as follows:

The estimated useful lives are as follows:

- Buildings and constructions 15 years
- Machinery and equipment 5 - 10 years
- Vehicles 5 years
- Other assets 3 - 10 years

Residual values, depreciation methods and useful lives are reassessed annually.

Intangible assets

Goodwill

Business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

The excess of the Group’s interest in the net fair value of an acquired company’s identifiable assets, liabilities and contingent liabilities over cost arising on an acquisition is recognised directly in profit or loss.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Registration of medicines and trade marks - 2-5 years
- Software - 3-4 years.

Financial instruments

Investments in equity securities

Investments in equity securities held by the Group are classified as being available-for-sale and are initially recognized at fair value plus direct cost. Subsequently, the investments are re-measured to their fair value with any resultant gain or loss being recognised directly in equity, except for impairment losses. They are included in non current assets unless management intends to dispose of the investments within 12 months of the balance sheet date. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognised / derecognised by the Group on the date it commits to purchase / sell the investments.

Other financial instruments

Loans and receivables are non derivative financial assets or derterminable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivabkes are initially recongised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortised cost. Short-term liabilities are not discounted.

Inventories

Inventories produced and/or held for sale sold in the ordinary course of business are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Other inventories are stated at the lower of cost and fair value less cost to sell.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

An impairment loss in respect of goodwill is not reversed. Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Revenue

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

Government grants

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: for initial recognition of goodwill or of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent re-measurement.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

– IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group does not participate in any defined benefit plans, Management considered this amendment to IAS 19 and concluded that it is not relevant to the Group.

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

– IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group has not classified any instruments as at fair value through profit and loss.

– IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). Management considered this amendment to IAS 39 and IFRS 4 and concluded that it is not relevant to the Group.

– IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Group's operations. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

– IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

2 Change in accounting policies

Adoption of standards effective from 1 January 2005

As of 1 January 2005, the Company adopted the IFRSs below, which are relevant to its operations. The financial statements have been amended as required, in accordance with the relevant requirements.

- IAS 1 (revised 2003 and amended March 2004), *Presentation of Financial Statements*
- IAS 2 (revised 2003), *Inventories*
- IAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 10 (revised 2003 and amended March 2004), *Events after the Balance Sheet Date*
- IAS 16 (revised 2003 and amended March 2004), *Property, Plant and Equipment*
- IAS 17 (revised 2003 and amended March 2004), *Leases*
- IAS 24 (revised 2003), *Related Party Disclosures*
- IAS 27 (revised 2003 and amended March 2004), *Consolidated and Separate Financial Statements*
- IAS 28 (revised 2003 and amended March 2004), *Investments in Associates*
- IAS 33 (revised 2003 and amended March 2004), *Earnings per Share*
- IAS 36 (revised 2004), *Impairment of Assets*
- IAS 38 (revised 2004), *Intangible Assets*
- IAS 39 (revised 2004), *Financial Instruments: Recognition and Measurement*
- IFRS 2 (issued 2004), *Share-based Payments*
- IFRS 3 (issued 2004), *Business Combinations*
- IFRS 5 (issued 2004), *Non-current Assets Held for Sale and Discontinued Operations (early adopted 1 January 2004)*

The Company adopted these effective from 1 January 2005, except for IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which was been retrospectively adopted from 1 January 2004.

Below we provide the discussion of the impact of the new standards, applicable to the Group.

Investments in subsidiaries

In accordance with IAS 27 requirements effective from 1 January 2005, previously effective non consolidation exemption due to temporary control of subsidiary was removed and according to the amended standard, all the subsidiaries have to be consolidated. In the financial statements for 2004, the investment in a fully owned subsidiary Altisana UAB acquired in 2004, was previously not consolidated but stated at fair value in accordance with previously effective IAS 27 and IAS 39. In the consolidated financial statements for 2005, the subsidiary has been consolidated from its acquisition in 2004. The effects of restatement of comparative amounts of 2004 are presented in a table below. The restatement did not affect either result or equity of the Group as at 31 December 2004, as the subsidiary did not have any activities, except for holding real estate.

Assets held for sale

In accordance with requirements of IFRS 5, effective from 1 January 2005, if the carrying amount of non current assets will be recovered principally through a sale transaction rather than through continuing use, the assets should be reclassified as current assets and carried at the lower of the carrying amount according to applicable IFRSs immediately before the reclassification and fair value less cost to sell. The Group selected to apply the standard restrospectively from 1 January 2004.

As at 31 December 2004, the Group held 100% interest in a subsidiary UAB Altisana, which met the above mentioned criteria as for assets held for sale. Accordingly, the subsidiary's assets were reclassified to assets held for sale in the corresponding figures for 2004.

Financial Instruments

In accordance with IAS 39 requirements, the Group has reviewed its financial instruments held at 1 January 2005 and has performed re-designation of these financial instruments into categories as defined by the revised IAS 39. The standard requires retrospective application. The Group's financial instruments were classified into the following categories:

-Equity securities were classified as available for sale instruments and measured at fair value with changes in fair value recognised in equity. Since the Group first acquired equity securities in 2005, there was no impact on net income or equity from this re-designation.

-All loans, receivables and deposits originated by the Group were classified as loans and receivables originated by the Group and measured at amortised cost. Current portion of loans and receivables originated by the Group was classified as current assets, based on remaining maturity at the balance sheet date. There was no impact on net income or equity from this re-designation.

