

AB Sanitas

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2006 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of AB Sanitas

Report on the Financial Statements

We have audited the accompanying 2006 financial statements of AB Sanitas, a joint stock company registered in the Republic of Lithuania ("the Company"), and consolidated financial statements of AB Sanitas and subsidiaries Jelfa S.A., Hoechst-Biotika s.r.o., UAB Altisana ("the Group"), which comprise the balance sheets as at 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB Sanitas and the Group as at 31 December 2006, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the fact that the accompanying financial statements have been prepared assuming that the Group and the Company will continue as a going concern. As shown in the accompanying financial statements as at 31 December 2006, the Group incurred a net loss of LTL 7,335 thousand during the year ended 31 December 2006 and the current liabilities of the Group and the Company exceeded their current assets by LTL 227,275 thousand and LTL 16,004 thousand, respectively. Due to above reasons the breach of a number of covenants imposed by financing institutions lead to reclassification of loans as current following the requirements of IAS 32.94, even though there were no notifications from the banks on request for premature repayment of the loans. As discussed in Note 2.2, the management's plans on ensuring the Group's and Company's continuation as a going concern relate primarily to fulfillment of a business plan. The financial statements do not include any adjustments that might result from the outcome of this matter.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2006 (included on pages 4 through 9 of the accompanying financial statements for the year ended 31 December 2006) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514



Jonas Akelis
Auditor's licence
No. 000003



Ramūnas Bartašius
Auditor's licence
No. 000362

The audit was completed on 16 April 2007.

AB SANITAS

CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

AB SANITAS CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Approved by the Board
as on 13 April 2007

CONSOLIDATED ANNUAL REPORT TO THE SHAREHOLDERS OF AB SANITAS

Review of the position, performance and development of AB Sanitas

Position and performance - overview

The year 2006 was a milestone in the process of realization of long term strategy of AB Sanitas (further referred to as "Sanitas" or "the Company").

The investment of manufacturing site re-location and additional investment in the facilities of the factory has progressed. The total necessary planned scope of construction works has been completed successfully. At the same time the Company managed to maintain undisturbed market supply.

In the first half of 2006 the Company executed a major acquisition in Poland, purchasing a 100% share in a significant pharma producer – Przedsiębiorstwo Farmaceutyczne Jelfa S.A. (further referred to as "Jelfa"). The full process of the acquisition is described in detail in the further part hereof.

Through this acquisition, the Company increased its portfolio by more than 100 products. During the year 2004 – 2006, about 80% of the total sales of Jelfa were achieved in Poland, 10% in Russia and 10% in CEE countries like Ukraine, Baltics, Czech Republic, Hungary and Slovakia.

According to the market research company IMS data, in the year 2006 the top 5 products of Jelfa in Poland market were: Corhydron (PLN 14.64 million), Falvit (PLN 11.05 million), Vitaral (PLN 9.77 million), Sachol (PLN 9.4 million), and Promazin (PLN 8.18 million).

After acquisition of the shares of Jelfa, the Company performed a full audit with assistance of excellent professional companies, so as to obtain a solid knowledge on the operational condition of Jelfa. In the post-acquisition period of 2006, the production volume dropped significantly compared to corresponding period of 2005 and the original forecast for 2006. This was result of previously applied practice of overstocking the market at the level of wholesalers in the time preceding the acquisition. This clearly boosted the cost of unutilized production capacity, so this one also exceeded the budgeted figures. The decision has been made to focus more on selling from the wholesalers' warehouses till stock level of Jelfa products in the market normalizes.

All the investments conducted this year in Jelfa have been related with the GMP compliance. On 8 November 2006 the manufacturing process in all departments of the production site has been stopped, as a result of administrative decision following detection of a cross contamination of Corhydron 250 vial with Chlorsucillinum – medicines produced in Jelfa. After thorough inspections, the production has been released with confirmation of compliance GMP rules, however the Corhydron production has been suspended further.

Additionally Jelfa has been put under couple of extra audits of our partners for contract manufacturing and external independent auditors – all related to the facts of Corhydron case. Each of the audits concluded positively for Jelfa and confirmed its compliance with GMP rules and regulations.

Last year the Company continued to restructure and develop its business acquired in 2005 – the Slovakian drugs manufacturer Hoechst Biotika Martin s.r.o. (further referred to as "HBM"). In 2006 the first positive symptoms of synergy between this subsidiary and the group could be observed. Namely, a significant transfer of production volumes from the Company to HBM has been made. This enabled to keep production/manufacturing in the Company fully loaded and better utilize HBM capacities. Further development of the contract manufacturing contacts and signing new agreements has been progressed.

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Sales and distribution performance

The 2006 sales and services of the Group, compared with 2005 increased in value by LTL 98.7 million. This growth was mostly result of the acquisition of Jelfa. The Company commenced consolidating the figures of Jelfa in own financial reports since the date of acquisition. Since that date till the end of 2006, Jelfa generated sales of LTL 101.9 million in its domestic and other markets.

The key 2006 financial ratios and factors of the Group as well as their dynamics are presented in the table below:

Financial results (LTL '000)			
Item	2005	2006	Change
Sales and services	62,988	161,721	+157%
Cost	(46,148)	(85,639)	+86%
Gross profit	16,840	76,082	+352%
Gross margin	27%	47%	+20%
Distribution costs	(3,130)	(54,067)	+1627%
Administration costs	(8,069)	(34,249)	+324%
Result of other activities	4,901	14,709	+200%
Operating profit before financial items and taxes	10,542	2,475	-77%
Operating profit margin before financial items and taxes	17%	2%	-15%
Profit (loss) before taxes	9,975	(11,378)	-214%
Profit margin before taxes	16%	-7%	-23%
Net profit (loss) for the year	8,729	(7,335)	-184%
EBITDA	17,569	30,107	+71%
Net profit margin	14%	-5%	-18%
Net profit (loss) per share (LTL)	0.87	(0.31)	-135%

Further performance factors – purchases

The Sanitas Group has been attempting to apply a unitary purchasing and stock controlling system in order to take advantage of the synergy effect. Currently all three production sites have about 240 suppliers for active pharmaceutical ingredients, excipients, packaging materials. The Company's suppliers are divided into two groups:

1. Suppliers of Active Pharmaceutical Ingredients (API's) and Excipients
2. Suppliers of packaging materials

Suppliers of API's and Excipients

Company purchases Active Pharmaceutical Ingredients and Excipients from more than 200 suppliers. Number of suppliers is so big due to the fact that each production site has been purchasing API's and excipients from different suppliers as different finished forms are produced. Nevertheless, there are some suppliers, as for Selectchemie AG or Merck AG, who are able to offer a wide range of API's or excipients and all three production sites in the Company's group purchase from them. Jelfa has the biggest amount of API's and Excipients suppliers – about 150. If big quantities of API's or excipients are consumed, items are purchased directly from producer, in case of smaller quantities – items are purchased from agents, representing producers in that region.

AB SANITAS**CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

The major API's suppliers and their turnover with the Group and its subsidiaries are presented in the table below:

Supplier	Purchases, LTL '000
C.P.P. Sp. z o.o.	1,530
Alfred E. Tiefenbacher	577
Newchem S.p.a.	486
Dansk Farmaceutisk Industry	385
Selectchemie AG	342
Merkur Vaseline GmbH & Co.	324

Suppliers of packaging materials.

Suppliers of packaging materials are divided into these main groups:

1. Glass (ampoules, vials) suppliers;
2. Tubes suppliers;
3. Metal foils suppliers;
4. Plastic foils suppliers;
5. Printed materials (boxes, leaflets, labels) suppliers.

The major of these are presented respectively in the table below:

Supplier	Packaging material	Purchases, LTL '000
Medical Glass a.s.	Ampoules	3,859
Gerresheimer Boleslawiec S.A.	Ampoules, Vials, Aluminum tubes	2,822
Forma Vitrum kft	Ampoules	2,430
BWG Prober sp.z.o.o.	Aluminum tubes	1,056

The plants are using different API's and excipients, however packaging materials are the same in most cases. It gives opportunity to organize tenders and to achieve synergy on group level negotiating with the suppliers. Tenders for purchasing ampoules, tubes and metal foils were organized.

Acquisition of Jelfa

On 17 January 2006 the special purposes venture company Sanitas Polska Sp. z o.o. was established and on 27 January 2006 announced a tender offer to acquire 100% of Jelfa shares at the price of PLN 93 per share.

In order to collect funds for financing of the acquisition, the Extraordinary General Shareholders' Meeting of Sanitas held on 7 April 2006 passed the resolution to additionally issue a volume of 25,000,000 ordinary registered shares with a nominal value of LTL 1 (one) each. The issue of shares was purposive and not public. The public limited financial brokerage company Finasta was granted the exclusive right to acquire all newly issued shares. Within a term for the subscription for shares 20,105,920 ordinary registered shares of Sanitas were underwritten. After the registration of the new wording of the Articles of Association of Sanitas on 11 April 2006, new share capital of the company totaled to LTL 31,105,920. The newly issued shares were acquired by AB Invalda with couple of shareholders – natural persons, and investment funds, namely Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited. On 24 February 2006 the said entities and persons signed the Shareholders' agreement related to the purchase of new issue of Sanitas shares, meant for the acquisition of Jelfa.

Following the said Shareholders' agreement the structure of the managing bodies of Sanitas was amended. Instead of the Supervisory Board the Management Board was established. Representatives of Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited were elected into the Management Board.

After successfully finalised tender offer procedure in Poland, the Sanitas group started takeover of Jelfa. The composition of the Supervisory board was amended on 2 June 2006 and the composition of the Management Board was amended on 9 June 2006.

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Sanitas Polska sp z.o.o. started the squeeze-out procedure for the acquisition of Jelfa shares from the minority shareholders on 24 July 2006. As a result of the said procedure Sanitas group obtained 100% of Jelfa's share capital volume. Special purposes venture Sanitas Polska sp z.o.o. was merged with Jelfa on 29 December 2006.

Data on the Company, its subsidiaries and affiliates

Name of the company	AB Sanitas
Code	1341 36296
Authorised capital	LTL 31,105,920 divided into 31,105,920 ordinary registered shares with nominal value LTL 1 per share
Address	Vytauto Ave. 3, LT-44354 Kaunas
Telephone	(+370~37) 22 67 25
Fax	(+370~37) 22 36 96
E-mail address	info@sanitas.lt
Internet website	www.sanitas.lt
Legal and organisational form	Public company, legal person with limited liability
Duration of activity	Unlimited
Scope of activity	Manufacturing of pharmaceutical products
Date and place of registration	30 June 1994, Kaunas Municipality Board
Register, in which data about the company are stored	Register of Legal Entities
Name of the company	Hoechst-Biotika, spol. s r.o.
Authorised capital	SKK 416,640,000 not divided into shares
Number of shares owned by Sanitas, AB	-
Portion of capital and votes held by Sanitas, AB	100 percent
Address	Sklabinská 30, Martin 036 80, Slovakia
Legal and organisational form	Limited Liability Company
Register, in which data about the company are stored	District Court in Žilina
Scope of activity	Manufacturing of pharmaceutical products
Additional information	Hoechst-Biotika, spol. s r.o. established Branch of the Foreign Company in Prague, Czech Republic on 12 February 2007

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Name of the company	Jelfa S.A.
Authorised capital	PLN 27,316,160
Number of shares owned by Sanitas, AB	709,035
Portion of capital and votes held by Sanitas, AB	Portion of capital 10.38 percent, portion of votes 100 percent
Address	58-500 Jelenia Góra, ul. W.Pola 21
Legal and organisational form	Joint stock company
Register, in which data about the company are stored	National Court Register, Wrocław branch
Scope of activity	Manufacturing of pharmaceutical products
Additional information	Jelfa S.A. is the owner of 6,120,005 its shares, 89.62% of the share capital
Information on representatives offices:	Representative Office of Pharmaceutical Company Jelfa S.A. in Moscow
Code	INN 9909051383
Address	113638 Moscow, Simferopolsky pr.7
Duration of activity	25 May 2005 – 18 June 2008
Scope of activity	Protection and presentation interests of Jelfa in Russia to assure optimal development sales turnover. Representative office does not provide any commercial activity on behalf of itself. Representative office acts on behalf and recommendation of Jelfa Poland
Date and place of registration	Certyficate Nr 11857.1 concerning entering into National Registr of Ministry of Justice of Russia National Registration Office – 25 May 2005
Register, in which data about the company are stored	National Register of Ministry of Justice of Russia National Registration Office
	Representative office of P.F. JELFA S.A. in Kiev
Code	26384245
Address	Ukraine, 03040, Kiev, Vasilkivska 1 str., office 207
Duration of activity	23.04.2003 - indefinitely
Scope of activity	<ul style="list-style-type: none">- marketing, promotional and advertising activity- representation of interest of Jelfa in Ukraine to assure optimal development of sales turnover- Representative office acts on behalf of PF Jelfa S.A., Poland
Date and place of registration	23 April 2003, Kiev
Register, in which data about the company are stored	<ul style="list-style-type: none">- Register of Ministry of Economy and European Integration Affairs of Ukraine- Register of Companies and Organisations in Statistics Office

AB SANITAS**CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

Name of the company	UAB Altisana
Authorised capital	LTL 4,337,200 divided into 43,372 ordinary registered shares with nominal value LTL 100 per share
Number of shares owned by Sanitas, AB	43,372
Portion of capital and votes held by Sanitas, AB	100 percent
Address	Vytauto 3, LT-44354 Kaunas, Lithuania
Legal and organisational form	Limited Liability Company
Register, in which data about the company are stored	Companies Register of Republic of Lithuania
Scope of activity	Purchase, sell and rent of real estate
Name of the company	Sanitas Polska Sp. z o.o.
Authorised capital	PLN 550,000, divided into 11,000 shares ordinary registered shares with nominal value of PLN 50
Number of shares owned by Sanitas, AB	11,000
Portion of capital and votes held by Sanitas, AB	100 percent
Address	00-695 Warszawa, ul. Nowogrodzka 50
Legal and organisational form	limited liability company
Register, in which data about the company are stored	National Court Register for the capital city of Warsaw
Scope of activity	Special purpose venture
Additional information	Sanitas Polska and was merged with Jelfa S.A. on 29 December 2006

Information related to employee matters

208 employees worked for the Company on 31 December 2005. Organizational structure was approved on 17 January 2005 and amended on 24 May 2005. Three manufacturing departments operated in the Company in 2005: Workshop of tablets and ointments, Workshop of tablets and capsules and Workshop of preparations for injection; also there was Technical department, Sales and marketing department, Purchasing department, Financial department and Quality assurance department.

