AB Sanitas

Annual Accounts for the year 2005

Contents

Company details

AB Sanitas

Telephone:	+ 37 22 03 45
Telefax:	+ 37 22 36 96
Registered office:	Vytauto av. 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

Annual report

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

The 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 and that the annual accounts thus give a true and fair view.

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

Vilnius, 31 March 2006

Management:

Saulius Jurgelėnas
General Director

Supervisory Council:

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

Report of the auditor to the shareholders of AB Sanitas

We have audited the balance sheet of AB Sanitas (the "Company") as at 31 December 2005 and the related profit and loss account, statement of changes in shareholders equity and cash flows for the year then ended. The 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.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2005, and 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

Profit and loss account

	Note	2005	2004
		Litas	Litas
Turnover	4	35,918,587	43,001,912
Cost of sales		-21,074,836	-29,354,406
Gross profit	4	14,843,751	13,647,506
Distribution expenses	5	-2,562,734	-1,094,144
Administration expenses	6	-6,822,500	-5,395,891
Other operating income	7	7,183,859	665,524
Other operating expense	7	-1,246,868	-1,851,361
Other operating income and expense, net		5,936,991	-1,185,837
Operating profit before financing activities		11,395,508	5,971,634
Gain on liquidation of subsidiary	13	4,315,052	0
Financial income	8	691,558	59,896
Financial expense	8	-1,181,116	-571,943
Financing cost, net		-489,558	-512,047
Profit before taxes		15,221,002	5,459,587
Corporate income tax	9	-2,273,059	-857,228
Net profit for the year		12,947,943	4,602,359
Earnings per share (Litas)	20	1.30	0.55

The notes set out in pages 9 to 42 form an integral part of these financial statements.

Balance sheet

	Note	31 12 2005	31 12 2004
		Litas	Litas
ASSETS			
Non-current assets			
Property, plant and equipment	11	16,193,985	27,451,086
Intangible assets	12	178,947	245,036
Investments	13	83,901,685	1,413,440
Long-term receivables		62,624	53,190
Deferred tax assets	9	835,442	71,000
Total non-current assets		101,172,683	29,233,752
Current assets			
Inventories	15	6,033,505	4,920,879
Trade receivables	16	6,570,785	12,012,930
Other receivables	17	3,598,991	2,069,891
Investment in associate	13	0	4,741,835
Assets held for sale	14	8,199,916	0
Cash and cash equivalents	18	1,559,601	779,114
Total current assets		25,962,798	24,524,649
TOTAL ASSETS		127,135,481	53,758,401

The notes set out in pages 9 to 42 form an integral part of these financial statements.

Balance sheet

	Note	31 12 2005	31 12 2004
		Litas	Litas
EQUITY AND LIABILITIES			
Equity	19		
Share capital		11,000,000	8,955,295
Share premium		17,553,588	0
Legal reserves		1,801,104	1,801,104
Other distributable reserves		(3,042,276)	4,450,367
Retained earnings		25,579,374	9,972,123
Total equity		52,891,790	25,178,889
Non current liabilities			
Interest bearing loans and borrowings	21	21,409,344	13,700,212
Deferred grant income	22	1,415,424	0
Total non current liabilities		22,824,768	13,700,212
Current liabilities			
Interest bearing loans and borrowings	21	42,209,715	959,064
Trade creditors		5,577,426	2,021,368
Other creditors	23	1,519,263	11,017,640
Corporate income tax payable	9	2,112,519	881,228
Total current liabilities		51,418,923	14,879,300
Total liabilities		74,243,691	28,579,512
TOTAL EQUITY AND LIABILITIES		127,135,481	53,758,401

The notes set out in pages 9 to 42 form an integral part of these financial statements.

Statement of changes in equity

Litas	Note	Share capital	Share premium	Treasury shares	Legal reserve	Fair value reserve	Other reserves	Retained earnings	Total
Capital and reserves as at 1 January 2004		27,814,800	0	-22,454,307	1,769,872	0	12,760,417	864,854	20,755,636
Decrease in share capital		-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
Dividends		0	0	0	0		0	-179,106	-179,106
Total recognized income and expense		0	0	0	0		0	4,602,359	4,602,359
Capital and reserves as at 1 January 2005		8,955,295	0	0	1,801,104	0	4,450,367	9,972,123	25,178,889
New emission of shares		2,044,705	17,553,588	0	0		0	0	19,598,293
Transfer from reserves		0	0,	0	0		-4,450,367	4,450,367	0
Dividends		0	0	0	0		0	-1,791,059	-1,791,059
Total recognized income and expense		0	0	0	0	-3,042,276	0	12,947,943	9,905,667
Capital and reserves as at 31 December 2005		11,000,000	17,553,588	0	1,801,104	-3,042,276	0	25,579,374	52,891,790

The notes set out in pages 9 to 42 form an integral part of these financial statements.

Cash flow statement

Litas	2005	2004
Profit before taxation	15,221,002	5,459,587
Adjustments for:		
Depreciation and amortization	4,681,054	3,810,829
Gain/ loss on disposal of fixed assets	-5,824,033	28,046
Impairment of trade receivables	256,122	280,695
Write down of inventories	259,093	328,708
Impairment/ reversal of impairment of prepayment for non current assets	-196,613	393,118
Interest income	-21,599	-585
Interest expense	1,174,783	454,271
Gain on liquidation of subsidiaries	-4,315,052	0
Net cash inflow from ordinary activities before any change in working capital	11,234,757	10,754,669
Change in trade and other receivables	2,426,208	-3,594,076
Change in inventories	-1,371,719	344,681
Change in trade creditors and other creditors	-5,951,753	11,296,982
Interest received	21,599	585
Interest paid	-1,174,783	-454,271
Profit tax paid/received	-1,092,590	0
Net cash inflow from operating activities	4,091,719	18,348,570
Acquisition of property, plant and equipment	-9,102,335	-16,977,416
Capitalisation of intangible fixed assets	-51,209	-224,976
Disposal of property, plant and equipment	13,616,410	21,982
Acquisition of subsidiary Hoechst-Biotika	-43,984,960	0
Acquisition of and prepayment for shares of AB Endokrininiai Preparatai	-1,926,391	-5,972,550
Acquisition of subsidiary UAB Altisana	0	-1,413,440
Acquisition of other equity securities (Jelfa)	-42,259,181	0
Distribution received on liquidation of subsidiary AB Endokrininiai Preparatai	12,213,993	0
Net cash outflow from investing activities	-71,493,673	-24,566,400
New emission of shares	19,598,293	0
Dividends paid	-1,791,059	-179,106
Proceeds of long-term borrowings	7,709,132	9,970,213
Proceeds/ payments of short-term borrowings	41,250,651	-3,686,044
Grants received	1,415,424	0
Net cash inflow/(outflow) from financing, net	68,182,441	6,105,063
Net cash inflow/outflow from operating activities, investing activities and financing	780,487	-112,767
Cash and cash equivalents at 1 January	779,114	891,881
Cash and cash equivalents at 31 December	1,559,601	779,114