Changes that resulted from retrospective application of the new or revised standards and their effect on the financial statements are summarised in the table below:

	2004 as previously reported	Effects of IAS 27 and IFRS 5	2004 restated
	Litas	Litas	Litas
Assets			
Property, plant and equipment	27,451,086		27,451,086
Intangible assets	245,036		245,036
Long term receivables	53,190		53,190
Deferred tax assets	71,000		71,000
Total non-current assets	27,820,312	-	27,820,312
Inventories	4,920,879		4,920,879
Trade receivables	12,012,930		12,012,930
Other receivables	2,069,891	-186,560	1,883,331
Current financial assets	6,155,275	-1,413,440	4,741,835
Assets held for sale	0	1,600,000	1,600,000
Cash and cash equivalents	779,114	-	779,114
Total current assets	25,938,089	-	25,938,089
Total assets	53,758,401	-	53,758,401
Equity and liabilities			
Total equity	25,178,889	-	25,178,889
Total non current liabilities	13,700,212	-	13,700,212
Total current liabilities	14,879,300	-	14,879,300
Total liabilities	28,579,512	-	28,579,512
Total equity and liabilities	53,758,401	-	53,758,401

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group 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.

Classification of assets held for sale

The Group classified part of real estate as held for sale based on its intentions to sell the property within the next twelve months and active marketing of the property for sale. The premises currently occupied by production facilities of AB Sanitas are also part of the property actively marketed for sale. As part of the disposal agreement, the Group intends to enter into an operational lease agreement with the buyer of the real estate for the period until the construction of new production premises (currently in progress) is finished, as expected by the end of 2006. Consequently, the production premises are considered to be available for immediate disposal as part of the disposal group. The fair value of real estate held for sale which is to be disclosed in the financial statements in accordance with the requirements of IFRS 5 was estimated based on independent appraisals of the property performed by the end of 2005.

Impairment losses on receivables

The Group reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may includes observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

Judgements

During 2005, the Group acquired controlling interest in a subsidiary Hoechst Biotika s.r.o., Slovakia. The fair value of the net assets at acquisition was estimated as follows:

-fair value of land and buildings was estimated based on independent appraisal as at the date of acquisition using comparative values method;

- fair value of plant and equipment was estimated using a depreciated replacement cost method by an independent appraisal, since there was no reliable market-based evidence of market value because of the specialised nature of plant and equipment;

-fair value of inventories was estimated based on existing agreements with the sellers of the shares to acquire the inventories at a price equal to their cost;

-fair value of monetary items was estimated based on the present value of expected cash flows.

No additional intangible assets or contingent liabilities were recognised as a result of the business combination, taking into consideration that all product licenses, trade marks, major sales and supply contracts of the subsidiary in force before the acquisition were cancelled or removed from disposition of the company as part of the transaction.

The Group has recognized deferred tax assets based on the judgement of management that realization of the related tax benefits through future taxable profits are probable.

4 Segment reporting

Segment information is presented in respect of the Group’s business and geographical segments.

Segment information is presented in respect of the Group's business segments as a primary reporting format. The group produces and distributes medicines, mainly injection preparations, tablets, eye drops, ointments and galenic solutions.

Segment information is presented in respect of the Group’s geographical segments by location of customers as a secondary reporting format. The Group's sales are performed mainly in Latvia, Lithuania, Slovakia and Germany.

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 tangible and intangible segment assets that are expected to be used for more than one period.

Segment information by business segments is as follows:

Litas	Injection preparations		Tablets		Eye drops, ointments and galenic solutions		Unallocated		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue	35,072,213	35,767,392	15,279,866	3,681,798	5,308,646	3,308,208	7,326,788	244,514	62,987,513	43,001,912
Segment gross profit	10,011,144	9,781,857	3,089,259	2,239,361	2,844,441	1,518,380	498,971	107,908	16,443,815	13,647,506
Operating expenses	958,870	580,714	1,152,120	257,209	895,320	250,271	7,699,157	6,587,678	10,705,467	7,675,872
Operating profit before financing costs	9,052,274	9,201,143	1,937,139	1,982,152	1,949,121	1,268,109	-7,200,186	-6,479,770	5,738,348	5,971,634
Financing cost							-566,707	-512,047	-566,707	-512,047
Gain on liquidation of subsidiary							4,315,052	0	4,315,052	0
Negative goodwill							3,999,237	0	3,999,237	0
Profit before tax	9,052,274	9,201,143	1,937,139	1,982,152	1,949,121	1,268,109	547,396	-6,991,817	13,485,930	5,459,587
Income tax							-1,246,701	-857,228	-1,246,701	-857,228
Net profit	9,052,274	9,201,143	1,937,139	1,982,152	1,949,121	1,268,109	-699,305	-7,849,045	12,239,229	4,602,359
Segment assets	40,916,584	25,785,369	12,238,509	1,964,655	3,044,866	1,298,992	90,314,757	24,709,385	146,514,716	53,758,401
Segment liabilities	6,499,515	1,797,751	3,161,598	99,792	639,084	123,825	82,475,380	26,558,144	92,775,578	28,579,512
Capital expenditure	408,864	4,182,841	342,393	4,800	715,351	274,000	8,967,384	12,740,751	10,433,992	17,202,392
Depreciation and amortisation	3,783,880	2,699,025	663,142	239,326	157,196	26,754	2,422,289	845,724	7,026,507	3,810,829

Segment information by geographical segments is as follows:

	Germany	**Slovakia**	**Latvia**		**Lithuania**		**Unallocated**		**Total**	
Litas	2005	2005	2005	2004	2005	2004	2005	2004	2005	2004
Revenue	19,116,828	6,948,254	21,463,212	32,297,594	13,714,226	8,984,855	1,744,993	1,719,463	62,987,513	43,001,912
Total assets by location of assets		53,655,862			92,858,854	53,758,401			146,514,716	53,758,401
Capital expenditures		1,280,448			9,153,544	17,202,392			10,433,992	17,202,392

5 Acquisition of subsidiaries

(a) On 27 July 2005, the Group acquired all the shares of Hoechst-Biotika s.r.o., pharmacy production company domiciled in Martin, Slovakia. The company manufactures and distributes medicines, mainly injection preparations, tablets and ointments. The consideration paid for the shares amounted to Litas 43,984 thousand and was satisfied in cash. Consideration paid includes legal fees amounting to Litas 135 thousand.