201 employees worked in the Company as at 31 December 2006. There were no significant changes in the organizational structure of the Company compared with year 2005, but the functional reporting was implemented on the level of the group of the companies: the management of the Company was delegated to the managing bodies of subsidiaries in Poland and the control of particular departments was transferred to them.

87 employees were employed and 94 dismissed within the period of one year. The most difficult is to find well qualified employees, such as machinists or machinery operators for the workshops. Employment contracts or collective agreements of the Company do not provide for any extraordinary rights of or obligations to the employees or any part thereof.

In the subsidiary - pharmaceutical company Jelfa within the period from 1 June 2006 to 31 December 2006, the number of employees was decreased by 43: from 993 to 950. The reduced employment level was a result of the retirement of a large number of employees.

Additional 3, 7 and 10 years employment guarantees for a part of employees of Jelfa are foreseen in the agreement with the Trade Unions.

The fluctuation of the amount of the employees is not significant in another subsidiary – Slovakian Hoechst – Biotika spol. s.r.o., where about 300 persons are employed. The lack of specialists in the company was not stated.

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Information related to environmental matters

The Company pays attention to environmental protection. Environmental issues are taken into consideration in all fields of activities. In pharmaceuticals production, packing and quality control processes water and energy is saved, atmosphere and soil is protected from possible pollutants release. Industrial and municipal waste, generated in company's territory, is sorted, accounted and transported to waste treatment facilities with minimal environmental impact. Rainwater and wastewater pollution is controlled, main pollution parameters are measured. In order to prevent chemical substances release to environment, chemicals are stored only in defined places.

According Integrated Pollution Prevention and Control licensing (valid from 23 July 2005), where permissible pollution limits are stated, there is no possibility for environmental damage. Possibility of ecological risk is minimized, when industrial and fire safety instructions are followed.

Other enterprises of the group also implement pro-ecologic activities aimed at lowering its detrimental affect on the environment. For instance, implementation of the water technology of coating the tablets in Jelfa allowed the discontinuation of the emission of the acetone into the air.

In order to improve the water management and sewage disposal, Jelfa plans to eliminate or reduce the application of the phosphorus compounds in the manufacture processes of the process steam.

Material events that have taken place since the end of 2006

In the beginning of 2007 subsidiary of Sanitas – HBM established a Branch of the Foreign Company in Prague, Czech Republic, previously being a representative office of the company.

On the basis of the decision made by Polish General Pharmaceutical Inspection in January 2007, the sale of "Corhydron" - medicine, manufactured by Jelfa was renewed. The sale was stopped at the end of 2006 when the mixed product was found in one viol of Corhydron 250. This decision on renewal was made after pharmaceutical inspectors had investigated all documentation and records of manufacturing and packing of the said product, the procedures of cleaning of manufacturing premises and production lines, took into account their efficiency.

On 21 January 2007 was the date of expiration of company's certificate of Quality Management System according to LST EN ISO 9001:2001. It was decided not to have the term of the certificate prolonged, because the principles of the said system had been applied in the process of implementation of the requirements of Good Manufacturing Practice in the company.

Within the period of time beginning at the end of the 2006 financial year till the approval of consolidated annual report there were no material events in Sanitas group.

Information on the acquisition of own shares

Sanitas did not acquire its own shares during the reporting period. The subsidiaries of the Company also do not hold the shares of their mother Company.

The Company's operating plans and forecasts

The Company has identified core sales markets to focus on in the future years: Poland, Russia, Baltics, Czech, Slovakia and Hungary.

For 2007 it is planned to restructure the sales team in Poland – the new organisational structure should enable better focus on marketing and sales force excellence. This will allow reducing media promotion expenses, increase sales per one medical representative and achieve higher profitability.

In Russia it is planned to revitalise the representative office of Jelfa and increase contribution of promotional activities. Uniform pricing policy for distributors is expected to be implemented in the 1st half of 2007.

By the end of 2007 the Company will have started penetration of Latvian and Estonian markets. After takeover of the sales of Jelfa's products, a sales force reorganisation is to be done in Lithuania.

With establishing of HBM Branch in Prague the Company has started penetration of Czech and Slovak markets and takeover of sales from intermediaries in Hungary. Significant contribution of revenues from sales in the above mentioned countries is expected to be observed in 2008.

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In 2007 the Company plans to complete building of a high skilled regulatory team. A centre of regulatory affairs will be based in Prague. The main task for 2007 is preparation for new products' launches in future years. Following changes in regulations, the Company is going to improve pharmacovigilance significantly within all Group.

One of the main goals in the coming years is improvement of production capacities utilisation and reduction of production costs. This is achievable with new toll manufacturing volumes and changes in management of production processes.

A process of consolidation of supplies within the Group will be continued. Average savings' level in 2007 on all purchases is expected to range in 1.5 - 2%.

Information about activities of the Company in the field of research and development

The Company with its subsidiaries continued through 2006 its product portfolio development plan. The capital expenditure related to the acquisition of new product licenses reached the level of almost LTL 3.8 million.

The total number of products in the pipeline at the end of 2006 is 27.

The costs of registration and medical services reached the level of round LTL 2.2 million.

Saulius Jurgelėnas
General manager

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**GENERAL INFORMATION****Board of Directors**

Mr. Darius Šulnis (Chairman of the Board)
Mr. Dailius Juozapas Mišeikis
Mr. Darius Žaromskis
Mr. Sunil Kumar Nair
Mr. Martynas Česnavičius

Management

Mr. Saulius Jurgelėnas (General manager)
Mr. Eladijus Kirijanovas (Chief financial officer)

Registered office and company code

Vytauto Ave. 3,
Kaunas,
Lithuania
Company code 1341 36296

Bankers

AB SEB Vilniaus Bankas
AB Sampo Bankas
AB Šiaulių Bankas
Nordea Bank Denmark A/S International branch
Nordea Bank Finland Plc Lithuanian branch
Tatra Bank
Všeobecná uverová banka a.s.
HVB Bank Slovakia a.s.
Slovenská sporiteľna a.s.
Calyon bank Slovakia
Bank PEKAO S.A.
PKO Bank Polski S.A.
Societe Generale S.A.
Bank Zachodni WBK S.A.
OAO Vneshtorgbank
Unikredit Bank Sp. z o.o.

Auditor

UAB Ernst & Young Baltic
Subačiaus Str. 7,
Vilnius,
Lithuania

The financial statements were approved and signed by the management and the board of directors on 16 April 2007.

Management:

Mr. Saulius Jurgelėnas
General manager

Mr. Eladijus Kirijanovas
Chief financial officer

According to the Law on Companies of the Republic of Lithuania, the annual financial statements prepared by the Management are authorised by the General Shareholders' meeting. The shareholders hold the power not to approve the annual financial statements and the right to request new financial statements to be prepared.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**

(all amounts are in thousand LTL unless otherwise stated)

Income statements

	Notes	Group		Company	
		2006	2005 (restated)	2006	2005 (restated)
Sales	4	161,721	62,988	32,347	35,919
Cost of sales		(85,639)	(46,148)	(15,789)	(20,670)
Gross profit		76,082	16,840	16,558	15,249
Other income	5	15,740	397	413	6,123
Selling and distribution expenses	6	(54,067)	(3,130)	(2,559)	(2,563)
Administrative expenses	6	(34,249)	(8,069)	(8,513)	(7,141)
Other expenses		(1,031)	(300)	(9)	(273)
Gain on liquidation of subsidiary	3	-	1,854	-	4,315
Excess of subsidiary's net assets acquired over the cost of acquisition	3, 13	-	2,950	-	-
Operating profit		2,475	10,542	5,890	15,710
Finance revenue	7	4,500	1,504	8,960	692
Finance costs	7	(18,353)	(2,071)	(2,222)	(1,181)
Profit (loss) before tax		(11,378)	9,975	12,628	15,221
Income tax expense	8	4,043	(1,246)	(1,987)	(2,273)
Net profit (loss)		(7,335)	8,729	10,641	12,948
Basic and diluted earnings (loss) per share (in LTL)	9	(0.31)	0.88		

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**Balance sheets**

	Notes	Group		Company	
		As at 31 December 2006	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005
ASSETS					
Non-current assets					
Property, plant and equipment	11	273,349	51,613	17,949	16,194
Intangible assets	12	312,242	916	210	179
Investments in subsidiaries	13	-	-	107,694	83,902
Available-for-sale financial investments	13	-	38,503	-	-
Other financial assets	28	33	63	227,871	63
Deferred tax asset	8	18,100	2,499	518	835
Total non-current assets		603,724	93,594	354,242	101,173
Current assets					
Inventories	14	42,081	11,498	7,012	6,033
Prepaid income tax		307	700	122	-
Trade receivables	15	55,328	13,807	3,738	6,570
Other receivables	16	3,182	1,101	7,718	3,529
Deferred charges		598	234	62	70
Cash and cash equivalents	17	11,506	4,847	98	1,560
Total current assets		113,002	32,187	18,750	17,762
Non-current assets classified as held for sale	18	8,727	20,734	8,200	8,200
Total assets		725,453	146,515	381,192	127,135

(cont'd on the next page)

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**Balance sheets (cont'd)**

	Notes	Group		Company	
		As at 31 December 2006	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005
EQUITY AND LIABILITIES		(restated)			
Equity					
Share capital	1, 19	31,106	11,000	31,106	11,000
Share premium	19	248,086	17,554	248,086	17,554
Legal reserve	20	3,111	1,801	3,111	1,801
Other reserves	20	13,419	(1,486)	-	(3,042)
Retained earnings		15,176	23,821	34,910	25,579
Total equity		310,898	52,690	317,213	52,892
Non-current liabilities					
Non-current loans	21	37,198	21,165	16,218	21,165
Financial lease obligations	22	3,271	244	1,120	244
Deferred tax liability	8	15,193	-	-	-
Deferred income from subsidies	23	3,687	1,416	3,687	1,416
Provisions	25	6,202	936	-	-
Total non-current liabilities		65,551	23,761	21,025	22,825
Current liabilities					
Current portion of non-current loans	21	305,339	20,664	2,618	9,064
Current portion of non-current financial lease obligations	22	2,483	402	885	402
Current loans	21	2,252	32,755	23,172	32,744
Trade and other payables		25,113	9,500	8,674	4,777
Advances received	18, 28	800	800	4,709	800
Income tax payable		1,472	2,113	933	2,113
Other current liabilities	24	9,849	3,717	1,909	1,518
Provisions	25	1,696	113	54	-
Total current liabilities		349,004	70,064	42,954	51,418
Total equity and liabilities		725,453	146,515	381,192	127,135

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**Statements of changes in equity**

Group	Share capital	Share premium	Legal reserve	Fair value reserve	Translation reserve	Other reserves	Retained earnings	Total
Balance as at 31 December 2004	8,956	-	1,801	-	-	4,450	9,972	25,179
Adjustment to negative goodwill (Note 3)	-	-	-	-	-	-	2,461	2,461
Balance as at 1 January 2005 (restated)	8,956	-	1,801	-	-	4,450	12,433	27,640
Issue of share capital (Note 19)	2,044	17,554	-	-	-	-	-	19,598
Transfer from reserve (Note 19)	-	-	-	-	-	(4,450)	4,450	-
Dividends declared (Note 10)	-	-	-	-	-	-	(1,791)	(1,791)
Net loss on available-for-sale financial investments (Note 13)	-	-	-	(3,042)	-	-	-	(3,042)
Foreign currency translation	-	-	-	-	1,556	-	-	1,556
Net profit for the year (restated)	-	-	-	-	-	-	8,729	8,729
Total income and expense for the year	-	-	-	(3,042)	1,556	-	8,729	7,243
Balance as at 31 December 2005 (restated)	11,000	17,554	1,801	(3,042)	1,556	-	23,821	52,690
Issue of shares (Note 19)	20,106	230,532	-	-	-	-	-	250,638
Transferred to reserve	-	-	1,310	-	-	-	(1,310)	-
Reversal of fair value reserve (Note 13)	-	-	-	3,042	-	-	-	3,042
Change in translation reserve	-	-	-	-	11,863	-	-	11,863
Net profit for the year	-	-	-	-	-	-	(7,335)	(7,335)
Total income and expense for the year	-	-	-	-	11,863	-	(7,335)	4,528
Balance as at 31 December 2006	31,106	248,086	3,111	-	13,419	-	15,176	310,898

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CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(all amounts are in thousand LTL unless otherwise stated)

Statements of changes in equity (cont'd)

Company	Share capital	Share premium	Legal reserve	Fair value reserve	Other reserves	Retained earnings	Total
Balance as at 31 December 2004	8,956	-	1,801	-	4,450	9,972	25,179
Issue of share capital (Note 19)	2,044	17,554	-	-	-	-	19,598
Transfer from reserve (Note 19)	-	-	-	-	(4,450)	4,450	-
Dividends declared (Note 10)	-	-	-	-	-	(1,791)	(1,791)
Net loss on available-for-sale financial investments (Note 13)	-	-	-	(3,042)	-	-	(3,042)
Net profit for the year (restated)	-	-	-	-	-	12,948	12,948
Total income and expense for the year	-	-	-	(3,042)	-	12,948	9,906
Balance as at 31 December 2005 (restated)	11,000	17,554	1,801	(3,042)	-	25,579	52,892
Issue of share capital (Note 19)	20,106	230,532	-	-	-	-	250,638
Transfer from/to legal reserve	-	-	1,310	-	-	(1,310)	-
Reversal of fair value reserve (Note 13)	-	-	-	3,042	-	-	3,042
Net profit for the year	-	-	-	-	-	10,641	10,641
Total income and expense for the year	-	-	-	3,042	-	10,641	13,683
Balance as at 31 December 2006	31,106	248,086	3,111	-	-	34,910	317,213