The notes set out in pages 9 to 42 form an integral part of these financial statements.

Notes to the annual accounts

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.

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	100.00

*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

These financial statements are separate financial statements of the parent company AB Sanitas and 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 the management on behalf of the Company on 31 March 2006.

The consolidated financial statements were issued on 31 March 2006 and are available for public.

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 judgments, 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 judgments 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.

Judgments 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 Company as set out below have been applied consistently by Company 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.

Investments in subsidiaries and associates

In the separate financial statements of the parent company, investments in subsidiaries and associates are stated at cost less impairment, if any.

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.

Derivative financial instruments

The Company 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 Company 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 Company 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 Company 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

Intangible assets that are acquired by the Company 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 Company, except for investments in subsidiaries and associates, 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 Company on the date it commits to purchase / sell the investments.

Other financial instruments

Loans and receivables are non derivative financial assets or determinable 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 receivables 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 Company'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 Company'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 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.

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 Company'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. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

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 Company will comply with the conditions attaching to it. Grants that compensate the Company 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 Company 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 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 Company 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 Company's accounting periods beginning on or after 1 January 2006 or later periods but which the Company 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 Company does not participate in any defined benefit plans, Management considered this amendment to IAS 19 and concluded that it is not relevant to the Company.

- 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 Company.

– 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 Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company 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 Company.

– 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 Company's operations. The Company 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 Company'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 retrospectively adopted from 1 January 2004.

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

Financial Instruments

In accordance with IAS 39 requirements, the Company 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 Company'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 Company 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 Company were classified as loans and receivables originated by the Company and measured at amortised cost. Current portion of loans and receivables originated by the Company 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.

3 Critical accounting estimates and judgments

Estimates and judgments 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 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.

Impairment losses on receivables

The Company 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 Company makes judgments 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 include 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.

Judgments

The Company has recognized deferred tax assets based on the judgment 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 Company’s business and geographical segments.

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

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

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 is presented in respect of the Company's business segments as a primary reporting format as follows:

Litas	Injection preparations		Tablets		Ointments, eye drops, tinctures		Unallocated		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue	26,187,287	35,767,392	4,957,912	3,681,798	4,769,988	3,308,208	3,400	244,514	35,918,587	43,001,912
Gross profit	9,244,141	9,781,857	2,760,543	2,239,361	2,836,551	1,518,380	2,516	107,908	14,843,751	13,647,506
Operating expense	-758,959	-580,714	-919,876	-257,209	-883,200	-250,271	-886,208	-6,587,678	-3,448,243	-7,675,872
Financing cost							-489,558	-631,839	-489,558	-631,839
Gain on liquidation of subsidiary							4,315,052	0	4,315,052	0
Profit before tax	8,485,182	9,201,143	1,840,667	1,982,152	1,953,351	1,268,109	2,941,802	-7,111,609	15,221,002	5,459,587
Income tax							-2,273,059	-857,228	-2,273,059	-857,228
Profit for the year	8,485,182	9,201,143	1,840,667	1,982,152	1,953,351	1,268,109	68,743	-7,968,837	12,947,943	4,602,359
Total assets	18,234,811	25,765,002	1,829,532	1,963,525	1,944,259	1,297,589	105,126,879	24,732,285	127,135,481	53,758,41
Total liabilities	4,483,980	1,789,385	581,531	99,327	511,681	123,249	66,666,499	26,567,551	72,243,691	28,579,512
Capital expenditure	44,866	4,182,841	115,366	4,800	681,362	274,000	8,311,950	12,740,751	9,153,544	17,202,392
Depreciation and amortisation	2,796,027	2,699,025	249,437	239,326	114,706	26,754	1,520,884	845,724	4,681,054	3,810,829

Segment information by geographical segments is as follows:

Litas	**Latvia**		**Lithuania**		**Unallocated**		**Total**	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenue	21,407,213	32,297,594	13,586,113	8,984,855	925,261	1,719,463	35,918,587	43,001,912
Total assets by location of assets			127,135,481	53,758,401			127,135,481	53,758,401
Capital expenditure			9,153,544	17,202,392			9,153,544	17,202,392

		2005	2004
		Litas	Litas
5	**Distribution expenses**		
	Salaries and social insurance	646,863	355,325
	Advertising	1,009,568	302,140
	Marketing services	650,140	214,065
	Amortisation	89,825	81,023
	Transportation expenses	27,475	68,386
	Depreciation	26,515	5,381
	Other	112,348	67,824
		2,562,734	1,094,144

		2005	2004
		Litas	Litas
6	**Administrative expenses**		
	Salaries and social insurance	2,390,416	1,816,403
	Depreciation	1,370,831	541,407
	Advisory services	502,507	754,749
	Maintenance materials	433,829	391,317
	Property taxes	308,155	346,039
	Utilities	257,416	312,135
	Security services	232,739	137,200
	Business trips	267,741	60,361
	Repair of premises	144,977	0
	Communication expenses	75,645	46,674
	Redundancy payments	65,402	704,599
	Amortization	21,630	23,172
	Other	751,212	261,835
		6,822,500	5,395,891