In the five months to 31 December 2005 the subsidiary contributed net profit of Litas 102 thousand to the consolidated net profit for the year.

The acquisition had the following effect on the Group's assets and liabilities:

Acquiree's net assets at the acquisition date

In Litas	Fair values recognised
Land and buildings	23,589,438
Plant and equipment	12,355,096
Intangible assets	109,006
Deferred tax asset	550,430
Inventories	17,623,282
Trade and other receivables	25,300,235
Cash acquired	957,412
Suppliers and other creditors	-20,735,110
Current financial liabilities	-11,765,592
Net assets acquired	47,984,197
Excess of subsidiary's net assets acquired over the cost of acquisition	-3,999,237
Consideration paid satisfied in cash	43,984,960
Cash acquired	-957,412
Net cash outflow	43,027,548

The former owner of Hoechst-Biotika s.r.o. sold its shares as part of the group reorganization, refusing excess production capacity in the region. It was also in the seller's interest to ensure that the work force continued to be employed. As a result the seller was willing to accept a price below the fair value of the net assets. In addition, the former owner cancelled all product licenses and rights to trade marks, major sales and supply contracts in force before the acquisition. Consequently, sales and supply contracts had to be renegotiated and new medicines to be produced would need to be registered in Slovakia. As a result, a loss is budgeted for the year 2006, and it is expected that the break even will be reached in 2007.

(b) In July 2004, AB Sanitas acquired 100% interest in limited liability company Altisana UAB domiciled in Kaunas, Lithuania. At the time of acquisition the subsidiary had no activities other than holding real estate in Kaunas. The fair value of the net assets comprising the real estate was estimated by reference to an independent appraisal close to the date of acquisition. The Group's consideration paid for the shares equaled the fair value of the net assets acquired.

Acquiree's net assets at the acquisition date

In Litas	Recognised fair values
Property	1,600,000
Suppliers and other creditors	-186,560
Total net assets	1,413,440
Consideration paid satisfied in cash	1,413,440
Cash acquired	0
Net cash outflow	1,413,440

5 Acquisition of subsidiaries

(c) In May 2004, AB Sanitas acquired 40% interest in a limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in the production of pharmaceutical preparations. At the time of acquisition, the company's main assets comprised property, plant and equipment, receivables and inventory. Included within property, plant and equipment was real estate with market values in excess of carrying amounts.

From May 2004, after accession to EU the new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory periods allowed. The relevant certifications were not acquired by the company in 2004 and, consequently, the company was not longer able to produce medicines, and AB Sanitas was able to acquire the assets at a value below their market value. During 2004 and 2005 the company began a process of selling off its assets and realized significant gains from the sale of real estate. In 2005, AB Sanitas increased its holding up to 67% of the shares acquiring control over the company. On 15 April 2005 AB Endokrininiai Preparatai officially entered into liquidation. The liquidation was finished by the end of 2005, when corresponding distribution to shareholders was paid out, and only formalities of cancellation of the registration were left.

Acquiree's net assets at the date of acquiring control

In Litas	Fair values
Property, plant and equipment	179,072
Inventories	49,797
Trade and other receivables	18,318,040
Cash acquired	708,152
Suppliers and other creditors	-561,664
Total net assets	18,693,397
Net assets attributable to 67% interest acquired	12,524,576
Excess of subsidiary's net assets acquired over the cost of acquisition	4,625,635
Consideration paid satisfied in cash	7,898,941
Cash acquired	-708,152
Net cash outflow	7,190,789

During the period from acquisition of the controlling interest by AB Sanitas until the final settlement with shareholders on liquidation, the subsidiary incurred expenses of 311 tLitas and the result for the period comprised a loss of 311 tLitas.

The effect of consolidation of the associate in 2004 and the subsidiary in 2005 was considered to be not material for the consolidated financial statements of the Group, consequently, the value of the investment was not restated to its equity value in 2004 and no consolidation was made in 2005. Instead, the investment was stated at cost.

The effect of the acquisition and disposal of the subsidiary on the consolidated financial statements is as follows:

	Litas
Share of distribution to shareholders received on liquidation in 2005	12,213,993
Cost of acquired shares in 2004 (40% of total shares)	-4,741,835
Cost of acquired shares in 2005 (27% of total shares)	-3,157,106
Total cost of investment	-7,898,941
Gain recognized in the income statement for 2005	4,315,052

		2005	2004
		Litas	Litas
6	**Distribution expenses**		
	Advertising	1,009,568	302,140
	Salaries and social insurance	935,605	355,325
	Marketing	697,358	214,065
	Transportation expenses	203,159	68,386
	Amortisation	89,825	81,023
	Depreciation	49,420	5,380
	Other	144,926	67,825
		3,129,861	1,094,144
7	**Administrative expenses**		
	Salaries and social insurance	3,322,206	1,816,403
	Depreciation	1,538,969	541,407
	Advisory services	575,858	754,749
	Stationery	476,715	391,317
	Property taxes	308,343	346,039
	Business trips	293,583	60,361
	Utilities	271,700	312,135
	Physical security services	232,739	137,200
	Repair of premises	166,915	0
	Communication expenses	75,645	46,674
	Redundancy payments	65,402	704,599
	Amortisation	21,630	23,172
	Other	1,114,960	261,835
		8,464,665	5,395,891