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**Cash flow statements**

	Notes	Group		Company	
		2006	2005 (restated)	2006	2005
Cash flows from (to) operating activities					
Profit (loss) before tax		(11,378)	9,975	12,628	15,221
Adjustments for non-cash items:					
Depreciation and amortisation	11, 12	27,632	7,026	2,867	4,680
Loss (gain) from disposal or write-off of non-current assets		(12,249)	-	(71)	(5,824)
Allowance for receivables	6	750	263	(23)	263
Allowance for inventories	6	1,738	259	490	259
Excess of subsidiary's net assets acquired over the cost of acquisition	13	-	(2,950)	-	-
(Gain) from liquidation of subsidiary	13	-	(1,854)	-	(4,315)
Unrealised foreign currency exchange loss		1,359	369	-	-
Dividends		-	-	(1,682)	-
Interest expenses	7	14,636	1,215	1,948	1,174
Interest (income)	7	(205)	(19)	(7,151)	(22)
Movement in provisions	25	1,799	-	54	-
		24,082	14,284	9,060	11,436
Change in working capital:					
Decrease (increase) in inventories		(10,681)	10,787	(1,469)	(1,372)
Decrease (increase) in trade and other receivables and deferred charges receivables		25,271	22,552	5,139	2,419
Increase (decrease) in trade and other and advances received payables		(3,494)	(19,828)	8,197	(5,950)
Decrease in provisions		(1,485)	-	-	-
Income tax paid		(3,882)	(1,809)	(3,686)	(1,092)
Net cash flows from (to) operating activities		29,811	25,986	17,241	5,441
Cash flows from (to) investing activities					
(Acquisition) of non-current tangible assets	11	(13,019)	(9,702)	(4,473)	(9,103)
(Acquisition) of non-current intangible assets	12	(2,899)	(733)	(115)	(51)
Proceeds from sale of non-current assets (except investments)		34,965	8	147	13,420
(Acquisition) of subsidiary Jelfa S.A.	13	(511,154)	(42,259)	(22,331)	(42,259)
(Acquisition) of subsidiary Hoechst-Biotika s.r.o.	13	-	(43,028)	2,295	(43,985)
(Acquisition) of shares of AB Endokrininiai Preparatai and related prepayment	13	-	(1,927)	-	(1,927)
(Acquisition) of assets held for sale		-	(3,324)	-	-
Proceeds from liquidation of subsidiary		-	12,214	-	12,214
Loans granted to subsidiary	28	-	-	(227,860)	-
Interest received		205	19	738	22
Dividends received		-	-	1,682	-
Net cash flows (to) investing activities		(491,902)	(88,732)	(249,917)	(71,669)

(cont'd on the next page)

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**Cash flow statements (cont'd)**

	Group		Company	
	2006	2005	2006	2005
		(restated)		
Cash flows from (to) financing activities				
Issue of shares	19	250,638	19,598	250,638
Dividends (paid)		-	(1,791)	-
Proceeds from other source of financing		1,965	-	1,965
Proceeds from loans		324,233	74,584	30,415
Repayments of loans		(94,045)	(25,479)	(51,380)
Payment of finance lease liabilities		(1,829)	(299)	(747)
Interest paid		(14,636)	(1,215)	(1,948)
Proceeds from grants		2,271	1,416	2,271
Net cash flows from financial activities		468,597	66,814	231,214
Net increase (decrease) in cash and cash equivalents		6,506	4,068	(1,462)
Net foreign exchange difference		153	-	-
Cash and cash equivalents at the beginning of the year		4,847	779	1,560
Cash and cash equivalents at the end of the year		11,506	4,847	98
Supplemental information of cash flows:				
Property, plant and equipment acquisition financed by finance lease		2,828	-	141

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**Notes to the financial statements****1 General information**

AB Sanitas (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania on 30 June 1994.

The Company is involved in production and trade of generic medicines, namely injection preparations, tablets, capsules, galenic solutions and ointments. The Company's shares are listed in the Main List on the Vilnius Stock Exchange.

As at 31 December 2006 and 2005 the shareholders of the Company were:

	2006		2005	
	Number of shares held (thousand)	Percentage	Number of shares held (thousand)	Percentage
AB Invalda	8,816	28.34%	4,313	39.21%
AB Invalda related companies and private persons	4,997	16.06%	1,119	10.17%
Citigroup Venture Capital International Jersey Limited	5,312	17.08%	-	-
Hansabanke (Estonia) investment funds	4,878	15.68%	-	-
Other	7,103	22.84%	5,568	50.62%
Total	31,106	100.00%	11,000	100.00%

The consolidated financial statements include the financial statements of AB Sanitas and the subsidiaries listed in the following table (hereinafter "the Group"):

Name	Main activities	Country of incorporation	% of equity interest	
			2006	2005
Jelfa S.A.*	Production and trade of medicines	Poland	100	8.38
Hoechst-Biotika s.r.o.	Production and trade of medicines	Slovakia	100	100
UAB Altisana	Real estate	Lithuania	100	100

* As more fully disclosed in Note 13 to these financial statements, investment into Jelfa S.A. as at 31 December 2005 was treated as available-for-sale financial investment.

As at 31 December 2006, the number of employees of the Group was 1,641 (as at 31 December 2005 – 506). As at 31 December 2006, the number of employees of the Company was 201 (as at 31 December 2005 – 208).

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for the year ended 31 December 2006 are as follows:

2.1. Basis of preparation

These financial statements have been prepared on a historical cost basis.

Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (further "the EU").

Basis of consolidation

The consolidated financial statements comprise the financial statements of AB Sanitas and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Foreign currency translation

The Company's and Group's financial statements are presented in local currency of the Republic of Lithuania, Litas (LTL), which is the Company's functional and the Company's and Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currency of the foreign operations, Jelfa S.A. and Hoechst-Biotika s.r.o., is Polish Zloty (PLZ) and Slovak Crown (SKK) respectively. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of AB Sanitas (LTL) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Lithuanian Litas is pegged to EUR at the rate of 3.4528 Litas for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group and the Company have adopted the following new and amended IFRS and IFRIC interpretations during the year:

- IAS19 Amendment-Employee Benefits
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates
- IAS 23 Amendment-Borrowing cost (adopted before its effectiveness day)
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

Adoption of these revised standards and interpretations had no material effect on the financial statements of the Group and the Company.

The Company and the Group have not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting once adopted by EU.
- amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company and the Group to make new disclosures to enable users of the financial statements to evaluate the Company's and the Group's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation establishes that the entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.1. Basis of preparation (cont'd)

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements once adopted by EU.

The Company and the Group expect that adoption of the pronouncements listed above as they become effective will have no significant impact on their financial statements, except for additional disclosures on IFRS 7. The Company and the Group are still estimating the impact of these requirements.

2.2. Going concern

The financial statements for the year ended 31 December 2006 are prepared under the assumption that the Group and the Company will continue as a going concern. In 2006 the Group incurred net losses of LTL 7,335 thousand, and as at 31 December 2006 the current liabilities of the Group and the Company exceeded their current assets by LTL 227,275 thousand and LTL 16,004 thousand, respectively (LTL 17,143 thousand and LTL 25,456 thousand respectively as at 31 December 2005). The Group's liquidity and quick ratios as at 31 December 2006 were 0.35 and 0.23 (0.76 and 0.59 as at 31 December 2005). The Company's liquidity and quick ratios as at 31 December 2006 were 0.63 and 0.46, respectively (0.50 and 0.39 as at 31 December 2005). Due to the above reasons the Company did not meet some of its contractual loan obligations in respect of the requirements of financial ratios (Note 21).

The Management Board has been in uninterrupted contact with relevant representatives of the banks and has kept informing them duly on the situation and its causes. The Management Board also presented to the banks the short and long term strategy of business operations aiming to bring the ratios back to the level eliminating the situation of an event of default. The Management Board has been cooperating with the banks so as to minimise their identified risk related to the situation. This cooperation was successful enough to receive approval and acceptance of the crediting banks for the plans of further business performance. Therefore the Management Board qualifies the risk related to the above described issue as remote.

The Company has prepared forecast of the Group's operations for 2007, based on which the management plans to achieve LTL 340,519 thousand sales, LTL 21,332 thousand net profit and LTL 77,06 thousand EBITDA (earnings before interest, taxes, depreciation and amortisation).

Taking into account the above facts, the management of the Company concludes that the Company and the Group will continue as a going concern through 2007 and the following years.

2.3. Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met. Replaced parts are written-off.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.3. Property, plant and equipment (cont'd)

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	10 – 40 years
Machinery and equipment	5 – 25 years
Vehicles	3 – 10 years
Other non-current assets	4 – 10 years

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Construction in progress is stated at cost. This includes the cost of construction and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

2.4. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives.

Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised during 2 – 10 years.

Costs incurred in order to restore or maintain the future economic benefits that the Company and the Group expect from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

Patents and licences

The patents have been granted for a period from 2 to 10 years by the relevant government agency with the option of renewal at the end of this period. The licences provide the option for renewal based on whether the Group meets the conditions of the licence and may be renewed at little or no cost to the Group (further details are given in Note 12).

2.5. Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.5. Business combinations and goodwill (cont'd)

Where goodwill forms part of a cash generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

2.6. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

2 Accounting principles (cont'd)

2.7. Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit and loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. As at 31 December 2006 and 2005 the Company and the Group had no held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in the fair value reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the income statement as "Dividends received" when the right of payment has been established.

2 Accounting principles (cont'd)

2.7. Investments and other financial assets (cont'd)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

2.8. Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.9. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow-moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory has been fully written-off.

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2 Accounting principles (cont'd)

2.10. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

2.11. Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings. The borrowings are classified as non-current if the completion of a refinancing agreement before the balance sheet date provides evidence that the substance of the liability at the balance sheet date was long-term.

2.12. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company and the Group retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company or the Group have transferred their rights to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.13. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2 Accounting principles (cont'd)

2.14. Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.15. Grants

Grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is set up as deferred income.

2.16. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the respective country's tax legislation.

The standard income tax rate in Poland and in Slovakia is 19%.

In 2005 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law came into effect, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies have to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

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CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.16. Income tax (cont'd)

In Lithuania tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and/or derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

According to Polish legislation tax losses may be carried forward for 5 consecutive years. Up to half of the original loss may be deducted in any year of the 5 year period. In Slovakia each year's tax loss should be considered separately and can be carried forward over five consecutive tax periods.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset has been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.17. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved.

2.18. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the Group and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

2.19. Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.20. Segment information

In these financial statements a business segment means a constituent part of the Group or the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Group or the Company participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

2.21. Use of estimates in the preparation of financial statements

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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 of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2006 was LTL 270,279 thousand (as at 31 December 2005 - Nil) (further details are given in Note 12).

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2006 for the Group was LTL 18,100 thousand (as at 31 December 2005 - LTL 2,499) (further details are contained in Note 8).

Uncertainties relating to estimates

The preparation of the financial statements requires to a certain extent assumptions and estimates to be made which have an effect on the carrying amounts of recognised assets and liabilities, income and expenses and contingent liabilities. The assumptions and estimates are based on parameters which are derived from the current knowledge at the time. In particular, the circumstances prevailing at the time of preparing the financial statements and the realistic future development of the global and industry environment were used to estimate cash flows. Where these conditions develop differently than assumed, and beyond the sphere of influence of management, the actual figures may differ from those anticipated. If there are deviations between actual and anticipated development, the assumptions, and where necessary, the carrying amounts of the relevant assets and liabilities, are adjusted accordingly.

At the date of preparing the financial statements, the underlying assumptions and estimates were not subject to any significant risk such that from today's point of view, it is not likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent fiscal year.

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CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

2 Accounting principles (cont'd)

2.22. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements.

2.23. Comparative figures

Where necessary, the comparative figures of the income statement and current assets / current liabilities have been adjusted to conform to changes in presentation in the current year.

3 Correction of an error and change in presentation

Correction of error

In 2005 the Group has accounted for the investment in AB Endokrininiai Preparatai at cost until its liquidation, instead of applying IFRS 3. Following step acquisition principles of IFRS 3 the excess of subsidiary's net assets acquired over the cost of the acquisition on the first 40% acquired comprised LTL 2,461 thousand, which should have been accounted for in 2004 income statement. In 2005 this subsidiary was liquidated and LTL 4,315 thousand gain was recognised in 2005 financial statements. The Group management decided to correct this error this year what resulted in a decrease of the 2005 profit in the amount of LTL 2,461 thousand (Note 13).

The Group's subsidiary Hoechst-Biotika s.r.o. is required by law to pay certain benefits to employees upon their retirement. In addition, this company is obliged under a trade union agreement to pay jubilee benefits to employees who have served a specified number of years of employment. Hoechst-Biotika s.r.o. did not recognise a provision for such employees benefits in prior accounting periods. As a result, a provision of LTL 1,049 thousand (SKK 11,493 thousand) was recorded as a prior year adjustment. Had the provision been recognised by the subsidiary as at the date of acquisition, the Group's excess of subsidiary's net assets acquired over the cost of acquisition would be less by the respective amount. The error was corrected by adjusting comparative financial information in these financial statements.

Due to correction of error the earning per share of the Group for 2005 decreased by LTL 0.36.