		2005	2004
		Litas	Litas
7	**Other operating income and expenses**		
	Other operating income:		
	Gain on disposal of tangible non current assets	5,824,033	0
	Rent and utilities income	758,086	388,813
	Proceeds from sales of current assets	405,127	274,382
	Reversal of impairment of prepayments for non current assets	196,613	0
	Other	0	2,329
	Total other operating income	7,183,859	665,524
	Other operating expense:		
	Cost of current assets sold	208,421	253,314
	Cost of rent and related services rendered	459,393	188,100
	Impairment of receivables	256,122	280,695
	Write down of inventories	259,093	328,708
	Impairment of prepayments for non current assets		393,118
	Charity and donations	2,000	379,386
	Loss on disposal of tangible non current assets	0	28,040
	Other expenses	61,839	0
	Total other operating expense	1,246,868	1,851,361
	Profit/ loss from other activities	5,936,991	-1,185,837
8	**Financial income and expenses**		
	Financial income:		
	Delays and fines received	498,029	0
	Interest income	21,599	585
	Foreign exchange gain	79,732	59,270
	Other	92,198	41
	Total financial income	691,558	59,896
	Financial expenses:		
	Interest on borrowings	-1,174,783	-454,271
	Foreign exchange loss	-2,722	-117,078
	Other	-3,611	-594
	Total financial expenses	-1,181,116	-571,943
	Result of financial activities	-489,558	-512,047

Litas	2005	2004
9 Corporate income tax expenses		
Current tax expense		
Current tax	2,332,226	890,425
Corporate income tax corrections for previous periods	-8,345	-11,197
	2,323,881	879,228
Deferred tax expense		
Deferred tax income	-50,822	-22,000
Total income tax expense	2,273,059	857,228

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 (see Note 13). No other corporate income tax was recognized directly in the equity during 2005 and 2004.

The reconciliation of effective tax rate is as follows:

Litas	2005		2004	
Result before tax		15,221,002		5,459,587
Income tax using effective tax rate	15.0%	2,283,150	15.0%	818,938
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
Disposal of intangible fixed assets	0.0%	1,121	0.0%	3,101
Representation expenses	0.0%	1,360	0.0%	2,177
Delays and fines received	-0.5%	-74,704	0.0%	0
Under / over provided in prior years	-0.1%	-8,345	-0.2%	-11,197
Charity and donations	0.0%	-300	-1.0%	-56,908
Effect of increased corporate income tax rate for deferred tax asset	-0.2%	-25,039	0.0%	0
Expired unused tax loss as a result of reorganisation	0.0%	0	0.9%	48,600
Other	0.1%	9,285	-0.1%	-5,043
	14.9%	2,273,059	15.7%	857,228

The calculation of the deferred tax can be specified as follows:

	2005		2004	
Litas	Temporary diff.	Deferred tax (18-19%)	Temporary diff.	Deferred tax (15%)
Re-measurement of available for sale investments to fair value	3,755,896	713,620	0	0
Impairment of receivables	232,720	43,447	387,335	58,100
Accrued expense	412,501	78,375	86,000	12,900
Net balance 31 December	4,401,117	835,442	473,335	71,000

According to the amended tax legislation, 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 movement in the deferred tax asset account is as follows:

Litas	2005	2004
Deferred tax asset at 1 January	71,000	49,000
Deferred tax income recognised in profit and loss account	50,822	22,000
Deferred tax income recognized directly in equity	713,620	0
Deferred tax asset at 31 December	835,442	71,000

	2005	2004
	Litas	Litas

10 Staff costs

Wages and social security contributions in production costs	2,146,035	2,777,749
Salaries and social security costs in selling expenses	646,863	355,325
Salaries and social security costs administrative	2,390,416	1,816,403
Redundancy payments in administration expenses	65,402	704,842
	5,248,716	5,654,319

Staff costs include wages and salaries and emoluments for the management (members of management listed on page 1) of 692,506 Litas (2004: 546,864 Litas).

At the end of 2005, the Company employed 208 employees (2004: 192 employees).

11 Property, plant and equipment

Litas	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost as at 1 January 2004	8,966,605	21,836,378	628,206	374,658	31,805,847
Additions	12,972,379	2,393,702	196,544	1,414,791	16,977,416
Disposals	0	-3,577,187	-57,099	0	-3,634,286
Impairment	0	0		-393,118	-393,118
Cost as at 31 December 2004	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Depreciation as at 1 January 2004	3,691,570	13,146,167	365,338	0	17,203,075
Depreciation during year	545,896	3,087,963	72,775	0	3,706,634
Disposals	0	-3,554,774	-50,162	0	-3,604,936
Depreciation as at 31 December 2004	4,237,466	12,679,356	387,951	0	17,304,773
Net book value at 1 January 2004	5,275,035	8,690,211	262,868	374,658	14,602,772
Net book value at 31 December 2004	17,701,518	7,973,537	379,700	1,396,331	27,451,086
Cost as at 1 January 2005	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Additions	0	1,083,055	270,536	7,748,744	9,102,335
Disposals	-11,634,957	-2,902,599	-109,589	-92,890	-14,740,035
Reclassified to assets for resale	-8,891,475	0	0	0	-8,891,475
Reversal of impairment				196,613	196,613
Other reclassifications	0	278,019	0	-278,019	0
Cost as at 31 December 2005	1,412,552	19,111,368	928,598	8,970,779	30,423,297
Depreciation as at 1 January 2005	4,237,466	12,679,356	387,951	0	17,304,773
Depreciation during year	1,087,419	3,378,425	103,755	0	4,569,599
Disposals	-4,555,819	-2,338,976	-58,706	0	-6,953,501
Reclassified to assets for resale	-691,559	0	0	0	-691,559
Depreciation as at 31 December 2005	77,507	13,718,805	433,000	0	14,229,312
Net book value at 31 December 2005	1,335,045	5,392,563	495,598	8,970,779	16,193,985

Leased property, plant and equipment

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

As at 31 December 2005, the Company has no assets leased under operational lease contracts (where the Company is a lessor). As at December 2004 premises with a carrying amount of Litas 10,275 thousand were partly rented out (under operational leasing agreements) and partly owner occupied.