		2005	2004
		Litas	Litas
8	**Other operating income**		
	Rent and services	729,400	388,813
	Reversal of impairment of receivables	714,873	0
	Proceeds from sales of materials, spare parts	395,551	274,382
	Reversal of impairment of prepayment for non current assets	196,613	0
	Other	106,760	2,329
	Total other operating income	2,143,197	665,524
	Other operating expenses		
	Cost of services rendered	438,928	188,100
	Cost of current assets sold	208,421	253,314
	Write down of inventories	259,093	328,708
	Impairment of receivables	256,122	280,695
	Loss on disposal of non current assets	25,583	28,040
	Impairment of prepayment for non current assets	0	393,118
	Charity donations	2,000	379,386
	Other	63,991	0
	Total other operating expenses	1,254,138	1,851,361
	Other operating items, net	889,059	-1,185,837

9	**Financial income**		
	Delayed payment interest charges and penalties received	498,029	0
	Interest income on bank deposits	19,002	585
	Foreign exchange gain	890,389	59,270
	Other	96,919	41
		1,504,339	59,896
	Financial expenses		
	Interest on borrowings	1,215,029	454,271
	Foreign exchange loss	703,012	117,078
	Other	153,005	594
		2,071,046	571,943

		2005	2004
		Litas	Litas
10	**Income tax recognized in the income statement**		
	Current tax expense		
	Current year	2,385,933	890,425
	Adjustments for prior years	25,293	-11,197
		2,411,226	879,228
	Deferred income tax		
	Origination and reversal of temporary differences	-1,117,561	-22,000
	Recognised deferred tax benefit on tax loss carried forward	-46,964	0
		-1,164,525	-22,000
	Total income tax expense recognized in the income statement	1,246,701	857,228

The reconciliation of effective tax rate is as follows:

Litas	2005		2004	
Result before tax		13,485,930		5,459,587
Income tax using effective tax rate	15.0%	2,022,890	15.0%	818,938
Excess of subsidiary's net assets acquired over the cost of acquisition	-4.4%	-599,886		
Delays and fines received	-0.6%	-74,704	0.0%	0
Charity and support	0.0%	-300	-1.0%	-56,908
Write down of inventories	0.3%	49,282	0.6%	31,368
Impairment of receivables	0.1%	14,227	0.4%	19,609
Disposal of tangible fixed assets	0.1%	12,959	0.1%	3,303
Non deductible VAT	0.1%	10,063	0.0%	3,280
Representation expenses	0.0%	1,360	0.0%	2,177
Disposal of intangible fixed assets	0.0%	1,121	0.0%	3,101
Other non deductible expense	0.5%	67,882	-0.1%	-5,043
Effect of earlier unrecognised tax benefit on tax loss carried forward	-0.3%	-37,077	0.0%	0
Effect of increase in corporate income tax rate on deferred tax asset to 19%	-2.0%	-268,911	0.0%	0
Expired unused tax loss	0.0%	0	0.9%	48,600
Effect of tax rates in foreign jurisdictions	0.2%	22,502	0	0
Under / over provided in prior years	0.2%	25,293	-0.2%	-11,197
	9.2%	1,246,701	15.7%	857,228

The movements on the deferred tax asset are as follows:

Litas	2005	2004
Deductible temporary differences:		
Deductible temporary differences on fixed assets	8,511,411	0
Fair value adjustment of available for sale investments	3,755,896	
Difference between the tax base and carrying amount of receivables	232,720	388,471
Difference between the tax base and carrying amount of accrued expenses	412,501	84,860
Total deductible temporary differences	12,912,528	473,331
Loss carried forward	247,181	0
Basis for calculation of the deferred tax	13,159,709	473,331
Deferred tax (18-19%) as at 31 December	2,499,575	71,000

According to the amended tax legislation in Lithuania, during the period from 1 January 2006 to 31 December 2007, companies' profits subject to corporate income tax will be levied by additional social tax at a rate of 4% during 2006 and at a rate of 3% during 2007. The social tax is imposed in addition to the corporate income tax of 15%. The deferred tax as at 31 December 2005 was calculated using the effective rates of 19% and 18% for the temporary differences that will reverse in 2006 and 2007 respectively. The deferred tax of the subsidiary in Slovakia was calculated applying 19% effective tax rate.

The movement in the deferred tax asset account is as follows:

Litas	2005	2004
Deferred tax asset as at 1 January	71,000	49,000
Acquired as part of subsidiary's (Hoechst-Biotika) assets	550,430	0
Deferred tax income recognised in the income statement	1,164,525	22,000
Deferred tax income recognised in the equity	713,620	0
Deferred tax asset as at 31 December	2,499,575	71,000

Deferred tax income of Litas 713,620 was recognized directly in the equity during 2005. The mentioned deferred tax benefit is related to unrealized loss on re-measurement of available for sale investments in equity securities (Jelfa shares) to their fair value. No other corporate income tax was recognized directly in the equity during 2005 and 2004.

11 Staff costs

	2005	2004
	Litas	Litas
Wages and social security contributions in production costs	6,855,096	2,777,749
Salaries and social security costs administrative	3,322,206	1,816,403
Salaries and social security costs in selling expenses	935,605	355,325
Redundancy payments in administrative expenses	65,402	704,842
	11,178,309	5,654,319

Staff costs include wages and salaries and emoluments for the management (directors and chief financial officer) of 692,506 Litas (2004 – 546,864 Litas).

At the end of 2005, the Group employed 506 employees (2004: 192 employees).