Change in presentation

In 2005 the Group accounted for reversal of impairment of receivables and prepayments for non-current assets in the total amount of LTL 911 thousand as other operating activity income and the write-off of inventories and impairment of receivables in the total amount of LTL 515 as other operating expenses. In year 2006 Group management decided to change the presentation of the above mentioned activities in order to correspond to the presentation of controlling shareholder AB Invalda group and reclassified them to administrative expenses.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**3 Correction of an error and change in presentation (cont'd)**

The effect of these corrections on the Group's comparative information for 2005 is as follows:

	<u>As stated earlier</u>	<u>Provision for employee benefits in HB.</u>	<u>Correction of error on liquidation of subsidiary</u>	<u>Other corrections</u>	<u>Restated amounts (the Group)</u>
Balance sheet					
Shareholders' equity:					
- Retained earnings as at 31 December 2004	25,179	-	2,461	-	27,640
- 2005 result	<u>12,239</u>	<u>(1,049)</u>	<u>(2,461)</u>	<u>-</u>	<u>8,729</u>
Total shareholders' equity and liabilities as at 31 December 2005	<u>53,739</u>	<u>(1,049)</u>	<u>-</u>	<u>-</u>	<u>52,690</u>
Statement of income					
Other income	2,143	-	-	(911)	1,232
Administrative expenses	(8,465)	-	-	396	(8,069)
Other expenses	(1,254)	-	-	515	(739)
Gain on liquidation of subsidiary	4,315	-	(2,461)	-	1,854
Excess of subsidiary's net assets acquired over the cost of acquisition	<u>3,999</u>	<u>(1,049)</u>	<u>-</u>	<u>-</u>	<u>2,950</u>
Net profit	<u>12,239</u>	<u>(1,049)</u>	<u>(2,461)</u>	<u>-</u>	<u>8,729</u>

4 Segment information

The primary segment reporting format is determined to be business segments as the Group's risk and rates of return are effected predominantly by differences in the products produced. The Group produces and distributes medicines, mainly injection preparation, 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 Lithuania, Latvia, Slovakia, Germany, Poland, Russia and other countries.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**4 Segment information (cont'd)**

Segment information by business segments for the year ended 31 December 2006 and 2005 is as follows:

Group	Injection preparations		Tablets		Eye drops, ointments and galenic solutions		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Revenue	63,782	35,072	47,502	15,280	49,607	5,309	830	7,327	161,721
Segment gross profit	21,033	10,012	20,586	3,089	34,272	2,844	191	895	76,082	16,840
Operating expenses, net	(24,593)	(959)	(23,484)	(1,152)	(29,872)	(895)	4,342	(8,096)	(73,607)	(11,102)
Gain on liquidation of subsidiary	-	-	-	-	-	-	-	1,854	-	1,854
Excess of subsidiary's net assets acquired over the cost of acquisition	-	-	-	-	-	-	-	2,950	-	2,950
Operating profit before financing costs	(3,560)	9,053	(2,898)	1,937	4,400	1,949	4,533	(2,397)	2,475	10,542
Financial expenses, net	-	-	-	-	-	-	(13,853)	(567)	(13,853)	(567)
Profit before taxes	(3,560)	9,053	(2,898)	1,937	4,400	1,949	(9,320)	(2,964)	(11,378)	9,975
Income tax	-	-	-	-	-	-	4,043	(1,246)	4,043	(1,246)
Net profit	(3,560)	9,053	(2,898)	1,937	4,400	1,949	(5,277)	(4,210)	(7,335)	8,729
Segment assets	49,987	40,917	79,527	12,238	36,429	3,045	559,510	90,315	725,453	146,515
Segment liabilities	1,009	6,500	-	3,162	-	639	413,546	83,524	414,555	93,825
Acquisition of non-current assets	3,644	409	1,992	343	2,801	715	10,307	8,968	18,744	10,435
Depreciation and amortisation	6,193	3,784	5,788	663	3,262	157	12,389	2,422	27,632	7,026

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**4 Segment information (cont'd)**

Segment information by business segments for the year ended 31 December 2006 and 2005 is as follows:

Company	Injection preparations		Tablets		Eye drops, ointments and galenic solutions		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue	23,169	26,187	6,757	4,958	2,421	4,770	-	4	32,347	35,919
Segment gross profit	10,875	9,244	4,204	2,761	1,160	2,837	319	407	16,558	15,249
Operating expenses, net	(8,949)	(759)	(1,503)	(920)	(619)	(883)	403	(1,292)	(10,668)	(3,854)
Gain on liquidation of subsidiary	-	-	-	-	-	-	-	4,315	-	4,315
Operating profit before financing costs	1,926	8,485	2,701	1,841	541	1,954	722	3,430	5,890	15,710
Financial revenue, net	-	-	-	-	-	-	6,738	(489)	6,738	(489)
Profit before taxes	1,926	8,485	2,701	1,841	541	1,954	7,460	2,941	12,628	15,221
Income tax	-	-	-	-	-	-	(1,987)	(2,273)	(1,987)	(2,273)
Net profit	1,926	8,485	2,701	1,841	541	1,954	5,473	668	10,641	12,948
Segment assets	8,009	18,235	1,477	1,830	1,101	1,944	370,605	105,126	381,192	127,135
Segment liabilities	3,034	4,484	3,909	582	-	512	57,036	68,665	63,979	74,243
Acquisition of non-current assets	1,341	45	-	115	6	681	3,382	8,313	4,729	9,154
Depreciation and amortisation	1,750	2,796	82	249	247	115	788	1,520	2,867	4,680

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**4 Segment information (cont'd)**

Segment information by geographical segments is as follows:

Group	Germany		Slovakia		Latvia		Lithuania		Poland		Russia		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue	14,236	19,117	12,801	6,948	22,498	21,463	13,879	13,714	54,519	-	21,861	-	21,927	1,746	161,721	62,988
Total assets by location of assets	-	-	54,861	53,656	-	-	38,469	92,859	632,123	-	-	-	-	-	725,453	146,515
Acquisition of non current assets	-	-	4,873	1,281	-	-	4,729	9,154	9,142	-	-	-	-	-	18,744	10,435

Company	Latvia		Lithuania		Unallocated		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenue	18,269	21,407	13,205	13,586	873	926	32,347	35,919
Total assets by location of assets	-	-	381,192	127,135	-	-	381,192	127,135
Acquisition of non current assets	-	-	4,729	9,154	-	-	4,729	9,154

5 Other operating income

	Group		Company	
	2006	2005	2006	2005
		(restated)		(restated)
Other operating income:				
Gain on disposal of tangible non-current assets a)	11,862	-	71	5,824
Rent and services	231	290	279	299
Other	3,647	107	63	-
	<u>15,740</u>	<u>397</u>	<u>413</u>	<u>6,123</u>

a) The main amount of the gain on disposal of tangible non-current assets mainly represents the gain of assets sold to UAB Laikinosios Sostinės Projektai. For more detail see Note 28 point g).

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**6 Operating expenses**

	Group		Company	
	2006	2005	2006	2005
		(restated)		(restated)
Selling and distribution expenses				
Marketing services	(32,343)	(1,707)	(958)	(1,660)
Wages, salaries and social security	(12,262)	(936)	(1,125)	(647)
Services	(3,145)	-	(191)	-
Transportation expenses	(1,861)	(203)	(73)	(27)
Depreciation	(1,269)	(50)	(34)	(27)
Amortisation	(1,280)	(90)	(82)	(90)
Other	(1,907)	(144)	(96)	(112)
	<u>(54,067)</u>	<u>(3,130)</u>	<u>(2,559)</u>	<u>(2,563)</u>
Administrative expenses				
Wages and salaries and social security	(7,948)	(3,322)	(3,446)	(2,390)
Redundancy	(7,085)	(65)	-	(65)
Advisory services	(3,509)	(576)	(299)	(502)
Amortisation	(2,177)	(22)	(15)	(22)
Security services	(1,243)	(233)	(300)	(233)
Depreciation	(1,158)	(1,539)	(415)	(1,371)
Change in employees benefit provision	(1,063)	-	-	-
Change in allowance for inventories	(958)	(111)	(198)	(111)
Write-down of inventories	(780)	(148)	(292)	(148)
Business trips	(773)	(294)	(487)	(268)
Change in allowance for receivables	(750)	(263)	23	(263)
Office supplies	(739)	(477)	(324)	(751)
Utility services	(698)	(272)	(556)	(257)
Provision for Corhydron case	(682)	-	-	-
Impairment of assets held for sale	(630)	-	-	-
Communication expenses	(440)	(76)	(203)	(76)
Renovation of premises	(434)	(167)	-	(145)
Rent expenses	(414)	-	(626)	-
Property taxes	(330)	(308)	(196)	(308)
Other	(2,438)	(196)	(1,179)	(231)
	<u>(34,249)</u>	<u>(8,069)</u>	<u>(8,513)</u>	<u>(7,141)</u>
	<u>(88,316)</u>	<u>(11,199)</u>	<u>(11,072)</u>	<u>(9,704)</u>

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**7 Income (expenses) from financial activities, net**

	Group		Company	
	2006	2005	2006	2005
Income from financial activities:				
Interest income	205	19	7,151	22
Dividends from subsidiaries	-	-	1,682	-
Foreign currency exchange gain	2,975	891	73	80
Gain on disposal of investment to Ciech	805	-	-	-
Overdues and penalties	54	498	54	498
Other financial income	461	96	-	92
	<u>4,500</u>	<u>1,504</u>	<u>8,960</u>	<u>692</u>
Expenses from financial activities:				
Interest expenses	(14,636)	(1,215)	(1,948)	(1,174)
Foreign currency exchange loss	(3,111)	(703)	(245)	(3)
Other financial expenses	(606)	(153)	(29)	(4)
	<u>(18,353)</u>	<u>(2,071)</u>	<u>(2,222)</u>	<u>(1,181)</u>
	<u>(13,853)</u>	<u>(567)</u>	<u>6,738</u>	<u>(489)</u>

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**8 Income tax**

	Group		Company	
	2006	2005	2006	2005
Income tax expenses				
Current year income tax	(3,056)	(2,386)	(2,376)	(2,332)
Prior year current income tax correction	(8)	(25)	(8)	8
Deferred tax income (expenses)	7,107	1,165	397	51
Income tax (expenses) income charged to the income statement	4,043	(1,246)	(1,987)	(2,273)
	Group		Company	
	2006	2005	2006	2005
Deferred tax asset				
Losses available for offset against future taxable income	10,470	47	-	-
Property, plant and equipment	6,090	1,617	53	-
Fair value adjustment on investments	-	714	-	714*
Receivables	393	43	394	43
Inventories	379	-	100	-
Accruals	638	82	148	78
Provisions	1,501	199	-	-
Other	1,019	-	352	-
Deferred tax asset before valuation allowance	20,490	2,702	1,047	835
Less: valuation allowance	(2,390)	(203)	(529)	-
Deferred income tax asset, net	18,100	2,499	518	835
Deferred tax liability				
Property, plant and equipment	(10,303)	-	-	-
Intangible assets	(4,815)	-	-	-
Other	(75)	-	-	-
Deferred income tax liability	(15,193)	-	-	-

* All the changes in temporary differences of the Company were recognised in the income statement except for LTL 714 thousand, which was recognised directly in equity (for more details see Note 13).

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**8 Income tax (cont'd)**

Deferred income tax asset and liability were estimated at 15% and 19% rates. Movements in pre-tax components of temporary differences for the Group are as follows:

	Balance as at 31 December 2005	Recognised in income statement	Recognised in equity	Acquired subsidiaries	Currency effect	Balance as at 31 December 2006
Tax loss carry forward	247	53,654	-	-	1,205	55,106
Property, plant and equipment asset	8,511	(3,183)	-	25,760	1,037	32,125
Property, plant and equipment liability	-	(3,900)	-	(49,044)	(1,282)	(54,226)
Intangible assets	-	1,642	-	(26,369)	(617)	(25,344)
Fair value adjustment on investments	3,756	7,212	(3,756)	(7,175)	(37)	-
Receivables	233	2,389	-	-	-	2,622
Accruals	431	2,426	-	395	154	3,406
Inventories	-	(14,327)	-	16,350	109	2,132
Provisions	1049	314	-	6,260	275	7,898
Other assets	-	3,323	-	2,454	80	5,857
Other liabilities	-	(177)	-	(197)	(20)	(394)
Temporary differences before valuation allowance	14,227	49,373	(3,756)	(31,566)	904	29,182
Less: valuation allowance	(1,067)	(11,408)	-	-	(845)	(13,320)
Total temporary differences	13,160	37,965	(3,756)	(31,566)	59	15,862
Deferred income tax, net	2,499	7,107	(714)	(5,996)	11	2,907

The balance of tax loss carry forward as at 31 December 2006 can be carried till 2011.

The reconciliation of the total income tax to the theoretical amount that would arise using the tax rate of the Group and the Company is as follows:

	Group		Company	
	2006	2005	2006	2005
Profit before income tax	(11,378)	9,975	12,628	15,221
Tax calculated at the tax rate of 19% (2005 – 15%)	(2,162)	1,496	2,399	2,283
Tax non-deductible (expenses)	(3,809)	(200)	(843)	23
Change in allowance for deferred tax	2,026	203	529	-
Tax loss carry forward expiry (recognition)	-	(37)	-	-
Correction of prior year current income tax	8	25	8	(8)
Differences of tax rates to subsidiaries	-	28	-	-
Change in tax rate	(106)	(269)	(106)	(25)
Income tax expenses recorded in the income statement	(4,043)	1,246	1,987	2,273

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**9 Earnings per share**

Basic earning per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share equal basic earnings per share as there were no potential shares issued as at 31 December 2006 and 2005.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the Group:

	<u>2006</u>	<u>2005</u>
		(restated)
Net (loss) profit	(7,335)	8,729
Weighted average number of ordinary shares (thousand)	<u>23,725</u>	<u>9,947</u>
Earnings (loss) per share (in LTL)	<u>(0.31)</u>	<u>0.88</u>

The calculation of weighted average number of ordinary shares for the year ended 31 December 2006 was the following:

	<u>2006</u>
Period from 1 January 2006 to 14 May 2006 (134 days)	11,000,000
Period from 15 May 2006 to 31 December 2006 (231 days)	<u>31,105,920</u>
	<u>23,725</u>

The calculation of weighted average number of ordinary shares for the year ended 31 December 2005 was the following:

	<u>2005</u>
Period from 1 January 2005 to 7 July 2005 (188 days)	8,955,295
Period from 8 July 2005 to 31 December 2005 (177 days)	<u>11,000,000</u>
	<u>9,947</u>

10 Dividends per share

	<u>2006</u>	<u>2005</u>
Dividends approved	-	1,791
Number of shares at the date when dividends were declared (in thousand)*	-	<u>1,791</u>
Dividends per share	-	<u>1,00</u>

* before the nominal value of the share decrease from LTL 5 to LTL 1.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**11 Property, plant and equipment**

Group	Land	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost:						
Balance as at 31 December 2004	-	21,939	20,653	768	1,593	44,953
Acquisition of subsidiary Hoechst-Biotika s.r.o.	821	22,769	11,044	1,299	12	35,945
Other additions	-	235	1,268	450	7,749	9,702
Transfer to non-current assets held for sale	-	(20,526)	(676)	-	-	(21,202)
Disposals and write-offs	-	-	(2,316)	(280)	(105)	(2,701)
Foreign exchange difference	28	767	371	44	-	1,210
Other reclassifications	-	-	278	-	(278)	-
Balance as at 31 December 2005	849	25,184	30,622	2,281	8,971	67,907
Acquisition of subsidiary Jelfa S.A.	3,140	102,537	95,007	18,730	2,798	222,212
Other additions	-	2,414	7,373	2,889	3,169	15,845
Transfer from non-current assets held for sale	-	-	109	81	-	190
Disposals and write-offs	-	(7)	(1,571)	(777)	(149)	(2,504)
Foreign exchange difference	169	5,124	3,811	649	109	9,862
Reclassifications	-	(1,105)	-	-	1,105	-
Balance as at 31 December 2006	4,158	134,147	135,351	23,853	16,003	313,512
Accumulated depreciation:						
Balance as at 31 December 2004	-	4,238	12,679	388	-	17,305
Depreciation charge for the year	-	2,094	4,422	330	-	6,846
Transfer to non-current assets held for sale	-	(5,247)	(145)	-	-	(5,392)
Disposals and write-offs	-	-	(2,274)	(229)	-	(2,503)
Foreign exchange difference	-	19	19	-	-	38
Balance as at 31 December 2005	-	1,104	14,701	489	-	16,294
Charge for the year	-	5,031	15,179	4,146	-	24,356
Transfer from non-current assets held for sale	-	-	(1)	(4)	-	(5)
Disposals and write-offs	-	(23)	(1,144)	(257)	-	(1,424)
Foreign exchange difference	-	384	464	94	-	942
Balance as at 31 December 2006	-	6,496	29,199	4,468	-	40,163
Net book value as at 31 December 2006	4,158	127,651	106,152	19,385	16,003	273,349
Net book value as at 31 December 2005	849	24,080	15,921	1,792	8,971	51,613