Pledges

As at 31 December 2005, buildings and equipment with a carrying amount of Litas 10,640,145 are pledged for the bank loans (refer to Note 21).

Assets purchase commitments

As at 31 December 2005, the Company 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
Production costs	3,172,253	3,159,846
Administrative expenses	1,370,831	541,407
Distribution expenses	26,515	5,381
Total	4,569,599	3,706,634

12 Intangible fixed assets

	Registration certificates, 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
Additions during the period	19,857	31,352	51,209
Disposal	-73,021	-9,235	-82,256
Acquisition value as at 31 December 2005	293,233	327,332	620,565
Amortisation as at 1 January 2005	168,676	237,900	406,576
Amortization for the period	89,990	21,465	111,455
Amortization of disposed assets	-73,008	-3,405	-76,413
Amortisation as at 31 December 2005	185,658	255,960	441,618
Net book value at 31 December 2005	107,575	71,372	178,947

Amortization of intangible assets has been allocated as follows:

	2005	2004
	Litas	Litas
Distribution expenses	89,825	81,023
Administrative expenses	21,630	23,172
Total	111,455	104,195

		2005	2004
		Litas	Litas
13	**Investments**		
	Hoechst – Biotika shares (100% shares)	43,984,960	0
	Jelfa shares (8.38% shares)	38,503,285	0
	UAB Altisana shares (100% shares)	1,413,440	1,413,440
	Investments included in non current assets	83,901,685	1,413,440
	AB Endokrininiai Preparatai shares (40% of shares) in current assets	0	4,741,835
	Total investments	83,901,685	6,155,275

Hoechst-Biotika

On 27 July 2005, the Company acquired all the shares in Hoechst-Biotika s.r.o. for Litas 43,984 thousand, satisfied in cash. The mentioned amount includes legal fees amounting to Litas 135 thousand. The acquired company manufactures and distributes medicines, mainly injection preparations, tablets and ointments. The investment in the subsidiary is stated at cost in the separate financial statements of AB Sanitas.

Altisana

In July 2004, AB Sanitas acquired 100% interest in the limited liability company Altisana UAB, Lithuania. At the time of acquisition the subsidiary had no operating activities other than holding real estate in Kaunakiemio str. in Kaunas, whci is next to the production plant of AB Sanitas in Vytauto av. in Kaunas. It was intended to sell the shares of UAB Altisana in the short - term, consequently, the investment was presented in current assets in the annual accounts for 2004.

In 2005, the Company took a decision to sell the real estate of UAB Altisana together with production premises of AB Sanitas. On 30 December 2005, AB Sanitas sold its production premises to UAB Altisana for Litas 13, 460,000 realising a gain of Litas 5,849,651. The price of the disposal was set as per independent appraisal report as at the end of 2005. The real estate is intended to be sold by UAB Altisana in March 2006 to third party.

From 30 December 2005, production premises are leased by AB Sanitas from UAB Altisana. After expected disposal of the real estate to third party, the production premises will be leased by AB Sanitas until the new production plant is constructed, which is expected by the end of 2006.

In 2005, the investment in shares of UAB Altisana were reclassified to non-current assets as well as the comparative figures for 2004 were restated correspondingly according to IFRS 5, as the Company has not disposed the shares of the subsidiary within 12 months from classification as held for sale (see accounting policy on assets held for sale).

In the separate financial statements of AB Sanitas the investment in the subsidiary is stated at cost.

Jelfa

AB Sanitas participates in a privatization tender of a pharmaceutical company Jelfa, Poland. The Company, while planning to acquire control over Jelfa, in 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 increased its holding in Jelfa up to 9.99% of shares.

Investment in AB Endokrininiai Preparatai

In May 2004, AB Sanitas acquired 40% interest in the limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in production of pharmaceutical preparations. From May 2004, after accession to the 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 period allowed. The relevant certifications had not been acquired by the company and, consequently, on 15 April 2005 the liquidation procedures of AB Endokrininiai Preparatai started. On 29 April 2005, AB Sanitas increased its holding up to 67% of the shares acquiring control over the company. 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.

The effect of the acquisition and disposal of the subsidiary is as follows:

	Litas
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

Until liquidation of AB Endokrinini Preparatai, investment in its skares was recorded at acquisition cost in the separate financial statements of the parent company AB Sanitas.

	2005	2004
	Litas	Litas
14 Assets held for sale		
Real estate in Veiveriu str., Kaunas	8,199,916	0
Total	8,199,916	0

Real estate held for sale

In September 2005, the company concluded a preliminary sale-purchase agreement concerning real estate located in Veiveriu str., Kaunas. In accordance with this agreement the company received a prepayment of Litas 800 thousand. A sale is expected in 2006. The fair value less cost to sell of the real estate held for sale was estimated by reference to an independent appraisal as well as the existing preliminary agreement. 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), which exceeds the carrying amount of the property as at 31 December 2005. Consequently, the real estate is stated at its carrying amount before the reclassification to the assets held for sale at the end of 2005.

	2005	2004
	Litas	Litas
15 Inventories		
Finished goods	1,536,800	2,228,697
Raw materials	3,621,088	2,164,120
Work in progress	249,044	521,713
Goods for resale	626,573	6,349
	6,033,505	4,920,879

As at 31 December 2005, there are no inventories carried at fair value less cost to sell (2004: Litas 0).

Inventories expensed during the year can be specified as follows:

	2005	2004
	Litas	Litas
Cost of produced goods in cost of sales	21,074,836	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
	21,542,350	29,936,428

	2005	2004
	Litas	Litas
16 Trade receivables		
Net carrying amount as at 31 December	6,570,785	12,012,930

Impairment of Litas 256 thousand (2004: Litas 281 thousand) was recognized in other operating expenses.