12 Property, plant and equipment

Litas	Land	Buildings	Machinery and equipment	Vehicles & other assets	Construc tion in progress	Total
Cost as at 01 01 2004	0	8,966,605	21,836,378	628,206	374,658	31,805,847
Additions	0	12,972,379	2,393,702	196,544	1,414,791	16,977,416
Disposals	0	0	-3,577,187	-57,099	0	-3,634,286
Impairment	0	0	0	0	-393,118	-393,118
Cost as at 31 12 2004	0	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Depreciation as at 01 01 2004	0	3,691,570	13,146,167	365,338	0	17,203,075
Depreciation during year	0	545,896	3,087,963	72,775	0	3,706,634
Disposals	0	0	-3,554,774	-50,162	0	-3,604,936
Depreciation as at 31 12 2004	0	4,237,466	12,679,356	387,951	0	17,304,773
Net book value at 01 01 2004	0	5,275,035	8,690,211	262,868	374,658	14,602,772
Net book value at 31 12 2004	0	17,701,518	7,973,537	379,700	1,396,331	27,451,086
Cost as at 01 01 2005	0	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Acquisition of subsidiary Hoechst Biotika	821,404	22,768,437	11,043,831	1,298,865	11,997	35,944,534
Other additions	0	235,242	1,267,793	450,050	7,748,744	9,701,829
Disposals	0	0	-2,316,396	-279,524	-105,058	-2,700,978
Reversal of impairment	0	0	0	0	196,613	196,613
Reclassified to assets held for sale	0	-20,526,432	-676,229	0	0	-21,202,661
Other reclassifications	0	0	278,019	0	-278,019	0
Effect of movements in foreign exchange rates	27,584	769,082	372,673	43,801	171	1,213,311
Cost as at 31 December 2005	848,988	25,185,313	30,622,584	2,280,843	8,970,779	67,908,507
Depreciation as at 01 01 2005	0	4,237,466	12,679,356	387,951	0	17,304,773
Depreciation during year	0	2,094,327	4,422,244	329,823	0	6,846,394
Disposals	0	0	-2,273,573	-228,550	0	-2,502,123
Reclassified to assets held for sale	0	-5,247,378	-144,983	0	0	-5,392,361
Effect of movements in foreign exchange rates	0	19,210	18,396	1,073	0	38,679
Depreciation as at 31 12 2005	0	1,106,625	14,701,440	490,297	0	16,295,362
Net book value at 31 December 2005	848,988	24,081,688	15,921,144	1,790,546	8,970,779	51,613,145

No internal expenses were recognized in the carrying amount of property, plant or equipment in the course of its construction.

Leased property, plant and equipment

As at 31 December 2005, the Group has equipment with a carrying amount of Litas 861,058 and vehicles with a carrying amount of Litas 203,937 leased under finance lease contracts (where the Group is a lessee).

As at 31 December 2005, the Group has no assets leased under operating lease contracts (where the Group is a lessor).

Pledges

As at 31 December 2005, buildings and equipment with a carrying amount of Litas 50,498,515 are pledged for the bank loans (refer to note 25).

Assets purchase commitments

As at 31 December 2005, the Group has a commitment to purchase machinery for Litas 1,338 thousand. Installation of the machinery is expected by August 2006.

Depreciation

Depreciation of tangible assets has been allocated as follows:

	2005	2004
	Litas	Litas
Depreciation in production costs	5,258,005	3,159,847
Depreciation in administration expenses	1,538,969	541,407
Depreciation in distribution expenses	49,420	5,380
Total	6,846,394	3,706,634

13 Intangible fixed assets

	Licenses	Software, etc.	Total
Acquisition value as at 1 January 2004	271,843	251,360	523,203
Additions during the period	171,121	53,855	224,976
Disposal	-96,567	0	-96,567
Acquisition value as at 31 December 2004	346,397	305,215	651,612
Amortization as at 1 January 2004	163,070	215,200	378,270
Amortization for the period	81,495	22,700	104,195
Amortization of disposed assets	-75,889	0	-75,889
Amortization as at 31 December 2004	168,676	237,900	406,576
Net book value at 1 January 2004	108,773	36,160	144,933
Net book value at 31 December 2004	177,721	67,315	245,036
Acquisition value as at 1 January 2005	346,397	305,215	651,612
Acquisition of subsidiary Hoechst Biotika	0	109,006	109,006
Other additions during the period	19,857	712,306	732,163
Disposals	-73,021	-48,603	-121,624
Foreign exchange difference	0	15,901	15,901
Acquisition value as at 31 December 2005	293,233	1,093,825	1,387,058
Amortisation as at 1 January 2005	168,676	237,900	406,576
Amortisation for the period	89,991	90,122	180,113
Amortization of disposed assets	-73,008	-42,773	-115,781
Foreign exchange difference	0	559	559
Amortisation as at 31 December 2005	185,658	285,809	471,467
Net book value at 31 December 2005	107,575	808,016	915,591

Amortisation of intangible assets has been allocated as follows:

	2005	2004
	Litas	Litas
Amortisation in production expenses	68,658	0
Amortisation in distribution expenses	89,825	81,023
Amortisation in administrative expenses	21,630	23,172
Total amortization expenses for the year	180,113	104,195

		2005	2004
		Litas	Litas
14	**Investments**		
	Jelfa shares (8.38% shares)	38,503,285	0
		38,503,285	0

AB Sanitas participates in a privatization tender of a pharmaceutical company Jelfa, domiciled in Poland. The Company, while planning to acquire control over Jelfa, during October – December 2005 acquired 569,875 shares or 8.38% on the Warsaw Stock Exchange.

At initial recognition, the investment in the shares was stated at fair value of Litas 40,292,842 plus direct costs of Litas 1,966,336 (comprising of brokerage commissions and success fees).

The investment was re-measured to fair value using the average transaction price as per the Warsaw Stock Exchange as at 31 December 2005. The quoted price was of 75.40 PLN or 67.57 Litas per share.

The effect of the re-measurement of the investments to their fair value as at 31 December 2005 was as follows:

	Litas
Investment in Jelfa, Poland	
Acquired 569,875 shares of Jelfa (8.38%)	40,292,845
Direct costs	1,966,336
Value of the investment at initial recognition	42,259,181
Adjustment at subsequent re-measurement to the market value of the shares	-3,755,896
Carrying amount of the shares as at 31 December 2005	38,503,285

The loss on subsequent re-measurement of Litas 3,042,276 after deduction of deferred tax income of Litas 713,620 was recognized in the equity.