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**11 Property, plant and equipment (cont'd)**

Company	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost:					
Balance as at 31 December 2004	21,939	20,653	768	1,593	44,953
Additions	-	1,083	271	7,749	9,103
Disposals and write-offs	(11,635)	(2,903)	(110)	(93)	(14,741)
Transfer to held-for-sale assets	(8,891)	-	-	-	(8,891)
Other reclassifications	-	278	-	(278)	-
Balance as at 31 December 2005	1,413	19,111	929	8,971	30,424
Additions	-	1,463	170	2,981	4,614
Disposals and write-offs	(7)	(686)	(88)	-	(781)
Reclassifications	(1,105)	-	-	1,105	-
Balance as at 31 December 2006	301	19,888	1,011	13,057	34,257
Accumulated depreciation:					
Balance as at 31 December 2004	4,238	12,679	388	-	17,305
Charge for the year	1,087	3,378	104	-	4,569
Disposals and write-offs	(4,556)	(2,338)	(59)	-	(6,953)
Transfer to held-for-sale assets	(691)	-	-	-	(691)
Balance as at 31 December 2005	78	13,719	433	-	14,230
Charge for the year	15	2,660	110	-	2,785
Disposals and write-offs	-	(622)	(85)	-	(707)
Balance as at 31 December 2006	93	15,757	458	-	16,308
Net book value as at 31 December 2006	208	4,131	553	13,057	17,949
Net book value as at 31 December 2005	1,335	5,392	496	8,971	16,194

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2006 amounts to LTL 24,356 thousand and LTL 2,785 thousand respectively (in the year 2005 respectively LTL 6,846 thousand and LTL 4,569 thousand). Amounts of LTL 2,427 thousand and LTL 449 thousand for the year 2006 (LTL 1,589 thousand and LTL 1,398 thousand for the year 2005) have been included into operating expenses in the Group's and the Company's income statement respectively. The remaining amounts have been included into production cost for the year.

Buildings of the Company amounting to LTL 1,105 were transferred to the construction in progress during the year 2006 as the Company started to reconstruct them for the new production plant which is under construction at the moment.

Property, plant and equipment of the Group and the Company with a net book value of LTL 268,094 thousand and LTL 13,526 thousand respectively as at 31 December 2006 (LTL 50,499 thousand and LTL 10,640 thousand as at 31 December 2005) was pledged to banks as a collateral for the loans (Note 21).

Property, plant and equipment of the Group and the Company with acquisition cost of LTL 18,196 thousand and LTL 12,157 thousand respectively were fully depreciated as at 31 December 2006 (as at 31 December 2005 respectively LTL 5,241 thousand and LTL 3,243 thousand) but were still in active use.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**11 Property, plant and equipment (cont'd)**

As at 31 December 2005 the Group and the Company had a commitment to purchase machinery for LTL 4,712 thousand.

Borrowing cost incurred by the Group and the Company and capitalised to the acquisition, construction or production of a qualifying asset amounted to LTL 297 thousand and LTL 297 thousand respectively for the year 2006 (Nil for the year 2005). The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation by the Group and the Company was 4.3% and 4.3% respectively.

12 Intangible assets

Group	Goodwill	Licenses	Software	Total
Cost:				
Balance as at 31 December 2004	-	386	266	652
Acquisition of subsidiary Hoechst-Biotika s.r.o.	-	-	109	109
Other additions	-	38	695	733
Disposals and write-offs	-	(78)	(44)	(122)
Foreign exchange difference	-	-	16	16
Balance as at 31 December 2005	-	346	1,042	1,388
Acquisition of subsidiary Jelfa S.A.	263,799	31,721	9,022	304,542
Other additions	-	2,045	854	2,899
Disposals and write-offs	-	(484)	(7)	(491)
Foreign exchange difference	6,480	812	368	7,660
Reclassifications	-	90	(90)	-
Balance as at 31 December 2006	270,279	34,530	11,189	315,998
Accumulated amortisation:				
Balance as at 31 December 2004	-	169	238	407
Charge for the year	-	90	90	180
Disposals and write-offs	-	(73)	(43)	(116)
Foreign exchange difference	-	-	1	1
Balance as at 31 December 2005	-	186	286	472
Charge for the year	-	1,942	1,334	3,276
Disposals and write-offs	-	(66)	(7)	(73)
Foreign exchange difference	-	36	45	81
Balance as at 31 December 2006	-	2,098	1,658	3,756
Net book value as at 31 December 2006	270,279	32,432	9,531	312,242
Net book value as at 31 December 2005	-	160	756	916

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**12 Intangible assets (cont'd)**

Company	Licenses	Software	Total
Cost:			
Balance as at 31 December 2004	386	265	651
Additions	38	13	51
Disposals	(78)	(4)	(82)
Balance as at 31 December 2005	346	274	620
Additions	66	49	115
Disposals	(68)	(7)	(75)
Balance as at 31 December 2006	344	316	660
Accumulated amortisation:			
Balance as at 31 December 2004	168	238	406
Charge for the year	90	21	111
Disposals	(73)	(3)	(76)
Balance as at 31 December 2005	185	256	441
Charge for the year	67	15	82
Disposals	(66)	(7)	(73)
Balance as at 31 December 2006	186	264	450
Net book value as at 31 December 2006	158	52	210
Net book value as at 31 December 2005	161	18	179

The Group and the Company have no internally generated intangible assets. The amortisation charge of the Group's and the Company's intangible assets for the year 2006 amounts to LTL 3,276 thousand and LTL 82 thousand respectively (in the year 2005 respectively LTL 180 thousand and LTL 111 thousand). Amounts of LTL 3,457 thousand and LTL 97 thousand for the year 2006 (LTL 112 thousand and LTL 112 thousand for the year 2005) have been included into operating expenses in the Group's and the Company's income statement, respectively. The remaining amounts have been included into production cost for the year.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 810 thousand and LTL 243 thousand respectively as at 31 December 2006, was fully amortised (LTL 223 thousand and LTL 223 thousand respectively as at 31 December 2005) but was still in use.

Impairment testing of goodwill

The whole goodwill acquired through Jelfa S.A. business combination has been allocated to one Jelfa S.A. cash-generating unit for impairment testing. The recoverable amount of Jelfa S.A. unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Group management covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 16.5% and cash flows beyond the 5-year period are extrapolated using 3% growth rate, which reflects the expected average rate of economic growth. As at 31 December 2006 there were no indications of goodwill impairment.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**13 Investments**

	Group		Company	
	2006	2005	2006	2005
Shares of Jelfa S.A. (100% in 2006, 8.38% in 2005)	-	38,503	64,590	38,503
Shares of Hoechst-Biotika s.r.o. (100%)	-	-	41,690	43,985
Shares of UAB Altisana (100%)	-	-	1,414	1,414
Total investments:	-	38,503	107,694	83,902

Jelfa S.A.

At the end of the year 2005 the Company has participated in a privatisation tender of pharmaceutical company Jelfa S.A. and acquired 8.38% of its shares on the Warsaw Stock Exchange. In year 2005 investment to Jelfa S.A. was treated as available-for-sale financial investment and was accounted for at fair value using the average transaction price as per the Warsaw Stock Exchange as at 31 December 2005. The loss of fair value remeasurement of LTL 3,042 thousand after deduction of deferred tax income of LTL 714 thousand was recognised in the equity.

In February 2006 AB Sanitas acquired additional shares of Jelfa S.A. up to 9.99%. On 27 February 2006, an official offer was placed on the Warsaw Stock Exchange for the acquisition of 90.01% of shares at a price of PLN 93 per share. On April 14 the official offer was exercised during which 5,750,190 or 84.56% of shares were acquired and the control over Jelfa S.A. was taken. New management board was elected on 9 June 2006. In July 2006 the Company announced a squeeze-out for the remaining shares.

The fair value of the identifiable assets and liabilities of Jelfa S.A. as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition date were:

	Carrying value	Fair value recognised on acquisition
Property, land and equipment	243,934	222,212
Intangible assets	14,511	40,743
Other non-current assets	7,785	9,763
Inventories	36,557	21,640
Trade receivables	60,170	60,170
Other current assets	22,757	22,757
Total assets	385,714	377,285
Non-current financial liabilities	26,156	26,156
Other non-current liabilities	21,988	21,988
Current financial liabilities	10,123	10,123
Trade creditors	16,763	16,763
Other current liabilities	4,770	9,046
Total liabilities	79,800	84,076
Net assets	305,914	293,209
Goodwill arising on acquisition		263,799
Total consideration		557,008
Cash acquired		(3,595)
Total purchase consideration, net of cash acquired		553,413

The total cost of combination LTL 557,008 thousand includes expenses of LTL 8,131 thousand paid for legal services, success fees, commissions and other consultation services expenses.

The total cost of consideration was settled in cash, however, part of it was settled through the 100% owned entity Sanitas Polska sp. z.o.o. especially created for that purpose in 2006 using proceeds from borrowings. Sanitas Polska sp. z.o.o. was merged to Jelfa S.A. as at 29 December 2006.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**13 Investments (cont'd)**

The goodwill comprises the fair value of expected synergies arising from acquisition and a customer list which is not separately recognised. Due to contractual terms imposed on the acquisition, the customer list is not separable and therefore does not meet the criteria as an intangible asset under IAS 38 Intangible assets.

If the acquisition of Jelfa S.A. would have been performed as at 1 January 2006, the revenue of the Group would be larger by LTL 81,968 thousand and the net result would be lower by LTL 7,736 thousand.

During the period between the acquisition and 31 December 2006 Jelfa S.A. has incurred a loss of LTL 12,781 thousand.

Hoechst-Biotika s.r.o.

On 27 July 2005 the Company acquired 100% of Hoechst-Biotika s.r.o. shares for LTL 43,985 thousand. The mentioned amount includes legal fees amounting to LTL 135 thousand. The acquired company produces and distributes medicines, mainly injection preparations, tablets and ointments. In 2006 the amount of LTL 2,295 thousand was recognised as a reduction of the cost of the investment due to pre-acquisition profits distribution.

The fair value of the identifiable assets and liabilities of Hoechst-Biotika s.r.o. as at the date of acquisition immediately before the acquisition were:

Fair value recognised on acquisition	27 July 2005 (restated)
Property, plant and equipment	35,945
Intangible assets	109
Other non-current assets	550
Inventories	17,623
Trade receivables	25,300
Other current assets	958
Total assets	80,485
Current financial liabilities	11,766
Trade and other creditors	21,784
Total liabilities	33,550
Net assets	46,935
Goodwill arising on acquisition	(2,950)
Total consideration	43,985
Cash acquired	(957)
Total purchase consideration, net of cash acquired	43,028

As stated in Note 3 the net asset of Hoechst-Biotika s.r.o. at acquisition moment were corrected in this reporting period due to provision of employees benefits in the total amount of LTL 1,049 thousand.

The fair value of assets and liabilities of Hoechst-Biotika s.r.o. at the acquisition moment approximated the carrying values of assets and liabilities.

The disclosure of the Group's revenue and net result if the acquisition of subsidiary Hoechst-Biotika s.r.o. would have been performed as at 1 January 2005 would be impracticable as all product licenses, trade marks, major sales and supply contracts of the acquired subsidiary in force before the acquisition were cancelled or removed from the disposition of the Company as part of the transaction. After this acquisition the Company started to negotiate with new contractors for toll manufacturing, to transfer it's own products to Hoechst-Biotika s.r.o.

During the period between the acquisition date and 31 December 2005 Hoechst-Biotika s.r.o. earned a profit of LTL 55 thousand.

UAB Altisana

In July 2004 the Company acquired 100% of UAB Altisana shares. UAB Altisana was holding part of group assets classified as held for sale, which were sold in 2006.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**13 Investments (cont'd)***AB Endokrininiai Preparatai*

In May 2004 the Company acquired 40% interest in AB Endokrininiai Preparatai. On 29 April 2005 AB Sanitas increased its holding up to 67% of the shares acquiring control over the company. The cash flow from the acquisition of AB Endokrininiai Preparatai was:

	<u>29 April 2005</u>
Prepayment for AB Endokrininiai Preparatai shares made in year 2004	1,231
Acquisition cost of 27% of the subsidiary shares	<u>(3,158)</u>
Cash flow from the acquisition of AB Endokrininiai Preparatai	<u>(1,927)</u>

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. 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 company was signed out on 28 April 2006.

Following the step acquisition principles of IFRS 3 the excess of the subsidiary's net assets acquired over the cost of acquisition on the initial 40% of AB Endokrininiai Preparatai shares in the amount of LTL 2,461 thousand was recognised as an adjustment to opening shareholders equity balance in these financial statements (Note 3). Upon liquidation of this subsidiary, Group's gain amounting to LTL 1,854 thousand was recognised.

14 Inventories

	Group		Company	
	2006	2005	2006	2005
Raw materials	19,641	7,100	3,090	3,790
Work in progress	5,106	1,323	339	249
Finished goods	18,047	3,555	3,743	2,474
Equipment available for sale	725	-	518	-
	<u>43,519</u>	<u>11,978</u>	<u>7,690</u>	<u>6,513</u>
Less: net realisable value allowance	<u>(1,438)</u>	<u>(480)</u>	<u>(678)</u>	<u>(480)</u>
	<u>42,081</u>	<u>11,498</u>	<u>7,012</u>	<u>6,033</u>

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as at 31 December 2006 amounted to LTL 1,438 thousand and LTL 678 thousand respectively (LTL 480 thousand and LTL 480 thousand as at 31 December 2005).

