AB SANITAS

Report for the First Half-year of 2006

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I. GENERAL PROVISIONS

1. Reporting period for which the report has been prepared

The report has been prepared for the first quarter of 2006.

2. Main data about the Issuer

Name of the Issuer	Public Limited Liability Company AB Sanitas
Code in the Register of Enterprises	1341 36296
Authorised capital	LTL 31,105,920
Address	Vytauto ave. 3, LT-44354 Kaunas, Lithuania
Telephone	(8~37) 22 67 25
Fax	(8~37) 22 36 96
E-mail address	info@sanitas.lt
Internet address	www.sanitas.lt
Legal and organisational form	public limited liability company
Date and place of registration	30 June 1994, with the Kaunas City Board
Register	Register of Legal Persons

3. Information about where and how it is possible to get acquainted with the report and other documents in accordance with it was prepared and the names of the means of the mass media

The Report and other documents on the basis whereof this report was prepared are available at the company's registered office at Vytauto ave. 3, Kaunas, and at the Financial Brokerage Company AB Finasta AB at Konstitucijos ave. 23, Vilnius.

The means of mass media of AB Sanitas: the daily Verslo žinios, Lithuanian News Agency ELTA.

4. Persons responsible for the accuracy of information in the report

4.1. Members of the managing bodies of the Issuer, employees and the head of the administration responsible for the report

Saulius Jurgelėnas, Director General, tel. +370 37 22 67 25, fax +370 37 22 36 96

Eladijus Kirijanovas, Chief Financial Officer tel. tel. +370 37 22 67 25, fax +370 37 22 36 96

Rūta Milkuvienė, Head of Legal and General Issues Department, tel. +370 37 20 06 62, fax +370 37 22 36 96

4.2. The report was prepared by FBC AB Finasta represented by financial broker Algimantas Variakojis (Konstitucijos ave. 23, Vilnius, tel. +370 5 278 68 44, fax +370 5 210 24 74), in accordance with the information provided by the company.

5. Confirmation of the members of the Issuer's managing bodies, its employees, head of administration and the Issuer's consultants responsible for the preparation of this report that information contained in the report is true and there are no suppressed facts which could have an impact on investors' decisions concerning purchase, sale or valuation of the Issuer's securities or on the market price of these securities

AB Sanitas, represented by Saulius Jurgelėnas, Eladijus Kirijanovas, Chief Financial Officer, and Rūta Milkuvienė, Head of Legal and General Issues Department, confirms that information contained in the report is true and there are no suppressed facts which could have an impact on investors' decisions conserning purchase, sale or valuation of the Issuer's securities or on the market price of these securities.

Director General of AB Sanitas **Saulius Jurgelėnas**

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Chief Financial Officer of AB Sanitas **Eladijus Kirijanovas**

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Head of Legal and General Issues Department of AB Sanitas **Rūta Milkuvienė**

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Hereby, FBC AB Finasta represented by financial broker Algimantas Variakojis confirms that the Report contains precise information which was submitted to FBC AB Finasta by the employees and managers of AB Sanitas. FBC AB Finasta is responsible for the proper formalisation of the information submitted to it. AB Sanitas bears responsibility for the correctness of the information.

Financial Broker of FBC AB Finasta Algimantas Variakojis

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The report was signed on 30 August 2006

The report was drafted by FBC AB Finasta (Konstitucijos Ave. 23, Vilnius)

II. INFORMATION ABOUT THE ISSUER'S LARGEST SHAREHOLDERS AND MEMBERS OF THE MANAGING BODIES

6. The Issuer's authorised capital

6.1. The authorised capital registered in the Register of Legal Entities

Table 6.1.1. Composition of the authorised capital

Type of shares	Number of shares	Nominal value, LTL	Total nominal value, LTL	Portion of the authorised capital, %
Ordinary registered shares	31,105,920	1	31,105,920	100,00

All ordinary registered shares of AB "Sanitas" are fully paid up.

6.2. Information about the projected increase of the authorised capital in connection with conversion or exchange of convertible debt securities or derivative securities into shares

The Company has issued no debt securities or derivatives convertible into shares.

7. Shareholders

On 30 June 2006 the total number of AB Sanitas shareholders was 981.