On 27 February 2006, an official offer was placed on the Warsaw Stock Exchange for acquisition of 90,01% of shares at a price of 93 PLN equivalent to 84.58 LTL as at 27 February 2006. By that date, AB Sanitas had increased its holding in Jelfa up to 9.99% of shares. The official offer matures on 6 April 2006.

	2005	2004
	Litas	Litas
15 Inventories		
Finished goods	2,660,889	2,228,697
Raw materials	6,931,155	2,164,120
Work in progress	1,322,849	521,713
Goods for resale	441,017	6,349
Equipment available for sale	142,234	0
Net book value at 31 December	11,498,144	4,920,879

Raw materials consist of chemicals, components, packaging and other materials used in the production of medicines.

As at 31 December 2005, here are no inventories carried at fair value less cost to sell.

Inventories expensed during the year can be specified as follows:

	2005	2004
	Litas	Litas
Cost of produced goods in cost of sales	46,543,698	29,354,406
Write down of inventories in administration expenses	259,093	328,708
Cost of sold materials in other operating expenses	208,421	253,314
	47,011,212	29,936,428

16 Trade receivables	2005	2004
	Litas	Litas
Trade receivables	13,806,634	12,012,930

The impairment recognized on the receivables amounted to Litas 256 thousand for 2005 (2004: Litas 281 thousand) was included in other operating expenses. Reversal of impairment amounting to Litas 715 thousand (2004: 0 Litas) was recognized in other operating income for 2005.

17 Other receivables	2005	2004
	Litas	Litas
Refundable VAT	922,428	508,529
Deferred charges	234,376	80,092
Prepayment for shares of AB Endokrininiai Preparatai	0	1,230,715
Other receivables	178,044	63,995
	1,334,848	1,883,331

No impairment on other receivables has been recognized in 2005 nor 2004.

18 Assets held for sale

	2005	2004
	Litas	Litas
Real estate in Vytauto av./Kaunakiemio str., Kaunas	12,534,034	1,600,000
Building for resale in Veiveriu str., Kaunas	8,199,916	0
	20,733,950	1,600,000

Real estate in Vytauto av./Kaunakiemio str., Kaunas held for sale

At 31 December 2004 the Group was seeking a buyer for real estate in Kaunakiemio str., Kaunas, owned by the subsidiary UAB Altisana. The real estate is located next to the production plant of AB Sanitas in Vytauto av. in Kaunas.

In 2005, the Group took a decision to sell the real estate of UAB Altisana together with production premises of AB Sanitas. The sale is expected to be closed in early April 2006.

The carrying amount of the real estate in Vytauto av./Kaunakiemio str. of Litas 12,354 thousand as at 31 December 2005 is below the fair value less cost to sell of Litas 23,063 thousand (net of estimated cost to sell of Litas 837 thousand). The fair value was estimated by reference to an independent appraisal as of 30 December 2005. The estimated cost to sell comprises estimated notary fees and success fees to real estate agent.

Real estate in Veiveriu str. held for sale

In September 2005, the company concluded a preliminary agreement concerning disposal of the property located in Veiveriu str., Kaunas. In accordance with this agreement the Company received a prepayment of Litas 800 thousand for the assets mentioned. A sale is expected in 2006.

The assets' fair value less cost to sell is of Litas 8,688 thousand (after deduction of the cost to sell of Litas 302 thousand), exceeds the carrying amount of the property comprising Litas 8,200 thousand as at 31 December 2005. The fair value less cost to sell was estimated by reference to an independent appraisal, as well as the existing preliminary agreement.

		2005	2004
		Litas	Litas
19	**Cash and cash equivalents**		
	Call deposits	27,744	0
	Cash at bank	4,814,385	754,067
	Cash in hand	4,510	25,047
	Cash and cash equivalents at 31 December	4,846,639	779,114

Pledges

The Group's cash in SEB Vilniaus Bankas, with a balance of Litas 40,087 as at 31 December 2005, is pledged to secure the loans received (see note 25 on the pledged assets).

20 Capital and reserves

Share capital

As at 1 January 2004, the Company's share capital comprised of 5,562,960 ordinary shares with a nominal value of 5 Litas each. The nominal value of the capital registered amounted to 27,814,800 Litas. In April 2004, the Company's shareholders meeting took a decision to cancel 3,771,901 treasury shares.

As at 1 January 2005, the Company's share capital comprised of 1,791,059 ordinary shares with a nominal value of 5 Litas each. The nominal value of the capital registered amounted to 8,955,295 Litas.

In July 2005, 408,941 shares with a nominal value of 5 Litas per share were issued at 50.50 Litas per share. The share capital was increased by Litas 19,598,293, including the share premium of Litas 17,553,588 (net of the transaction costs of Litas 1,053,228).

In November 2005, the shares were split at 5 shares with a nominal value of 1 Litas per share for 1 share of 5 Litas in issue.

As at 31 December 2005, the Company's share capital comprised of 11,000,000 ordinary shares with a nominal value of 1 Litas per share. The nominal value of the capital registered amounted to Litas 11,000,000.

The share capital was fully paid as at 31 December 2005 and 31 December 2004.

The holders of the ordinary shares are entitled to one vote per share in the shareholders meeting of the Company and are entitled to receive dividends as declared from time to time and to capital repayment in case of decrease of the share capital.

Legal reserve

The legal reserve in the amount of 1,801,104 Litas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the net profit available for distribution are required until the legal reserve reaches 10% of the authorised capital. The legal reserve can only be used to cover losses.

Fair value reserve

Investments in equity securities held by the Company are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss on re-measurement being recognised directly in equity. The fair value reserve represents fair value adjustments of Jelfa shares (see note 14) of Litas 3,755,896 less related deferred tax income of Litas 713,620 (see note 10). The net fair value reserve is a deduction from the equity as at 31 December 2005 and amounts to Litas 3,042,276.