As disclosed in Note 21, inventories of the Group and the Company with the acquisition cost of LTL 31,517 thousand and LTL 78 thousand respectively as at 31 December 2006 were pledged to banks as a collateral for the loans (no inventories were pledged as at 31 December 2005).

The inventories of the Group and the Company recognised as an expense during 2006 amounts to LTL 28,284 thousand and LTL 10,303 thousand respectively (LTL 22,820 thousand and LTL 8,336 thousand during 2005).

The inventories write-down of the Group and the Company recognised as an expense during 2006 amounts to LTL 780 thousand and LTL 292 thousand (LTL 148 thousand of the Group and the Company during the year 2005).

In its accounting records the Group does not reflect the cost of third party inventories held in its storage facilities for processing. As at 31 December 2006 such inventories were valued at LTL 60,695 thousand and were owned by Biotika Slovenská Ľupča, a.s. and Sanofi-Aventis Slovakia, s.r.o. The Company has no commitments related to these inventories.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**15 Trade receivables**

	Group		Company	
	2006	2005	2006	2005
Trade receivables, gross	56,341	14,070	3,978	6,833
Less: allowance for doubtful trade receivables	(1,013)	(263)	(240)	(263)
	<u>55,328</u>	<u>13,807</u>	<u>3,738</u>	<u>6,570</u>

Changes in allowance for doubtful trade receivables for the year 2006 and 2005 have been included into administrative expenses in the income statement.

Trade receivables of the Group and the Company amounting up to LTL 21,022 thousand and LTL 9,500 thousand respectively as at 31 December 2006 were pledged to banks as a collateral for the loans (no trade receivables were pledged as at 31 December 2005) (Note 21).

16 Other receivables

	Group		Company	
	2006	2005	2006	2005
Refundable VAT	1,776	923	501	349
Receivables from subsidiaries	-	-	6,429	3,119
Other receivables	1,406	178	788	61
	<u>3,182</u>	<u>1,101</u>	<u>7,718</u>	<u>3,529</u>

Receivables from subsidiaries in more details are described in Note 28.

17 Cash and cash equivalents

	Group		Company	
	2006	2005	2006	2005
Cash at bank	11,413	4,814	60	1,555
Cash on hand	93	5	38	5
Deposits with a term of less than three months	-	28	-	-
	<u>11,506</u>	<u>4,847</u>	<u>98</u>	<u>1,560</u>

The Group's and the Company's foreign and local currency accounts in SEB Vilniaus Bankas amounting to LTL 28 thousand as at 31 December 2006 (LTL 40 thousand as at 31 December 2005) are pledged to the bank as collateral in relation to the loan (Note 21).

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**18 Held for sale assets**

	Group		Company	
	2006	2005	2006	2005
Real estate in Vytauto Ave./Kaunakiemio Str., Kaunas	-	12,534	-	-
Real estate in Veiverių Str., Kaunas held for sale	8,200	8,200	8,200	8,200
Machinery and equipment held for sale	527	-	-	-
	<u>8,727</u>	<u>20,734</u>	<u>8,200</u>	<u>8,200</u>

Real estate in Vytauto Ave./Kaunakiemio Str., Kaunas held for sale

In 2005 the Group decided to sell the real estate of UAB Altisana together with production premises of the Company. The sale was closed in May 2006.

The carrying amount of the real estate in Vytauto Ave./Kaunakiemio Str. of LTL 12,354 thousand as at 31 December 2005 was below the fair value less cost of sale of LTL 23,063 thousand. The fair value was estimated by reference to an independent appraisal as at 31 December 2005. The estimated cost of sale comprises estimated notary fees and success fees to real estate agent.

Real estate in Veiverių Str. held for sale

In September 2005 the Company concluded a preliminary agreement concerning disposal of the property located in Veiverių Str., Kaunas. In accordance with this agreement the Company received a prepayment of LTL 800 thousand for the assets mentioned.

The assets' fair value less costs to sell is amounting to LTL 8,688 thousand, exceeds the carrying value of the property comprising LTL 8,200 thousand as at 31 December 2005. The fair value less cost of sale was estimated by reference to an independent appraisal, as well as the existing preliminary agreement.

Based on the preliminary agreement the disposal should take place till 1 March 2006. The disposal process protracted as the Company failed to fulfil the obligation for the buyer to prepare the detail plan on the plot as during the detail plan preparation process it was noted that the previous detail plan of the plot included inaccuracy related to a mistake of Kaunas district planning department. Due to this reason the disputes with the neighbouring company UAB Suslavičius-Felix started and they extended the period of sales completion till the year 2006 end, which the Company could not foresee at the moment of signing the preliminary agreement. At the moment the disputes are solved and the amendment of the preliminary agreement is signed, according to which the Company is obligated to sell the asset till 31 May 2007.

19 Share capital

On 8 July 2005 408,941 additional shares with nominal value of LTL 5 per share were issued. The Company sold these shares for LTL 50.50 each. Proceeds from the share capital increase were LTL 19,598 thousand, including the share premium amounting to LTL 17,554 thousand (net of expenses related to the transaction). On 15 November 2005 the nominal value of shares was changed from LTL 5 per each to LTL 1. As at 31 December 2005 the share capital of the Company was comprised of 11,000,000 ordinary shares with the nominal value of LTL 1 per share.

On 15 May 2006 20,105,920 additional shares with a nominal value of LTL 1 per share were issued. The Company sold these shares for LTL 13.00 for each. Proceeds from the share capital increase were LTL 250,638 thousand, including the share premium amounting to LTL 230,532 thousand (net of expenses related to the transaction). As at 31 December 2006 the share capital of the Company was comprised of 31,105,920 ordinary shares with the nominal value of LTL 1 per share.

The share capital of the Company was fully paid as at 31 December 2006 and 2005. Subsidiaries did not hold any shares of the Company as at 31 December 2006 and 2005. The Company did not hold its own shares.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

20 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated in accordance with IFRS, are compulsory until the reserve reaches 10% of the share capital. The reserve can be used only to cover the accumulated losses of the Company. As at 31 December 2006 and 2005 the legal reserve of the Company was fully formed.

Fair value reserve of available-for-sale financial assets

This reserve is accounted for according to IAS 39 requirements. Changes in fair value of available-for-sale financial assets are presented in this reserve.

Foreign currency translation reserve

The foreign currency translation reserve is used for translation differences arising on consolidation of financial statements of foreign subsidiaries.

Exchange differences are classified as equity in the consolidated financial statements until disposal of the investment. Upon disposal of the corresponding investment, the cumulative revaluation of translation reserves is recognised as income or expenses in the same period when the gain or loss on disposal is recognised.

Other reserves

As at 31 December 2004 other reserves comprised the reserve amounting to LTL 4,450 thousand for acquisition of own shares. In 2005, according to the decision of the shareholders other reserves for acquisition of own shares were cancelled and transferred to retained earnings.

AB SANITAS
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
 (all amounts are in thousand LTL unless otherwise stated)

21 Loans

	Group		Company	
	2006	2005	2006	2005
Non-current				
Non-current loans	37,198	21,165	16,218	21,165
	<u>37,198</u>	<u>21,165</u>	<u>16,218</u>	<u>21,165</u>
Current				
Current portion of non-current loans	305,339	20,664	2,618	9,064
Current loans	2,252	32,755	23,172	32,744
	<u>307,591</u>	<u>53,419</u>	<u>25,790</u>	<u>41,808</u>
Total borrowings	<u>344,789</u>	<u>74,584</u>	<u>42,008</u>	<u>62,973</u>

Non-current and current loans of the Company include:

Lender	Effective interest rate	Original currency	Principal amount in original currency	Maturity date	Outstanding balance in LTL thousand as at 31 December 2006	Outstanding balance in LTL thousand as at 31 December 2005
UAB Altisana	4%	LTL	10,735	March 2007	7,691	-
AB FMJ Finasta	5%	LTL	15,564	January 2006	-	15,480
Hoechs-Biotika s.r.o.	5%	EUR	5,000	December 2007	10,574	17,264
AB Invalda	5%	LTL	3,600	March 2007	2,210	-
Jelfa S.A.	5%	PLN	3,000	February 2007	2,697	-
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.05%	EUR	750	July 2008	2,586	2,303
AB SEB Vilniaus Bankas	6-month VILIBOR+1.05%	LTL	2,500	July 2008	2,331	6,691
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.32%	LTL	20,000	June 2006	-	7,733
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.05%	LTL	7,200	May 2009	6,327	7,200
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.32%	LTL	28,589	January 2015	7,592	6,302
					<u>42,008</u>	<u>62,973</u>
Less current portion					<u>25,790</u>	<u>41,808</u>
Non-current loans, net of current portion					<u>16,218</u>	<u>21,165</u>

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**21 Loans (cont'd)**

Non-current and current loans of the Group include:

Lender	Effective interest rate	Original currency	Principal amount in original currency	Maturity date	Outstanding balance in LTL thousand as at 31 December 2006	Outstanding balance in LTL thousand as at 31 December 2005
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.32%	LTL	20,000	June 2006	-	19,333
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.05%	LTL	7,200	May 2009	6,327	7,200
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.32%	LTL	28,589	January 2015	7,592	6,302
AB SEB Vilniaus Bankas	6-month EUR LIBOR+1.05%	EUR	750	July 2008	2,586	2,303
AB SEB Vilniaus Bankas	6-month VILIBOR+1.05%	LTL	2,500	July 2008	2,331	6,691
Bank Pekao SA	3-month WIBOR+0.32%	PLN	33,719	December 2009	30,309	-
Banko Polska Kasa Opieki S.A./Bank Zachodni WBKSA	3-month WIBOR+1.75%	PLN	310,000	May 2014	279,472	-
AB FMJ Finasta	5%	LTL	15,564	January 2006	-	15,480
AB Invalda	5%	LTL	3,600	March 2007	2,210	-
Tatra Bank	1-year BRIBOR+1.20%	SKK	160,000	September 2007	13,920	17,275
Nordea Bank Finland Lithuania Plc	1-day VILIBOR+1%	EUR	83,400	May 2007	42	-
					344,789	74,584
Less current portion					307,591	53,419
Non-current loans, net of current portion					37,198	21,165

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**21 Loans (cont'd)**

The terms of repayments of non-current loans are as follows:

	Group		Company	
	2006	2005	2006	2005
Within one year	305,339	20,664	2,618	9,064
From one to five year	29,606	21,165	8,626	21,165
After five	7,592	-	7,592	-
	<u>342,537</u>	<u>41,829</u>	<u>18,836</u>	<u>30,229</u>

The Group did not comply with the financial covenants of the loan agreement with Bank Polska Kasa Opieki SA, Bank Zachodni WBK SA: EBITDA to Debt Service (should be not lower than 1.2), Financial Indebtedness to EBITDA (should be 4.75 as calculated on annualised basis for the 6 months period ending 31 December 2006) and EBITDA to Interest (should be not lower than 2), due to which the non-current bank loans in the amount of LTL 241,499 thousand were classified as current portion of non-current loans in the Group's balance sheet as at 31 December 2006.

In 2006 the Company did not comply with net debt to EBITDA covenant, which should be not higher than 4, set in the non-current loans agreement with AB SEB Vilnius Bankas, but the lender confirmed before the balance sheet date that it will not demand earlier loan repayment.

As at 31 December 2006 the Group and the Company had unused funds in credit lines amounting to LTL 173 thousand (LTL 1,096 thousand as at 31 December 2005), maturity of which is on 24 July 2008.

The assets pledged to the banks are as follows:

	Group		Company	
	2006	2005	2006	2005
Property, plant and equipment	268,094	50,499	13,526	10,640
Assets held for sale	7,712	7,712	7,712	7,712
Inventories	31,517	-	78	-
Accounts receivable (up to)	21,022	-	9,500	-
Cash	28	40	28	40

In year 2005 all Hoechst-Biotika s.r.o. shares, in year 2006 all Jelfa S.A. shares owned by the Group and the Company were pledged to the banks as a collateral for the loan.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**22 Financial lease**

The assets leased by the Group and the Company under financial lease contracts consist of machines, equipment and vehicles. Apart from the lease payments, the most significant liabilities under lease contracts are property maintenance and insurance. The terms of financial lease are from 2 to 5 years. The distribution of the net book value of the assets acquired under financial lease is as follows:

	Group		Company	
	2006	2005	2006	2005
Machines and equipment	3,610	861	1,193	861
Vehicles	1,764	204	579	204
	<u>5,374</u>	<u>1,065</u>	<u>1,772</u>	<u>1,065</u>

Principal amounts of financial lease payables at the year-end denominated in national and foreign currencies are as follows:

	Group		Company	
	2006	2005	2006	2005
EUR	2,005	646	2,005	646
PLN	1,852	-	-	-
SKK	1,897	-	-	-
	<u>5,754</u>	<u>646</u>	<u>2,005</u>	<u>646</u>

As at 31 December 2006 the interest rate on the financial lease obligations in EUR varies depending on the 6-month EURIBOR+1.2% to 1.9%, financial lease obligations in SKK varies depending on the 3-month BRIBOR+1.2%. The interest rate for the remaining portion of the financial lease liability is fixed from 1.2% to 30.8%, which also includes the servicing component.

Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2006 and 2005 are as follows:

	Group		Company	
	2006	2005	2006	2005
Within one year	2,870	422	960	422
From one to five years	3,536	247	1,165	247
Total financial lease obligations	6,406	669	2,125	669
Interest	<u>(652)</u>	<u>(23)</u>	<u>(120)</u>	<u>(23)</u>
Present value of financial lease obligations	<u>5,754</u>	<u>646</u>	<u>2,005</u>	<u>646</u>

Financial lease obligations are accounted for as:

- current	2,483	402	885	402
- non-current	3,271	244	1,120	244

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**23 Grants**

On 21 January 2005 the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Business Development Agency and the Company concluded an agreement to receive grants for the financing of constructions of a new production plant of the Company. The total approved grant according to the amended agreement amounts to LTL 16,061 thousand and is granted as actual expenses on construction are incurred. During the year 2006 the Company received grant in the amount of LTL 2,271 thousand (LTL 1,416 thousand during 2005). By 31 December 2006 the total amount of the received grant by the Company amounted to LTL 3,687 thousand (LTL 1,416 thousand as at 31 December 2005). The grant is not repayable.