Table 7.1. Shareholders who held more than 5 per cent of the Issuer's authorised capital and / or votes on 30 June 2006

<table>
<tr><th>Name of the shareholder, its type, address of head office, code in the Register of Enterprises</th><th>Number of ordinary registered shares owned by the right of ownership</th><th>Share of the authorized capital, %</th><th>Share of votes given by the shares owned by the right of ownership, %</th><th>Share of votes of shareholders that are acting jointly, %</th></tr>
<tr><td>AB INVALDA
Seimyniskiu str. 3, Vilnius, Lihuania
1213 04349</td><td>9,791,322</td><td>31.48</td><td>31.48</td><td rowspan="6">90.99</td></tr>
<tr><td>UAB FINASTA INVESTICIJŲ VALDYMAS
Konstitucijos ave. 23, Vilnius, Lithuania
1262 63073</td><td>84,110</td><td>0.27</td><td>0.27</td></tr>
<tr><td>FUNDS MANAGED BY
UAB FINASTA INVESTICIJŲ VALDYMAS
Konstitucijos ave. 23, Vilnius, Lithuania
1262 63073</td><td>1,224,970</td><td>3.94</td><td>3.94</td></tr>
<tr><td>FBC AB FINASTA
Konstitucijos ave. 23, Vilnius, Lithuania
1225 70630</td><td>5,921</td><td>0.02</td><td>0.02[1]</td></tr>
<tr><td>UAB FINASTA RIZIKOS VALDYMAS
Konstitucijos ave. 23, Vilnius, Lithuania
3000 45450</td><td>77,650</td><td>0.25</td><td>0.25</td></tr>
<tr><td>UAB NENUORAMA
J. Tumo–Vaizganto str. 9-38, Vilnius
2264922</td><td>2,308,323</td><td>7.42</td><td>7.42</td></tr>
</table>

[1] FBC AB Finasta by the power of attorney represents 305,410 votes (0,98% of votes)

Continued

Name of the shareholder, its type, address of head office, code in the Register of Enterprises	Number of ordinary registered shares owned by the right of ownership	Share of the authorized capital, %	Share of votes given by the shares owned by the right of ownership, %	Share of votes of shareholders that are acting jointly, %
UAB AIKSTENTIS Seimyniškių str. 1A, Vilnius 1264 12617	768,522	2.47	2.47	90.99
ALVYDAS BANYS	112,000	0.36	0.36	
DAILIUS JUOZAPAS MIŠEIKIS	95,265	0.31	0.31	
JONAS BIELINIS	330,965	1.06	1.06	
NERIJUS NAUSĖDA	248,805	0.80	0.80	
TOMAS NAUSĖDA	333,220	1.07	1.07	
ALVYDAS DIRVONAS	516,707	1.66	1.66	
ARŪNAS TUMA	516,727	1.66	1.66	
DARIUS ŽAROMSKIS	516,702	1.66	1.66	
DONATAS JAZUKEVIČIUS	441,702	1.42	1.42	
AMBER TRUST II SCA 52 route d'Esch, L-2965 Luxembourg B 103.888	3,888,384	12.50	12.50	
DANSKE CAPITAL BALTIC FUND	193,888	0.62	0.62	
DCF FUND II BALTIC STATES	517,920	1.67	1.67	
FIREBIRD REPUBLICS FUND LTD.	711,808	2.29	2.29	
CITIGROUP VENTURE CAPITAL INTERNATONAL JERSEY LIMITED 90207	5,312,000	17.08	17.08	

8. Securities not representing capital, the trading whereof is regulated by the Law on Securities Market, except debt securities

There have been no issues of securities not representing capital, the trading whereof is regulated by the Law on Securities Market..