	2005	2004
	Litas	Litas
17 Other receivables		
Loans receivable from subsidiary UAB Altisana	823,081	207,140
Receivable from subsidiary UAB Altisana for sold assets	2,295,679	0
Refundable VAT	349,243	508,529
Deferred charges	70,147	80,093
Prepayment for shares of AB Endokrininiai Preparatai	0	1,230,715
Other receivables	60,841	43,414
	3,598,991	2,069,891

Loans receivable from UAB Altisana bear fixed 3 per cent interest p.a. and were repaid in January - March 2006.

According to property sales agreement, the receivable for the property sold to UAB Altisana should be settled until the end of 2006. The receivable bears no interest. The subsidiary paid Litas 446,108 in March 2006.

No impairment of other receivables was recognized during 2004 and 2005.

		2005	2004
		Litas	Litas
18	**Cash and cash equivalents**		
	Cash at bank	1,555,091	754,067
	Cash in hand	4,510	25,047
	Cash and cash equivalents at 31 December	1,559,601	779,114

Pledges

The Company's cash in SEB Vilniaus Bankas, with a balance of Litas 40,087 as at 31 December 2005, is pledged to secure the loans (see Note 24 on the pledged assets).

19 Capital and reserves

Share capital

As at 1 January 2004, the Company's share capital comprised 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, except for investments in subsidiaries and associates, are stated at fair value, with any resultant gain or loss on re-measurement to fair value being recognised directly in equity. The fair value reserve represents fair value adjustments of Jelfa shares (see note 13) of Litas 3,755,896 less related deferred tax income of Litas 713,620 (see note 9). 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. In 2005, as to a decision of the shareholders, other reserve, comprising a reserve of 4,450,367 Litas for acquisition of own shares, was canceled by adding this amount to the unallocated result. The Company had no other reserves as at 31 December 2005. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

20 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 treasury shares is excluded from shares outstanding during the year. The number of shares in issue in 2005 and 2004 is adjusted by the share split 5 for 1 effected in November 2005.

Litas	2005	2004
Shares issued as at 1 January*	1,791,059	5,562,960
Treasury shares as at 1 January*	0	-4,560,338
Treasury shares sold February 2004	0	788,437
Shares issued in 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	12,947,943	4,602,359
Earnings per share	1.30	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.

		2005	2004
		Litas	Litas
21	**Interest bearing loans and borrowings**		
	Non-current liabilities		
	Credit line facility from Sampo Bankas	0	7,338,863
	Loan from Sampo Bankas	0	5,774,117
	SEB Vilniaus Bankas credit facility	4,803,147	0
	SEB Vilniaus Bankas loans	16,362,025	0
	Financial leasing	244,172	587,232
	Total non-current liabilities	21,409,344	13,700,212
	Current liabilities		
	Loan from associate AB Endokrininiai Preparatai		601,340
	SEB Vilniaus Bankas credit facility	4,190,722	0
	SEB Vilniaus Bankas loans	4,872,940	0
	AB FMĮ Finasta	15,480,065	0
	Loan from subsidiary Hoechst – Biotika	17,264,000	0
	Financial leasing	401,988	357,724
	Total current liabilities	42,209,715	959,064
	Total interest bearing borrowings	63,619,059	14,659,276

Terms and repayment schedule of interest bearing borrowings

	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%	7,733,300	4,000,200	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	
Loan from subsidiary Hoechst – Biotika with 5% p.a. fixed interest , maturing in November 2006	17,264,000	17,264,000			
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		
Total	**63,619,059**	**42,209,715**	**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 per cent 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 obliged to keep 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 finance lease agreements according to which future minimum lease payments are as follows:

Litas	**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**

22 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 on grant for financing of construction of a new production plant of AB Sanitas. The total approved grant amounts to 16,157,151 Litas and is reimbursed after actual expenses on construction are incurred. By 31 December 2005, the Company has received grant of Litas 1,415,424. The expected compensation of construction costs during 2006 amounts to Litas 14,741,727.

	2005	2004
23 Other creditors	Litas	Litas
Taxes, salaries and social insurance payable	565,717	395,451
Vacation reserve	376,606	81,989
Accrued volume discounts to customers	423,192	261,876
Payable for real estate	0	10,300,000
Other payables and accrued charges	153,748	49,324
	1,519,263	11,088,640

24 Contingencies

As at 31 December 2005, buildings and equipment with a carrying amount of 10,640,145 Litas were pledged to secure the bank loans (refer to Note 18). 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 pledged to secure those loans as well.

Asset purchase commitments are disclosed in note 11.

25 Related party transactions

The Company's related parties are its shareholders holding an interest that gives control or significant influence over the Company (refer to information on major shareholders on page 9), 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 subsidiaries 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
UAB Altisana	Rent	3,346	0
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	87,889	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		**46,084,233**	**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 services	52,156	0
Total payable		**33,081,815**	**10,902,643**

Litais		2005	2004
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
Total receivable		**3,129,836**	**207,140**

Amounts paid to the management are disclosed in note 10.

26 Foreign currency

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

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. No financial instruments are used to hedge against the risk, as it is not considered to be significant.

Accounts receivable, payable and cash in foreign currencies as at 31 December 2005 and as at 31 December 2004 could be specified as follows:

	2005		2004	
Litas	EUR	USD	EUR	USD
Trade debtors	4,046,749	24,326	9,365,826	551,398
Prepayments	66,812	0	668,966	0
Cash	82,762	22,681	371,307	89,787
Loans and borrowings	-19,567,147	0	-13,112,982	0
Trade and other creditors	-2,004,360	-196,166	-740,177	-87,519
Net position	-17,375,184	-149,159	-3,447,060	553,667

Exchange rate of US Dollars was 2.9102 LTL / USD as at 31 December 2005.

Liquidity risk

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

Interest rate risk

Most of the Company's borrowings are subject to variable interest rates, related to LIBOR and EURIBOR. The Company 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 Company did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments.

27 Subsequent events

On 18 January 2006, the Company 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 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 13. The official offer matures on 6 April 2006.