24 Other current liabilities

	Group		Company	
	2006	2005	2006	2005
Taxes, salaries and wages, social security	5,869	2,121	912	566
Vacation pay accrual	1,722	534	512	377
Discounts for customers	335	423	335	423
Other payables and accrued liabilities	1,923	639	150	152
	<u>9,849</u>	<u>3,717</u>	<u>1,909</u>	<u>1,518</u>

25 Provisions

	Employee benefits	Corhydron case	Constructor claims	Total
As at 1 January 2006	1,049	-	-	1,049
Acquisition of a subsidiary Jelfa S.A.	6,260	-	-	6,260
Arising during the year	1,063	682	54	1,799
Utilised	(1,485)	-	-	(1,485)
Foreign exchange difference	262	13	-	275
As at 31 December 2006	<u>7,149</u>	<u>695</u>	<u>54</u>	<u>7,898</u>
Non-current 2006	6,202	-	-	6,202
Current 2006	947	695	54	1,696
Non-current 2005	936	-	-	936
Current 2005	113	-	-	113

The Company's subsidiaries Hoechst-Biotika s.r.o. and Jelfa S.A. are required by law to pay certain one-off benefits to employees upon their retirement and jubilees benefits to the employees who have served a specified number of years in the company.

More details on provisions for Corhydron case and constructor claims are described in Note 26 Contingent liabilities and commitments.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

26 Contingent liabilities and commitments

Construction commitments

In 2007 the Company received a claim from LSMW Total Life Science Solutions GmbH, Oddzial w Polsce related to cancelled in 2006 construction of new plant in Kaunas Veiveriu Str. agreement. The total amount presented in the received claim is LTL 1,766 thousand. The Company's management evaluated the reasonableness of this claim and made a provision amounting to LTL 54 thousand, which was included in operating expenses.

Corhydron case

From September to October 2005 6,609 defective packages of Corhydron 250, series 010705, have been sold to the Polish market from subsidiary Jelfa S.A. To date 25 vials of Corhydron 250 were identified to contain suxamethonium chloride – a substance which is applied in certain surgeries and which, if improperly applied, may represent a danger to life. All the spoiled vials were produced in July 2005. To date "Polish Pharma Supervision" withdrew from sale Corhydron 250 produced until November 2006 and all Corhydron which was retained by Police and public prosecutors. Currently Jelfa S.A. is allowed to produce and sell all amounts of Corhydron.

Jelfa S.A. management has made a provision related to sold Corhydron collection expenses amounting to LTL 695 thousand and included it into operating expenses.

Jelfa S.A. also received claims from private persons related to the Corhydron case in the total amount of LTL 1,348 thousand. As the subsidiary Jelfa S.A. has civil insurance policy of up to LTL 4,495 thousand no additional provision for private persons claims was accounted for.

27 Financial assets and liabilities and risk management

Credit risk

The Group and the Company has significant concentration of trading counterparties. The main two customers of the Group – Polska Grupa Farmaceutyczna Łódź and JSC Grindeks – on 31 December 2006 account for approximately 19.8% (approximately 25.5% as at 31 December 2005) of the total Group's trade receivables.

The main two customers of the Company – JSC Grindeks and UAB Eurovaistinė – on 31 December 2006 account for approximately 77.2% (approximately 65.7% as at 31 December 2005) of the total Company's trade receivables.

The Group's and the Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Group and the Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Group and the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognised at the balance sheet date.

Interest rate risk

The major part of the Group's and the Company's borrowings is with variable rates, related to Interbank offered rates (EUR LIBOR, VILIBOR, WIBOR or BRIBOR), which creates an interest rate risk. There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as at 31 December 2006 and 2005.

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity and quick ratios as at 31 December 2006 were 0.63 and 0.46 respectively (0.50 and 0.39 as at 31 December 2005 respectively). The Group's liquidity and quick ratios as at 31 December 2006 were 0.35 and 0.23 respectively (0.76 and 0.59 as at 31 December 2005 respectively). The management plans to improve liquidity situation are described in more details in Note 2, 2.2 Going concern.

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**27 Financial assets and liabilities and risk management (cont'd)**Foreign exchange risk

Major currency risks of the Group and the Company occur due to the fact that the Group and the Company borrows foreign currency denominated funds as well as is being involved in imports and exports. The Group's and the Company's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group and the Company does not use any financial instruments to manage their exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged. The currency giving rise to foreign exchange risk is primarily USD, PLN and SKK. Monetary assets and liabilities denominated in foreign currencies as at 31 December 2006 were as follows (in LTL):

	Group		Company	
	Assets	Liabilities	Assets	Liabilities
EUR	7,362	17,368	224,567	17,892
PLN	26,872	324,335	4,250	4
SKK	7,794	1,977	-	8
USD	7,749	579	21	133
Other currencies	13,570	3,152	-	259
Total	63,347	347,411	228,838	18,296

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- The carrying amount of current trade accounts receivable, current trade accounts payable and short-term borrowings approximates fair value.
- The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

28 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions.

In 2006 and 2005 the Company had transactions and balances with the following related parties:

- AB Invalda (the controlling shareholder of the Company);
- UAB Nenuorama (the shareholder of the Company);
- AB Endokrininiai Preparatai (the subsidiary of the Company liquidated at the end of 2005);
- Hoest-Biotika s.r.o. (the subsidiary of the Company);
- Jelfa S.A. (the subsidiary of the Company);
- UAB Altisana (the subsidiary of the Company);
- AB FMJ Finasta (same controlling shareholder);
- AB Umega (same controlling shareholder);
- AB Valmeda (same controlling shareholder);
- UAB Invalda Construction Management (same controlling shareholder);
- UAB Invalda Real Estate (same controlling shareholder);
- UAB Laikinosios Sostinės Projektai (same controlling shareholder);
- Donatas Jazukevičius (General manager of AB Sanitas in 2004).

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**28 Related party transactions (cont'd)**

The Company's transactions with related parties in 2006 and related year-end balances were as follows:

	Notes	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
AB Invalda	a)	-	11	-	2,218
UAB Nenuorama		-	248	-	-
Hoechst-Biotika s.r.o.	b)	76	3,361	16	12,814
Jelfa S.A.	c)	7,307	25	234,272	6,631
UAB Altisana	d)	4	504	-	7,691
AB FMĮ Finasta	e)	-	19,130	-	13
AB Valmeda		-	1	-	-
UAB Invalda Construction Management		28	-	-	-
UAB Invalda Real Estate	f)	-	244	-	188
UAB Laikinosios Sostinės Projektai	g)	-	414	-	245
		7,415	23,938	234,288	29,800

The Company's transactions with related parties in 2005 and related year-end balances were as follows:

	Notes	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
AB Endokrininiai Preparatai	h)	485	3,330	-	-
Hoechst-Biotika s.r.o.	b)	127	299	-	17,547
UAB Altisana	d)	13,556	3	3,119	-
AB FMĮ Finasta	e)	-	42,139	-	15,483
AB Umega		-	81	-	-
AB Valmeda		-	1	-	-
UAB Invalda Construction Management		20	-	11	-
UAB Invalda Real Estate	f)	-	232	-	52
Donatas Jazukevičius (general manager of AB Sanitas in 2004)		-	1,190	-	-
		14,188	47,275	3,130	33,082

In 2006 and 2005 the Group had transactions and balances with the following related parties:

- AB Invalda (the controlling shareholder of the Company);
- UAB Nenuorama (the shareholder of the Company);
- AB Endokrininiai Preparatai (the subsidiary of the Company liquidated at the end of 2005);
- AB FMĮ Finasta (same controlling shareholder);
- AB Umega (same controlling shareholder);
- AB Valmeda (same controlling shareholder);
- UAB Invalda Construction Management (same controlling shareholder);
- UAB Invalda Real Estate (same controlling shareholder);
- UAB Laikinosios Sostinės Projektai (same controlling shareholder);
- UAB Naujoji Švara (same controlling shareholder);
- Donatas Jazukevičius (General manager of AB Sanitas in 2004).

AB SANITAS**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**
(all amounts are in thousand LTL unless otherwise stated)**28 Related party transactions (cont'd)**

The Group's transactions with related parties in 2006 and related year-end balances were as follows:

	Notes	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
AB Invalda	a)	-	11	-	2,218
UAB Nenuorama		-	248	-	-
AB FMĮ Finasta	e)	-	20,648	-	1,531
AB Valmeda		-	1	-	-
UAB Invalda Construction Management		28	-	-	-
UAB Invalda Real Estate	f)	-	2,742	-	188
UAB Laikinosios Sostinės Projektai	g)	27,087	414	-	245
		<u>27,115</u>	<u>24,064</u>	-	<u>4,182</u>

The Group's transactions with related parties in 2005 and related year-end balances were as follows:

	Notes	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
AB Endokrininiai Preparatai	h)	486	3,329	-	-
AB FMĮ Finasta	e)	-	42,139	-	15,483
AB Umega		-	81	-	-
AB Valmeda		-	1	-	-
UAB Invalda Construction Management		19	-	11	-
UAB Invalda Real Estate	f)	-	3,467	-	2,222
UAB Naujoji Švara		-	-	220	-
Donatas Jazukevičius (general manager of AB Sanitas in 2004)		-	1	-	-
		<u>505</u>	<u>49,018</u>	<u>231</u>	<u>17,705</u>

- a) In 2006 the Company received a loan amounting to LTL 3,600 thousand from AB Invalda with an annual interest rate of 5%. As at 31 December 2006 the outstanding amount was LTL 2,210 thousand. The interests amount calculated for the period is LTL 11 thousand.
- b) In October 2005 Hoechst-Biotika s.r.o. provided a loan with 5% fixed interest rate to the Company amounting to LTL 17,264 thousand. The outstanding amount as at 31 December 2006 is LTL 10,574 thousand. The interest calculated for the year 2006 is LTL 663 thousand. Hoechst-Biotika s.r.o. produce products for the Company. In 2006 the Company purchased products for LTL 2,692 thousand (in 2005 for LTL 143 thousand).
- c) Jelfa S.A. provided a loan to the Company with 5% fixed interest rate. Outstanding amount as at 31 December 2006 is LTL 2,697 thousand. In year 2006 Jelfa S.A. made an advance payment for the Company amounting to LTL 3,909 thousand for 2007 years Company's sales to Poland market. The outstanding amount of the loans provided by the Company to Jelfa S.A. as at 31 December 2006 is LTL 227,859 thousand. These loans are granted with 4.3% interest rate. The outstanding amount of interest receivable from the subsidiary as at 31 December 2006 is LTL 6,413 thousand. The Company treats these loans as net investment to subsidiary as it plans to increase the share capital of Jelfa S.A. in the future.

AB SANITAS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (all amounts are in thousand LTL unless otherwise stated)

28 Related party transactions (cont'd)

- d) UAB Altisana provided a loan to the Company with 4% fixed interest rate. As at 31 December 2006 the remaining loan amount is LTL 7,691 thousand. In 2005 the Company sold its real estate (administration and manufacturing premises) to UAB Altisana for the total amount of LTL 13,548 thousand. In 2006 these assets together with other UAB Altisana real estate were sold to UAB Laikinosios Sostinės Projektai for the total amount of LTL 27,087 thousand (see point g).
- e) In 2005 and 2006 the Company purchased Jelfa S.A. shares from FMJ Finasta for the amount of LTL 40,293 thousand and LTL 8,826 thousand respectively. In 2005 the Company purchased share of AB Endokrininiai Preparatai for the amount LTL 696 thousand. The success fee for the deal related to acquisition of Jelfa S.A. in 2006 calculated for the Company and for the Group was LTL 158 thousand and LTL 1,676 thousand respectively. The commission fee for the issuing new emission of the Company shares in 2006 was LTL 10,053 thousand (LTL 1,053 thousand in 2005). In 2005 FMJ Finasta provided the Company with a short-term loan. Outstanding amount as at 31 December 2005 was LTL 15,480 thousand and as at 31 December 2006 – nil (interest amount calculated for this loan was LTL 97 thousand in 2005 and LTL 62 thousand in 2006).
- f) UAB Invalda Real Estate provided the Company and UAB Altisana with services mostly related to the real estate project. The total services purchased by the Group in 2006 and 2005 was LTL 2,742 thousand and LTL 3,467 thousand respectively.
- g) In 2006 UAB Altisana sold real estate acquired from the Company before and other own real estate to UAB Laikinosios Sostinės Projektai for the amount LTL 27,087 thousand. For the operating activity the Company rented part of the real estate from the new owner. The fee of the rent for year 2006 was LTL 414 thousand (the outstanding payable amount as at 31 December 2006 was LTL 245 thousand).
- h) In 2005 the Company purchased from AB Endokrininiai Preparatai products, services and non-current assets for the total amount of LTL 3,330 thousand.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free (except as stated below) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivable or payable. For the year ended 31 December 2006, the Company has not made any provision for doubtful debts relating to amounts owned by related parties. This doubtful debts assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Remuneration of the management and other payments

The Company's and the Group's management remuneration amounted to LTL 1,766 thousand in 2006 (LTL 693 thousand in 2005). In 2006 other payments amounting to LTL 241 thousand for the Company's and the Group's management were accrued additionally. In 2006 and 2005, the management of the Company and the Group did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

**Disclosure form of Sanitas AB concerning the compliance with the Governance Code
for the companies listed on the regulated market**