9. Data about the secondary trading in the issuer's securities

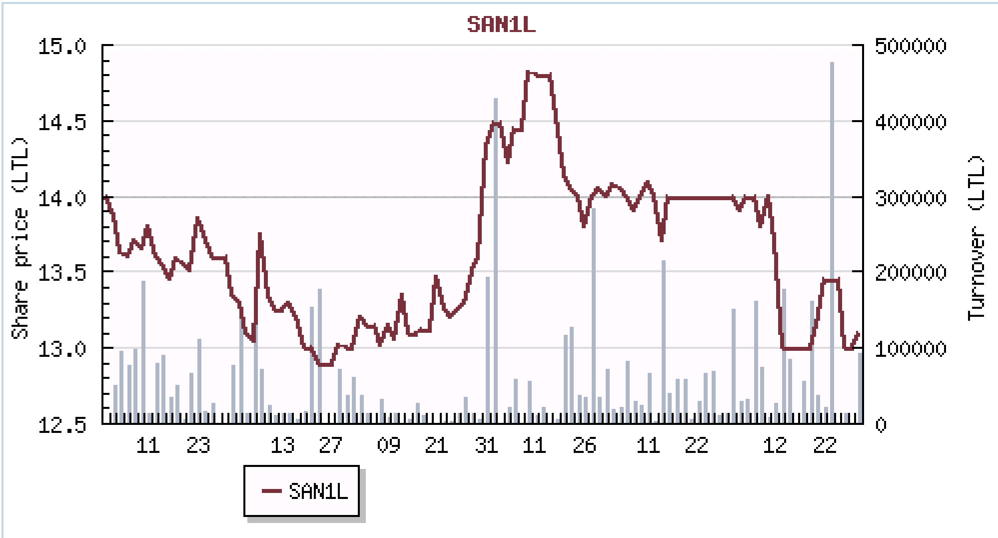
As from 21 November 2005, the ordinary registered shares of AB "Sanitas" were admitted to the Official List of the Vilnius Stock Exchange (hereinafter – the VSE). Before 21 November 2005, the Company's shares were traded on the Current List of the VSE.

Table 9.1. Main characteristics of AB Sanitas shares listed in the Official List

Type of shares	ISIN code	Number of shares	Nominal value, LTL	Total nominal value, LTL
Ordinary registered shares (ORS)	LT000010617	11,000,000	1	11,000,000

Table 9.2. Trading in ORS of AB Sanitas in the VSE

Reporting period	Price, LTL			Turnover, LTL			Date of the last session	Total turnover	
	Hidhest	Lowest	Last session	Hidhest	Lowest	Last session		Units	LTL
I Q 2005	53.93	44.70	52.00	148,983.00	0	4,940.00	31 03 2005	32 918	1,679,371.80
II Q 2005	65.00	46.50	58.00	368,482.34	0	25,346.33	30 06 2005	35 053	1,934,037.51
III Q 2005	60.00	51.00	60.00	11,054,479.50	0	85,140.00	30 09 2005	290 642	15,387,023.46
IV Q 2005	72.00	13.00	14.00	38,8018.3	0	235,363.55	30 12 2005	178 424	4,331,494.81
I Q 2006	14.70	12.75	14.32	204,856.55	0	194,037.19	31 03 2006	207 808	2,793,427.43
II Q 2006	15.20	12.88	13.10	429,230.65	0	93,060.00	30 06 2006	286 014	3,933,822.33



Picture 9.1 Trading in ORS of AB Sanitas in the VSE for the period 01 01 2006 – 30 06 2006

Table 9.3. Capitalization of the Company's shares

Date of the last session	Number of ORS	Last price, LTL	Capitalization, LTL
31 03 2005	1,791,059	52.00	93,135,068.00
30 06 2005	1,791,059	58.00	103,881,422.00
30 09 2005	2,200,000	60.00	132,000,000.00
30 12 2005	11,000,000	14.00	154,000,000.00
31 03 2006	11,000,000	14.32	157,520,000.00
30 06 2006	11,000,000	13.10	144,100,000.00

10. Agreements with intermediaries of public trading in securities

The company has signed an agreement with the financial brokerage firm AB "Finasta" (Konstitucijos Ave. 23, Vilnius, tel. (+370~5) 278 68 33)) concerning management of securities accounting and drawing up of the periodical reports.

11. Members of the managing bodies

AB Sanitas has the General Meeting, single person management organ – the manager (Director General) and collegial supervisory organ – the Board. The Supervisory Board is not formed in the company.

The Board of the Company is formed from 5 members and is elected by the General Meeting for the 4 years period. The manager of the company is elected and removed by the Board which also fix his salary, approve his job description, provide incentives and impose penalties.