AB Sanitas

Report on the Company's activities for the year 2005 including review report

Contents

Review report regarding report on the Company’s activities

We have reviewed the accompanying report on the activities of AB Sanitas (the Company) for the year ended 31 December 2005. This report and the assumptions for operational plans and forecasts are the responsibility of the Company’s management. Our responsibility is to issue a report whether the information contained in the report on the Company's activities is consistent with the statutory financial statements.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements as promulgated by the International Federation of Accountants. This standard requires that we plan and perform the review to obtain reasonable assurance as to whether the report on the Company’s activities is consistent with the statutory financial statements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. Specifically, we have not reviewed management’s estimations and comments concerning future plans and forecasts, and, consequently, we do not comment on the estimations, future plans and forecasts contained in the report. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on the Company’s activities is inconsistent with the Company's statutory financial statements for the year ended 31 December 2005 on which we expressed a qualified opinion in our auditor’s report dated 31 March 2006.

Vilnius, 31 March 2006
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorized
Public Accountant

Domantas Dabulis
Certified Auditor

Report on the Company's activities for the year 2005

I. Review of AB Sanitas activities during the financial year

In 2005, the structure and composition of the managing bodies of AB „Sanitas“ (hereinafter – AB „Sanitas“ of the Company) remained unchanged and include the General Meeting, the Council and the management of the Company.

By a decision of the General Meeting of 11 June 2005, the authorised capital of the Company was increased by 8,955,295 Litas up to 11,000,000 Litas. Consequently, the number of the shares increased up to 2,200,000 and having changed the nominal value of a share from 5 Litas to 1 Litas in accordance with the decision of the extraordinary General Meeting of shareholders of 8 November 2005, the number of shares of the Company increased up to 11,000,000.

With the new issue of shares following the decision of the General Meeting of 11 June 2005, the major shareholder of the Company AB Invalda increased its share in the authorised capital of the Company: as at 9 November 2005, it owned under the ownership right 39.21 percent of the Company's shares and together with other acting persons AB Invalda had 52.92 percent of votes in the General Meeting.

Funds generated by the new issue of shares were used for acquisition of the Slovakian pharmaceutical company Hoechst – Biotika spol. s. r. o. As of the end of July 2005, the Company holds 100 percent of the authorised capital of this Company. In the beginning of 2005 the general director of the Company became the general director of Hoechst – Biotika spol. s. r. o.

In spring 2005, construction of a new modern production plant of pharmaceuticals was started at Veiveriu str. 134, Kaunas, in accordance with the Project „Modernisation of AB Sanitas Production“ which is partly financed by the European Union structural funds. The first stage of the Project was finalised at the end of the year.

On 29 November 2005, the extraordinary General Meeting decided to increase the authorized capital from 11,000,000 Litas to 27,000,000 Litas, additionally issuing 16,000,000 ordinary registered shares with the nominal value of 1 Litas each and approved the price per share of the issue of 13 (thirteen) Litas. The purpose of the issue was exceptionally only acquisition of Jelfa SA (Poland) shares. The decision was not fulfilled before the end of the year and later it appeared that the issue of the shares is not sufficient to acquire Jelfa SA (Poland). Therefore in accordance with the decision of the management of the Company on 7 April 2006 an extraordinary General Meeting is called in which it will be proposed to change partly the decision of the extraordinary General Meeting of 29 November 2005 and increase the authorized capital from 11,000,000 Litas to 36,000,000 Litas, issuing additionally 25,000,000 ordinary registered shares with the nominal value of 1 Litas each.

The staff of the Company has not changed significantly. As at 31 December 2005, the staff was 208 employees (2004: 192). As of 25 May 2005, a new production workshop of tablets and capsules was put into operation.

Production

In 2005, the Company produced 46 medicines of various forms – ampoules, tablets, capsules and ointments, including 17 medicines according to contractual production agreements. In 2005, 4 new medicines were introduced.

Tablets and capsules workshop produced 19 medicines:

Tablets of 7 kinds

Capsules of 5 kinds;

Ointments of 7 kinds (including one in accordance with a contractual production agreement).

In 2005, the Company produced 35.7 million tablets, 5.8 million capsules and 343.4 thousand packages of ointments.

In 2005, the Company pursued implementation of the Medicine Good Manufacturing Practice (GMP) requirements. On 12 May, AB Sanitas was granted the GMP certificate No. LT/003H/2005 for production of hard form medicines - tablets, on 26 September – the GMP certificate No. LT/006H/2005 for production of soft form medicines - ointments. On 29 November 2005, the Company was granted the certificate of the Medicine Good Distribution Practice (No. LT 030 H/2004).

Injection preparations workshop. Production is carried out according to the requirements for Good Manufacturing Practice of Medicines applied to sterile injection preparations produced in aseptic and sterile way. In 2005, 5 kinds of preparations were produced according to the contract with the Latvian company Grindex and 10 kinds according to the contract with the Latvian company Calceks, one with the Latvian company Olainfarm, 11 kinds of AB Sanitas injection preparations in 1-2-5-10 ml ampoules. In total 51 million ampoules were produced.

Sales

In 2005, total sales amounted to 35.92 million Litas. Sales in Lithuania amounted to 13.59 million Litas, including 4.27 million Litas of resold products of AB Endokrininiai Preparatai, and sales to foreign companies amounted to 22.33 million Litas. In 2005, sales in Lithuania were performed through wholesellers. In total sales were carried out to 28 clients. In Lithuania the major part of sales amounting to 10,44 million Litas was to five wholesellers distributing medicines: UAB Tamro, UAB Medikona, UAB Limedika, UAB Eurofarmacijos Vaistinės, UAB Mauda.

The turnover with Latvian companies was as follows: to Grindeks of 19.99 million Litas and to Kalceks of 1.20 million Litas. According to contracts with Grindeks and Kalceks, the Company produces medicines with trademarks of these companies.

Export was directed to the countries of the eastern region and was performed through Lithuanian exporting wholesellers. Export to Kazakhstan amounted to 773 thousand Litas, to Armenia - 96 thousand Litas. Sales to Latvia and Finland amounted to 196 thousand Litas.