The public company „*Sanitas*“, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions		
The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The overriding objectives of Company's activity are disclosed to its shareholders in Company's reports and annual reports. Long-term strategy and objectives are introduced to market attendants at the meetings organized by operator OMX of Stock exchanges. Reports, materials of presentation are placed at Company's webpage.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	Company has its short-term and long-term strategic objectives planned. Company's Management Board, Top Management make every effort to achieve their implementation – new departments belonging to group companies are being established, the team of qualified specialists is being expanded.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	This recommendation is carried out by the Head of the Company and the Management Board that following Articles of Association and regulations makes decisions regarding all principle matters of activity. The Management Board approves strategy of Company's activity, annual budget, controls conclusion of contracts and implementation of budget; analyses Company's financial statements and renders it to shareholders. Implementation of decisions is assigned to the Head of the Company and via the latter – to the functional directors. Meetings of the Management Board are convoked according to the need. Meetings are attended by the Head of the Company, at times – by the Heads of functional departments.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	Company's Management bodies pursue ensuring interests of all persons concerned with Company's activity. Transparent activity, periodical update of results and problems, communication with press on the part of the Management permit interested parties – creditors to receive necessary information on the Company. Company aims at retaining long-lasting relations with its business partners holding that proper and timely fulfillment of contractual obligations and quality assurance of products is the priority. Employees are informed

		on the ongoing internal changes, presented with the Company's strategy during their annual meetings. Company has its newsletter that is issued periodically in the scale of the whole group.
<p>Principle II: The corporate governance framework</p> <p>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</p>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	No	Company has a collegial management body – Management Board. Management Board elects Head of the Company – Managing Director who is to periodically report to the Management Board regarding Company's activity and implementation of the planned objectives. The Management Board approves the results of the previous periods and sets the objectives for the coming periods of time.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	Collegial management body - Management Board is responsible for the strategic management of the Company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	No	Company does not comply with this recommendation whereas it has only one collegial body and it is the Management Board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	Collegial supervisory body elected by the General Meeting of Shareholders is composed and acts in accordance with principles III and IV, principles III and IV are applied to the Management Board as well in so far as it does not contradict the essence and purpose of this body.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	Management Board is comprised of 5 (five) Members. Number of Members was set and candidates were offered and elected by the General Meeting of Shareholders. In Company's view, interests of all shareholders are properly represented at the Meeting.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this	Not applicable	The provision is not applicable whereas Company has only collegial management body – Management Board.

procedure should not be easier than the removal procedure for an executive director or a member of the management board.		
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	Company complies with this recommendation whereas the President of the Management Board was not and is not the Head of the Company.
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</p>		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The mechanism of the formation of the Management Board ensures objective and impartial monitoring of Company's management bodies. Information on candidates, their activities and professional background is disclosed to the shareholders prior to election. Minority shareholders' right and ability to have their own representative in the collegial management body is not restricted.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Company partially complies with the provisions enumerated in this recommendation: names and surnames of candidates offered to the Management Board are announced in advance, more information on candidates may be received along with draft resolutions of the General Meeting of Shareholders. Candidates are likewise introduced during the General Meeting of Shareholders. Information on the Members of the Management Board may be found in Company's reports and annual report.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on	Yes	Company's annual report includes information on the composition of the collegial body – Management Board and shortly introduces working experience of its members.

the collegial body.		
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	Members of the Management Board have a wide-ranging knowledge in the fields of Finance, Economics, Law, Investment Management as well as sufficient experience in order to have their tasks completed properly.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	Company partially complies with this provision: new Members of the Management Board are permitted to get familiarized with Company's internal documentation, business processes, factors having impact on activity results. Periodical submission of analysis of activity results, ensures a regular update of the news on the Company.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	The matter of independent members in the collegial management body and a sufficient number thereof is planned to be an object of consideration of the current year. Rational decision is aimed at in order to ensure the compliance with the recommendations of this Code and interests of the shareholders. Specific criteria for the evaluation of independence are also going to be set.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving	No	See comment to the clause 3.6.

<p>significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a</p>		
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spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes	Management Board of the Company is not going to be limited of its right to principally determine what constitutes independence. Management Board shall be entitled to decided that despite a particular member meets all the criteria of independence laid down in this Code, he/she may not be held independent due to special personal or Company related circumstances.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	Company does not comply with this recommendation, whereas up till now determination of independence of members of the Management Board and announcement thereof has not been applied in practice. In the short run information on the independence of members of collegial body is going to start being collected following the criteria of determination of independence as laid down in this Code.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Company does not comply with this recommendation whereas up till now determination of independence of members of the Management Board and announcement thereof has not been applied in practice. Moreover, less than one year has passed since the adoption of this Code. Company is going to announce reasons for holding one or another member independent, cases when members of the bodies do not meet the criteria of independence throughout the year and independent members of the Management Board shall be asked to confirm their independence.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	Members of the Management Board are not remunerated from the Company's funds, therefore this provision is not relevant to the Company.
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.</p>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of	Yes	Management Board of the Company analyzes, evaluates materials on the implementation of Company's strategy of activity, Company's financial state that are submitted by the

<p>the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.</p>		<p>Head of the Company. Management Board submits to the General Meeting of Shareholders review and proposals regarding Company's annual financial statements, distribution of profit.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>Company's data show that all members of the Management Board act in good faith with regard to the Company, not in the interest of their own or third parties, but in that of the Company striving to maintain their independence when making their decisions.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>Company complies with this recommendation whereas members perform their duties properly: they actively take part in the meetings of the Management Board and devote sufficient time for the performance of the duties of members of collegial body.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>Collegial body of the Company always acts fairly and impartially with regard to all shareholders of the Company. Moreover, following this recommendation of the Code, regulation of work of the Management Board is going to be revised trying to find out means of setting out the role of members in the process of communication with shareholders more precisely.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>Company complies with this recommendation. Following regulation of work of the Management Board, contracts with Company's employees, members of the Management Board, shareholders, other interested persons or those closely related to the aforementioned are subject to the approval of the Management Board.</p>

<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.</p>	<p>Yes</p>	<p>Management Board of the Company is independent when making decisions having impact on Company's activity and strategy. Members of the Management Board are properly provided with all resources necessary for discharging their duties. Company's employees provide members of the Management Board with necessary information in order to make them able to properly discharge their duties and decide on matters pertaining to their competence.</p>
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>No</p>	<p>Matters referred to in this recommendation are decided by the Management Board of the Company and committees of nomination and remuneration have not been established up till now. The matter of the establishment of committee of remuneration, extension of functions of audit committee or reorganization thereof is going to be decided after analyzing factual demands and possibilities.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview</p>	<p>No</p>	<p>Company has no committee of nomination and remuneration. According to the demand and following recommendations of the Governance Code for the Companies listed on the regulated market, the matter of the establishment of these committees is going to be resolved in the nearest future</p>

of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.		
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	For the meantime this recommendation is not implemented by the Company. Matter regarding the establishment of the committees of collegial body is going to be resolved after evaluating Company's demands and possibilities.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	See comment to the clause 4.9.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	See comment to the clause 4.9.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: <ul style="list-style-type: none"> • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the 	No	Company has no committee of nomination or otherwise called committee in charge of the functions of the former.

<p>means of achieving necessary changes;</p> <ul style="list-style-type: none"> • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ul style="list-style-type: none"> • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting 	No	There is no committee of remuneration or any other committee that would be in charge of carrying out functions of the committee of remuneration established in the Company.

<p>options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers</p>	<p>No</p>	<p>Company has no audit committee. Its functions are partially carried out by the Management Board.</p>

<p>and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	Collegial body is going to conduct the assessment of its activities with reference to the provisions of this Code after the end of this financial year.
<p>Principle V: The working procedure of the company's collegial bodies</p> <p>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</p>		

<p>5.1. The company’s supervisory and management bodies (hereinafter in this Principle the concept ‘collegial bodies’ covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>Yes</p>	<p>This recommendation is complied with by the Management Board of the Company. The Management Board is supervised by its president. Pursuant to the work regulation of the Management Board, president convokes meetings of the Management Boards on time and in place as set forth therein. Meetings of the Management Board are chaired by the president of the Management Board or other member of the Management Board, elected for chairing a particular meeting.</p>
<p>5.2. It is recommended that meetings of the company’s collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company’s supervisory board should be convened at least once in a quarter, and the company’s board should meet at least once a month.</p>	<p>Yes</p>	<p>Company complies with this recommendation. Pursuant to work regulation of the Management Board meetings have to be convoked not rarer that once in a quarter.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>Notice on a Meeting of the Management Board is sent to each member of the Management Board not later than 3 business days till the Meeting. The notice on the Management Board meeting has to include date, time, and location of the meeting as well as draft agenda. Final agenda and materials for meetings of the Management Board, including detailed description on issues to be discussed in the Management Board Meeting and draft resolutions shall be sent to members of the Management Board by the President of the Management Board no later than 2 business days till the Meeting of the Management Board. Members of the Management Board have the right to decide to discuss and vote for issues not included into agenda or make decisions the drafts whereof were not properly presented, if the Meeting is attended by all members of the Management Board and each of them agrees with it.</p>
<p>5.4. In order to co-ordinate operation of the company’s collegial bodies and ensure effective decision-making process, chairpersons of the company’s collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company’s board should be free to attend meetings of the company’s supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>No</p>	<p>Company can not comply with this recommendation whereas it has only one collegial body – Management Board.</p>

Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign

shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	Company's statutory capital consists of ordinary registered shares granting the same rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	Company gives public announcements to investors on the rights that new or previously issued shares confer. Prospectuses on newly issued shares for public distribution are available on Company's webpage, at Company's seat.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	Current Articles of Association of the Company do not contain material criteria for contracts that could be the basis for definition of contracts requiring approval of the General Meeting of Shareholders. In future Company shall consider necessity of the implementation of this recommendation.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	Company complies with this recommendation. Information on the prospective General Meetings of Shareholders is announced via informational system of Vilnius stock exchange and in the newspaper indicated in Articles of Association. Meetings are usually convoked at the end of a business day and in such a place that all shareholders could have conditions to attend them. Material of the Meeting is available not later than 10 days till the Meeting, telephone for inquiries is given.
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Draft resolutions prepared for the General Meeting of Shareholders are announced in advance in Lithuanian and English on Company's webpage. Beginning with this year Company is going to publicly announce Minutes of General Meetings of Shareholders.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	Company's shareholders can realize their right to attend General Meeting of Shareholders either personally or through a representative, if a person has a duly issued authorization or following relevant law he has a contract on the transfer of voting right concluded. Company furnishes shareholders with opportunity to vote by filling a general voting ballot as it is set forth by the Law on Companies of the Republic of Lithuania.

<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>Not applicable</p>	<p>Up till this date Company had no necessity in complying with this recommendation, because there are only a few foreign shareholders and they successfully realize their rights by sending their representatives to attend General Meeting of Shareholders or by casting their vote in advance in the form of general voting ballot.</p>
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Principle VII: The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

<p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p>	<p>Yes</p>	<p>Company complies with these recommendations because the members of its Management Board behave according to the. Company is not aware of any cases when their personal interests contradicted Company's interests.</p>
<p>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</p>	<p>Yes</p>	
<p>7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.</p>	<p>Yes</p>	
<p>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</p>	<p>Yes</p>	<p>Members of the Management Board would apply this recommendation in practice, because they are familiar with these provisions and would comply with this recommendation. Following work regulations of the Management Board, member of the Management Board is not entitled to vote when the Board meeting is taking a decision on his liability issues or</p>

personal matters relating to his work on the Board.

Principle VIII: Company’s remuneration policy

Remuneration policy and procedure for approval, revision and disclosure of directors’ remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company’s remuneration policy and remuneration of directors.

<p>8.1. A company should make a public statement of the company’s remuneration policy (hereinafter the remuneration statement). This statement should be part of the company’s annual accounts. Remuneration statement should also be posted on the company’s website.</p>	<p>No</p>	<p>Company does not prepare public statements on the policy of remuneration as set forth by the recommendations of this Code. Brief information on payments made to the members of the management body of the issuer is published in annual prospectus. Matter of public statement on the policy of remuneration recommended by this Code is going to be considered during the current financial year.</p>
<p>8.2. Remuneration statement should mainly focus on directors’ remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company’s remuneration policy as compared to the previous financial year.</p>	<p>No</p>	<p>See comment to the clause 8.1.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> • Explanation of the relative importance of the variable and non-variable components of directors’ remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors. 	<p>No</p>	<p>See comment to the clause 8.1.</p>
<p>8.4. Remuneration statement should also summarize and explain company’s policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>No</p>	<p>See comment to the clause 8.1.</p>

<p>8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p>	No	
<p>8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	No	See comment to the clause 8.1.
<p>8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme 	No	Up till now in its annual prospectus-report the Company used to disclose information on total amount and average amounts of remuneration inclusive of bonuses and other benefits falling on to one member of the management body or member of administration over the relevant financial year.

<p>during the relevant financial year;</p> <ul style="list-style-type: none"> • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <p>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	Yes	<p>Company partially complies with this recommendation. Issue on the approval of the stock option plan of the Company is included into the agenda of the Ordinary General Meeting of Shareholders, that is also going to approve financial statements for the year of 2006. General Meeting of Shareholders shall be offered to solve the matter on the approval of stock option plan. Not later than 10 days till the Ordinary General Meeting of Shareholders, shareholders are provided with an opportunity to get familiarized with the draft resolution and with informational report related thereto (the documents are available on Company's webpage).</p>
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ul style="list-style-type: none"> • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. 		
<p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		

<p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company’s employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders’ annual general meeting.</p>		
<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company’s website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company’s website.</p>		

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>Company’s management system ensures that the rights of shareholders are not infringed. Rights of employees are protected by labor law,</p>
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.</p>		
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		

Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

<p>10.1. The company should disclose information on:</p> <ul style="list-style-type: none"> • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company’s supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company’s regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company’s supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company’s supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company’s policy with regard to human resources, employee participation schemes in the company’s share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>	<p>Yes</p>	<p>Information on the Company set forth in these recommendations is published on Company’s webpage, via Vilnius stock exchange informational system, in Company’s activity reviews.</p>
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company’s shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>Company implements this recommendation by announcing information both, in Lithuanian and English, whenever possible, via information disclosure system of Vilnius Stock Exchange. Vilnius Stock Exchange publishes this information on its webpage and in its market system ensuring simultaneous provision of information to everyone. Moreover, Company announces information before or after a trading session on the Vilnius Stock Exchange and presents it simultaneously to all markets trading in Company’s stock. Information prospectively able of influencing price of issued stock is not disclosed by the Company in its comments, interview or by other means as long as this type of information is not publicly</p>

		announced via informational system of Vilnius Stock Exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company ensures fair, timely and cost-efficient access to information by announcing it on its webpage in Lithuanian and English.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	Company complies with this recommendation by announcing all information enumerated in this recommendation on Company's webpage.
Principle XI: The selection of the company's auditor		
The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	No	Independent firm of auditors does not perform audit of interim financial statements. This possibility shall be considered in the future.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	Company complies with this recommendation, whereas a candidate firm of auditors is offered to the General Meeting of Shareholders by Company's Management Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	Previously to the election, firm of auditors presents the Company with a certificate on the level of fees paid to firm of auditors for audit and non-audit services. The Management Board presents information contained in this certificate to the General Meeting of Shareholders electing firm of auditors. Currently firm of auditors is elected for performing audit of financial statements for the year 2006 and 2007.