AB Sanitas Management Board was elected at the General Meeting of Shareholders that held on 27 April, 2006. The meeting adopted to approve the amendments of the Articles of Association, by setting that there is no Supervisory Board in the Company, but the Management Board, to elect to the Management Board Dailius Juozapas Mišeikis, Darius Šulnis, Darius Žaromskis, Dalius Kaziūnas, Saulius Jurgelėnas. On May 15, 2006 the Articles of Association of Sanitas AB were registered in the Register of Legal Persons of the Republic of Lithuania. The Company's Board started its activities from the day of the registration of the Articles of Association.

At the General Meeting of Shareholders of Sanitas AB that took place on 31 July, 2006 was adopted to withdraw Saulius Jurgelenas and Dalius Kaziunas from the company‘s Management Board and elect Martynas Cesnavicius and Sunil Kumar Nair to the company‘s Management Board.

11.1. Position held, names and surnames, data about participation in the Issuer's authorised capital

Table 11.1.1. Members of the Board

Name, surname	**Share of the capital owned by the right of ownership, %**
Chairman of the board Darius Šulnis Educational background: Vilnius University, Faculty of Economics Work experience: from 1994 till 2002 worked as a director of FBC AB FMĮ Finasta, between 2002 and 2005 was a director of UAB Invalda Real Estate. From the beginning of 2006 works as a president of AB Invalda.	-
Dailius Juozapas Mišeikis Educational background: Vilnius University, Faculty of Economics Work experience: from 1992 works in AB Invalda as Director of Real estate, form 1998 as a vice president, from 2006 is the advisor if the company.	0,31
Darius Žaromskis Educational background: higher education, lawyer Work experience: till August 2005 worked as a director of UAB Kaminera and UAB Kamineros grupė. From November 2003 till July 2005 worked as a Director General of AB Vilniaus degtinė.	1,42
Sunil Kumar Nair (from 31 July 2006) Educational background: holds an M.B.A. degree (specializing in Finance and Strategy) from Yale University, an M.S. degree in Economics from Scuola Superiore EM, Milan, Italy, and a Master's degree in Commerce from the University of Madras, India. Work experience: heads Citigroup Venture Capital Internatonal (CVCI's) investments in the CEEMEA region. Prior to joining CVCI in 1999, Sunil was responsible for originating and structuring fixed income derivatives at Salomon Smith Barney in New York and for Strategic Planning for the Capital Markets business of Citibank in New York. Before joining Citigroup, Sunil worked for McKinsey & Company, in New York and Stamford, as a senior consultant. Prior to this, he established and managed businesses in India in the Textile and Hospitality sectors.	-
Martynas Česnavičius (from 31 July 2006)	-
Dalius Kaziūnas (till 31 July 2006) Educational background: Vilnius University, Faculty of Economics Work experience: From 2002 CEO of Finasta; 1998 - 2002 Financial broker of Finasta, merchant licence; 1996 - 1998 Assistant financial broker of FMĮ Finasta AB.	-
Saulius Jurgelėnas (till 31 July 2006) Educational background: Vilnius University, Faculty of Economics Work experience: from 2000 till 2001worked as representative for Baltic States of Laufen CZ, between 2001 and 2002 worked as finance and economics director and Director General of UAB Kraitenė. From 2002 till 2004 he worked as finance and economics director and managing director of TŪB Nemuno banga, from 2004 till 2005 – consultant of UAB VRS agentūra, from 2005 works as Director General of AB Sanitas	-