In 2005 the Company traded 131 products. Sales of nine products amounted to more than 600 thousand Litas:

		Amounts , Litas
1	Mildronate 10% solution injection 5ml. N10	17,398,680
2	Neocitramon tab. N100	1,882,461
3	Oxitocine 5TV solution for injection 1ml N10	1,028,587
4	Eufilin 2.4% solution for injection 5ml N10	785,164
5	Analgin 50% solution for injection 2ml N10	777,934
6	Heart drops 30ml	676,009
7	Natrium chloride 0.9% solution for injection 5ml N10	643,889
8	Ascorb acid 5% solution injection 2ml N10.	611,098
9	Lidokaine hydrochloride 2% solution for injections. 5ml N10	608,728

The main competitors in local market were UAB Valentis, UAB Liuks, Actavis.

In Lithuania, sales in 2005 compared to 2004 increased by 51%. The increase was affected by development of the range of products having taken sales of products of AB Endokrininiai Preparatai, flexible discount system applied to wholesellers, marketing agreements with drug stores, sales promotion campaigns, advertising.

The major data of operations, their dynamics

In 2005, sales and services of the Company as compared to 2004 decreased to 7.1 million Litas or 16.5 percent, however costs of goods sold and works performed decreased by more than 8.3 million Litas or 28%. This had an impact on increase of gross profit of 1.2 million Litas or 8,8%, This change was mostly influenced by changed sales prices of Grindeks products and prices for raw materials purchased from the latter.

In order to strengthen the Company's position in Lithuania, more funds were assigned to promotion of sales in Lithuania, i.e. distribution costs in 2005 were higher by 2.3 times as compared to previous year.

Due to the projects implemented by the Company, administration costs increased by 26.4 percent.

Profit from other activities amounted to 5,937 thousand Litas. The major part of the profit amounting to 5,850 thousand Litas was generated from sales of real estate to the subsidiary Altisana. This was done with the view to separate activities other than production of pharmaceutical preparations.

As a result of liquidation of the subsidiary AB Endokrininiai Preparatai, the Company generated profit of 4,315 thousand Litas.

As usual, the result of financial activities, i.e. a loss of 490 thousand Litas, was caused by the interest paid (1,175 thousand Litas).

Net profit of 12,948 thousand Litas generated during the financial year almost 3 times exceeded net profit of previous financial year.

The main financial ratios of 2005 and their dynamics are presented in the table below:

Financial results (thousand Litas)	***2005***	***2004***	***Change***
Sales and services	35,919	43,002	*-16%*
Cost	21,075	29,354	*-28%*
Gross profit	14,844	13,648	*+9%*
Gross margin	*41%*	*32%*	*+9*
Distribution costs	2,563	1,094	*+134%*
Administration costs	6,823	5,396	*+26%*
Result of other activities	5,937	-1,186	
Operating profit before financial items and taxes	11,395	5,972	*+91%*
Operating profit margin before financial items and taxes	*32%*	*14%*	*+18*
Profit before taxes	15,221	5,460	*+179%*
Profit margin before taxes	*42%*	*13%*	*+29*
Net profit for the year	12,948	4,602	*+181%*
Net profit margin	*36%*	*11%*	*+25*
Net profit per share (Litas)	1.30	0.55	*+136%*
Investments	97,323	23,357	+317%

During the financial year, the increase of the total assets in the balance sheet was more than double. The major increase is related to investment in shares of other companies.

In 2005, the Company‘s investments amounted to 97,323 thousand Litas, including tangible non-current assets of 9,102 thousand Litas, intangible non-current assets of 51 thousand Litas, financial assets investments of 88,170 thousand Litas.

The major investments included:

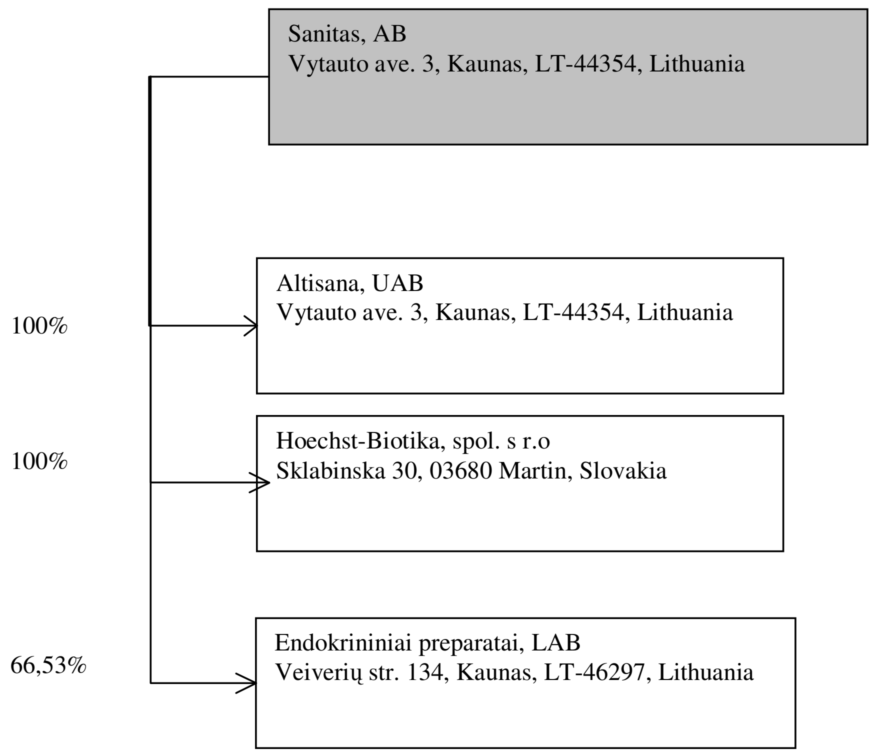
Acquisition of subsidiary Hoechst-Biotika	43,985 thousand Litas
Acquisition of Jelfa shares	42,259 thousand Litas
Acquisition of AB „Endokrininiai preparatai“ shares	1,926 thousand Litas
Implementation of the Project in Veiveriu str.	7,786 thousand Litas
Reactor for production of ointments	590 thousand Litas
Steam boiler (used)	400 thousand Litas
Cars	245 thousand Litas
Other tangible assets and prepayments	81 thousand Litas
Software	13 thousand Litas
Registration of medicines	23 thousand Litas
Other intangible assets and prepayments -	15 thousand Litas

Funds from a new issue of shares, loans from banks and loans from other legal persons, funds from sales of real estate and liquidation of a subsidiary were used to finance the investments.