Other reserves

According to a decision of the shareholders other reserves are allocated for specific purposes. The reserves are distributable. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

During 2004, other reserves comprised reserve for acquisition of own shares and for loss on cancellation of own shares. In 2004, the reserve was used by loss on cancellation of own shares of 3,594,802 Litas.

In 2005, as to a decision of the shareholders, other reserve, comprising of 4,450,367 Litas for acquisition of own shares, was canceled by adding this amount to the retained earnings. The Company had no other reserves as at 31 December 2005.

21 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The average number of ordinary shares re-acquired by the Company is excluded from shares outstanding during the year.

The number of shares in issue in 2004 and 2005 is adjusted by the share split 5 for 1 share in issue effected in November 2005, as if it was effected at the beginning of the earliest period presented.

Litas	2005	2004
Shares issued 1 January*	1,791,059	5,562,960
Treasury shares 1 January*	0	-4,560,338
Treasury shares sold February 2004	0	788,437
Shares issued July 2005	408,941	0
Shares issued before the share spilt adjustment	2,200,000	1,791,059
Shares issued as at 31 December, adjusted for the share split	11,000,000	8,955,295
Average weighted number of shares in issue	9,977,648	8,298,264
Net profit for the year	12,239,229	4,602,359
Earnings per share	1.23	0.55

* In April 2004, the Company's shareholders meeting took a decision to cancel 3,771,901 treasury shares. Consequently, as at 31 December 2004, no treasury shares were outstanding.

Reacquired own shares are shown as a deduction from the equity at their acquisition price.

22 Other creditors

	2005	2004
	Litas	Litas
Taxes, salaries and social insurance payable	2,121,250	324,451
Discounts for customers	423,192	261,876
Vacation reserve	533,818	81,989
Payable for buildings acquired	0	10,300,000
Other payables and accrued charges	638,588	49,324
	3,716,848	11,017,640

		2005	2004
		Litas	Litas
23	**Interest bearing loans and borrowings**		
	Non-current liabilities		
	Sampo Bankas credit facility	0	7,338,863
	Sampo Bankas loan	0	5,774,117
	SEB Vilniaus Bankas credit facility	4,803,147	0
	SEB Vilniaus Bankas loans	16,362,025	0
	Finance lease liabilities	244,172	587,232
	Total non-current liabilities	21,409,344	13,700,212
	Current liabilities		
	Loan from AB Endokrininiai Preparatai	0	601,340
	SEB Vilniaus Bankas credit facility	4,190,722	0
	SEB Vilniaus Bankas loans	16,472,940	0
	AB FMĮ Finasta loan	15,480,065	0
	Tatra Bank loan	17,275,530	0
	Finance lease liabilities	401,988,	357,724
	Total current liabilities	53,821,245	959,064
	Total interest bearing borrowings	75,230,589	14,659,276

Terms and repayment schedule

	Total	2006	2007	2008	2009
SEB Vilniaus Bankas, loan in Litas bearing variable interest at 6 months EURLIBOR + 1.32%, and from 01 04 2006 - EURLIBOR + 1.05%	19,333,300	15,600,200	3,733,100		
SEB Vilniaus Bankas, loan in Litas, bearing variable interest at 6 months EURLIBOR + 1.05%	7,200,124	872,740	2,618,220	2,618,220	1,090,944
SEB Vilniaus Bankas, loan in Litas - variable interest at 6 months EURLIBOR + 1.32%, having finished the construction of plant and having pledged it - EURLIBOR + 1.05%	6,301,541		2,094,908	2,285,355	1,921,278
SEB Vilniaus Bankas, credit facility in EUR bearing variable interest at 6 months EURLIBOR + 1.05%	8,993,869	4,190,722		4,803,147	
AB FMĮ Finasta loan, with fixed interest of 5% p.a., maturing in January 2006	15,480,065	15,480,065			
Sampo Bankas, leasing for acquisition of equipment for testing of tightness of ampoule preparations, variable interest at 6 months EURIBOR +1.9%	501,491	330,581	170,910		
Sampo Bankas, finance leasing of 4 cars, variable interest at 6 months EURIBOR +1.9%	84,258	43,084	41,174		
Sampo Bankas, finance leasing of a car, variable interest at 6 months EURIBOR +1.7%	60,411	28,323	32,088		
A credit line of Tatra Bankas of 200,000 000 SKK with 1M BRIBOR+1.20 % interest	17,275,530	17,275,530			
Total	**75,230,589**	**53,821,245**	**8,690,400**	**9,706,722**	**3,012,222**

According to the loan agreement with SEB Vilniaus Bankas, the Company has unutilized Litas 22,287 thousand of a loan in Litas with variable interest of EURLIBOR plus 1.05% margin, maturing in 2015. The purpose of the loan is for the financing of the construction of a new production plant.

In accordance with the loan agreements with SEB Vilniaus Bankas, the bank's permission is required for guarantees issued to any third party; selling or renting assets of more than Litas 1,000 thousand during one year; loans received from related parties of more than Litas 5,000 thousand; loans received of more than Litas 1,000 thousand from other parties; loans issued. According to the mentioned agreements, the Company is obliged to keep a ratio between financial liabilities and EBITDA not higher than 5.5 during 2005; 5.0 during the 1st half of 2006; 4.0 during the 2nd half of 2006; 3.0 during 2007; 2.5 from 2008.

The Company concluded three lease agreements according to which future minimum lease payments are as follows:

	Minimum lease payments	**Interest**	**Principal amount**	**Minimum lease payments**	**Interest**	**Principal amount**
	2005			**2004**		
Less than one year	421,541	19,553	401,988	381,119	23,395	357,724
Between one and five years	247,546	3,374	244,172	639,323	52,091	587,232
Total	**669,087**	**22,927**	**646,160**	**1,020,442**	**75,486**	**944,956**

24 Grants

On 21 January 2005, the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Business Development Agency and AB Sanitas concluded an agreement to receive grants for the financing of construction of a new production plant of AB Sanitas. The total approved grant amounts to 16,157,151 Litas and is granted as actual expenses on construction are incurred. By 31 December 2005, the Company has received a grant of Litas 1,415,424. The expected compensation of construction costs during 2006 amounts to Litas 14,741,727. The grant is not repayable.

25 Contingencies

As at 31 December 2005, buildings and equipment with a carrying amount of Litas 50,498,515, were pledged to secure the bank loans (refer to note 25). Besides, investments of 43,984,960 Litas in Hoechst – Biotika and cash of 40,087 Litas in SEB Vilniaus Bankas as at 31 December 2005 are also pledged to secure borrowings.

Asset purchase commitments are disclosed in note 12.

26 Related party transactions

The Company's related parties are its shareholders holding an interest that gives control or significant influence over the Company, entities under common control with the Company, the Company's subsidiaries Altisana, Hoechst-Biotika and Endokrininiai Preparatai (the company was an associate from April 2004 to April 2005 when it became subsidiary of Sanitas), members of the key management personnel of the mentioned companies, as well as close members of the family of the mentioned individuals.

The related party transactions in 2005 were as follows:

In Litas		2005	2004
Sales to subsidiary and associate:			
AB Endokrininiai Preparatai	Inventories	16,310	216,546
AB Endokrininiai Preparatai	Rent and services	468,832,	236,207
UAB Altisana	Services	855	0
UAB Altisana	Interest	7,307	0
UAB Altisana	Non-current assets	13,548,389	0
Hoechst – Biotika	Inventories	100,777	0
Hoechst – Biotika	Services	25,475	0
Sales to entity under common control with AB Sanitas:			
UAB Invalda Construction Management	Services	19,680	0
Total		**14,187,625**	**452,753**

In Litas		2005	2004
Purchases from subsidiary and associate:			
Hoechst – Biotika	Pharmaceuticals	142,608	0
Hoechst – Biotika	Interest for the loan	155,855	0
AB Endokrininiai Preparatai	Inventory	2,666,637	17,545
AB Endokrininiai Preparatai	Services	2,947	3,730
AB Endokrininiai Preparatai	Interest	99,693	16,230
AB Endokrininiai Preparatai	Non-current assets	560,165	10,300,000
Purchases from entities under common control with Sanitas:			
AB Valmeda	Services	800	0
UAB Invalda Real Estate	Services	143,945	60,000
UAB Invalda Real Estate	Construction works	3,323,151	0
UAB Invalda Service	Services	0	3,389
AB Umega	Non-current assets	80,769	0
AB FMĮ Finasta	Services	96,640	151,192
AB FMĮ Finasta	Commission for emission of shares	1,053,228	0
AB FMĮ Finasta	Purchase of Jelfa shares	40,292,845	0
AB FMĮ Finasta	AB Endokrininiai Preparatai shares	695,676	0
Donatas Jazukevičius (General Manager of AB Sanitas in 2004)	Rent	1,190	60,000
Total purchases		**49,316,149**	**10,612,086**
Payable to subsidiary:			
Hoechst – Biotika	Loan payable	17,264,000	0
Hoechst – Biotika	Payable for goods and services	282,877	0
Payable to associate:			
AB Endokrininiai Preparatai	For assets purchased	0	10,300,000
AB Endokrininiai Preparatai	Loan	0	601,340
Payable to entities under common control with Sanitas:			
AB FMĮ Finasta	Loan payable	15,480,065	0
AB FMĮ Finasta	Payable for services	2,717	1,303
UAB Invalda Real Estate	Payable for construction works	2,222,471	0
Total payable		**35,248,130**	**10,902,643**
Receivable from subsidiary:			
UAB Altisana	Loans	823,081	207,140
UAB Altisana	Receivable for sold assets	2,295,679	0
Receivable from entities under common control with Sanitas:			
UAB Invalda Construction Management	For services	11,076	0
UAB Naujoji Svara	Prepayment	220,327	0
Total receivable		**3,350,163**	**207,140**

Amounts paid to the management are disclosed in note 11.

27 Foreign currency

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's operations.

Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date, there were no significant concentrations of credit risk.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and/or have available funding through an adequate amount of committed credit facilities. The Group intends to raise additional equity financing through issue of shares of AB Sanitas in 2006.

Foreign exchange risk

The Company's foreign currency risk incurred on sales, purchases and borrowings that are denominated in EUR is insignificant, as Litas is pegged to EUR at 3.4528 Litas for 1 EUR. The currency giving rise to foreign exchange risk is primarily US Dollars and Slovak crowns. No financial instruments are used to hedge against the risk.

Interest rate risk

Most of the Group's borrowings are subject to variable interest rates, related to LIBOR and EURIBOR. The Group also has some short term borrowings from related parties at fixed interest rates, as specified in notes 21 and 25.

As at 31 December 2005, the Group did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments.

28 Subsequent events

On 18 January 2006, AB Sanitas established a subsidiary Sanitas Polska Sp.z. in Poland. The company is a special purpose vehicle for acquisition of Polish pharmacy producer Jelfa.

In January 2006, Nordea Bank approved a credit of EUR 83,000,000 for the purpose of financing of the planned acquisition of Jelfa.

In February 2006, the Company increased its holding of Jelfa shares to 9.99%.

On 27 February 2006 and the Company's subsidiary Sanitas Polska Sp.z. placed an official offer to acquire 90.01% shares of Jelfa, as disclosed in note 14. The official offer matures on 6 April 2006.