Furthermore, at the end of 2005, a grant of the European Union structural funds was received for compensation of costs incurred in relation to the Project implemented in Veiveriu street.

II. Information on subsidiaries

After acquisition of Hoechst - Biotika in 2005, the Group of AB Sanitas includes the following companies:



1 **UAB Altisana,** company's code 134544045, registered at Vytauto av. 3, Kaunas. The company's authorised capital amounts to 4,337,200 Litas and was divided into 43 372 ordinary registered shares with the nominal value of 100 Litas per share. AB Sanitas has acquired 43,372 shares of UAB Altisana with the total nominal value of 4,337,200 Litas comprising 100 percent of the authorised capital.

2 **Hoechst-Biotika, spol. s r.o**., identification code 31560784, registration address Sklabinska 30, 03680 Martin, Slovakia, the authorised capital amounts to 416,640,000 SKK. The authorised capital was not divided into shares. 100 percent of the authorised capital is held by AB Sanitas.

3 **LAB Endokrininiai preparatai,** the company's code 133552167, registered at Veiverių str. 134, Kaunas, the authorised capital amounts to 12,950,480 Litas and was divided into 2,590,096 ordinary registered shares with the nominal value of 5 Litas. In 2005, AB Sanitas held 66.53% of the share capital of this company and a respective distribution of LAB Endokrininiai Preparatai in proportion to the shares held was received

III. Number of shares in other companies acquired during the year, their nominal value and share in the authorised capital

1 In 2005, after final settlement with sellers, according to purchase – sales agreements No. 21/04 and No. 22/04 on purchase – sales of shares of LAB Endokrininiai Preparatai of 29 April 2004 as well as having additionally acquired the company's shares in accordance with Agreement No. 11/05 of 7 March 2005, the controlling interest of LAB Endokrininiai Preparatai held by the Company increased from 39.65 percent to 65.92 percent in 2005 with the total nominal value of 8,536,953 Litas. The Company's liquidation process was finalised by the end of 2005 when respective distributions were paid to the shareholders and only registration cancellation formalities were remaining.

2 According to the agreement on purchase – sales of shares and the agreement on transfer of ownership rights, the Company acquired 100 percent interest in the Slovakian company Hoechst – Biotika spol. s.r.o. (identification number 31560784, address of the headquarters Sklabinska 30, Martin, Slovakia) with registered capital amounting to 416,640,000 SKK.

3 According to the Agreement of 18 October 2005 with AB FMĮ Finasta, the Company acquired 569 875 shares of the Polish company Jelfa SA amounting to 8,38 percent of the authorised capital of the company. The total nominal value of the acquired shares of Jelfa SA is 2 275 500 PLN.

IV. Financial results of the AB Sanitas group

The Group activity results include consolidated results of AB Sanitas, UAB Altisana and Hoechst – Biotika, having eliminated the intercompany effect. The major intercompany transaction in 2005 was sale of real estate to UAB Altisana. The transaction result of 4,738 thousand Litas was eliminated from the consolidated statements. And, on the contrary, another significant result of intercompany transactions, i.e. negative goodwill of 3,999 thousand Litas arising from acquisition of Hoechst Biotika, was added to the consolidated group results and included in the financial statements.

The main ratios of AB Sanitas Group during the year are as follows:

Financial results (thousand Litas)	***2005***
Sales and services	62,988
Cost	46,544
Gross profit	16,444
Gross profit margin	*26%*
Distribution costs	3,130
Administration costs	8,465
Result of other activities	889
Operating profit before financial items and taxes	5,738
Operating profit (loss) margin before financial items and taxes	*9%*
Profit before taxes	13,486
Profit margin before taxes	*21%*
Net profit for the year	12,239
Net profit margin	*19%*
Net profit per share (Litas)	1.23

V. Significant events affecting the company after the end of the financial year

In 2006, the Company pursued further the Project of acquisition of shares of the Polish company Jelfa SA. On 17 January 2006, with this in view, special purpose subsidiary Sanitas Polska spol.s.r.o. (Novogrodzka 50, Warsaw, the company‘s code 140380066) was established in Poland.

On 27 February 2006, Sanitas Polska spol.s.r.o. announced an official offer to acquire up to 100 percent of shares of the Polish pharmaceutical company Jelfa SA. In order to pool sufficient funds for this investment, an agreement of shareholders was signed on 24 February 2006 between AB Invalda, which holds the controlling interest of AB Sanitas and some other shareholders – natural persons and investment funds Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited regarding acquisition of the new issue of shares of AB Sanitas, the funds of which would be used for acquisition of the Polish pharmaceutical company Jelfa. Furthermore, in accordance with the Project partially financed from the European Union Structural Funds and the funds of the Ministry of Economy of the Republic of Lithuania „Modernisation of Production of AB Sanitas“, in the beginning of 2006, the second stage of the procurement tender was finalised. On 14 March 2006, the Procurement Commission announced the winner - the consortium of LSMW spol. z. o. O. Odzzial w Polsce (Poland) and UAB „Ranga IV“.

VI. Plans and forecasts of the company

In 2006, AB Sanitas intends to acquire control of the Polish pharmaceutical company Jelfa S.A. One of the goals aimed at by acquisition of this company is penetration of the Central European market. Furthermore, the Company expects to use the newly acquired technologies and production capacities for production of new medicines and new medicine forms.

In the Slovakan subsidiary Hoechst-Biotika, the Company plans to further increase production volumes according to production contracts, to introduce at least 10 new products. The Company plans to enter the Czek Republic and Slovakian markets through this company.

In 2006, the construction of the new plant in Kaunas will be continued, implementing the „Modernisation of Production of AB Sanitas“ partly financed by the European Union and the Ministry of Economy of the Republic of Lithuania.

31 March 2006

Saulius Jurgelėnas
General Director