Table 11.1.2. Members of the Administration

Name, surname	Share of the capital owned by the right of ownership, %
Director General Saulius Jurgelėnas Educational background: Vilnius University, Faculty of Economics Work experience: from 2000 till 2001worked as representative for Baltic States of Laufen CZ, between 2001 and 2002 worked as finance and economics director and Director General of UAB Kraitenė. From 2002 till 2004 he worked as finance and economics director and managing director of TŪB Nemuno banga, from 2004 till 2005 – consultant of UAB VRS agentūra, from 2005 works as Director General of AB Sanitas	-
Cief Financial Officer Eladijus Kirijanovas Educational background: Vilnius University, Master of Law (since 2006), Baltic Management Institute (BMI), International Master of Business Administration (EMBA); Vytautas Magnus University, Master of Business Administration. Work experience: till 2000 worked as Senior Accountant in „Tex-Color”, Inbau, Inconsult. From 2000 till he worked as Chief Financial Officer in „Sonex” Holding. From 2001 till 2004 - Chief Operating Officer, Vice-President of „Sonex” Holding. From 2004 till 2006.04 – president of „Sonex” Holding (board member). From 2006.06 works as Chief Financial Officer of AB Sanitas.	-
Till 01 July 2006 Chief Finance Officer Dalia Švelnytė Educational background: Vilnius University, Faculty of Economics Work experience: from 1992 till 2003 worked as Chief Financier Officer of ABF Lietuvos tara, from 2002 till 2003 – Chief Financier Officer of UAB Vūsta, between 2004 and 2005 worked as Chief Financier Officer of AB Endokrininiai preparatai. From 2001 works as Chief Financier Officer of UAB Lipnios etiketės, from 2003 as Chief Financier Officer of AB Sanitas, from 2006.05 Head of financial department of FBC AB Finasta.	-

11.2. Data about participation in the activities of other companies, enterprises and organisations (name of the company, enterprise, or organisation and position held), over 5 percent of capital and votes held in other enterprises (percentage)

Table 11.2.1. Participation in activities of other companies, enterprises and organizations (for the date 30 June 2006)

Name, surname	Name of the company, enterprise, organisation, position held	Share of capital and votes held in other enterprises by the right of ownership, %
Darius Šulnis	President and Member of the Board of AB Invalda	8,40
	Chairman of the Board of AB Sanitas	-
	Chairman the Supervisory Board of Jelfa (Poland)	-
	Chairman of the Board of UAB Invalda Construction Management	-
	Chairman of the Board of UAB Hidroprojektas	-
	Chairman of the Board of FBC AB Finasta	-
	Chairman of the Board of UAB Finasta investicijų valdymas	-
	Member of the Board of AB Agrovaldymo grupė	-
	Member of the Board of UAB Broner	-
	Member of the Board of UAB Wembley-Neringa	-
	Chairman the Supervisory Board of SIA Industrial and logistics centre „Lapegles“ (Latvia)	-
	Chairman the Supervisory Board of SIA DOMMO (Latvia)	-
	UAB PVP (in process of liquidation)	36,7
	UAB Golfas	31,0

Continued

Name, surname	Name of the company, enterprise, organisation, position held	Share of capital and votes held in other enterprises by the right of ownership, %
Dailius Juozapas Mišeikis	Member of the Board of AB Invalda	15,09
	Member of the Board of FBC AB Finasta	-
	Member of the Board of UAB Invalda Construction Management	-
	Chairman of the Board of UAB Invalda Real Estate	-
	Member of the Board of AB Klaipėdos konditerija	-
	Member of the Board of AB Valmeda	-
	Member of the Board of AB Sanitas	-
	Member of the Board of AB Umega	-
	UAB PVP (in process of liquidation)	36,7
	UAB Nenuorama	33,3
	AB Grigiškės	5,11
	Member of Supervisory Board of AB Vernitas	-
	Member of the Board of UAB Hidroprojektas	-
	Member of the Board of AB Invaldos nekilnojamojo turto fondas	-
	Chairman of the Board of UAB Broner	-
	Chairman of the Board of UAB Wembley – Neringa	-
	Member of the Board of AB Minija	-
	Member of the Board of AB Vilniaus baldai	-
	Chairman of the Board of UAB Aikstentis	-
Darius Žaromskis	UAB Kamineros grupė	50,0
	Member of the Board of AB Vilniaus degtinė	19,99
	Member of the Board of AB Spindulys	8,10
	UAB Svilita	100,0
	AB Biržų agroservisas	20,0
	UAB Bagem	25,0
	Member of the Board of AB Sanitas	-
	Member of the Board of AB Umega	-
	UAB Jungtinis turto centras	25,0
Dalius Kaziūnas	Director and Member of the Board of FBC AB Finasta	-
	Member of the Board of UAB Apželdinimas	-
	Member of the Board of UAB Saistas	-
Saulius Jurgelėnas	Director of UAB Altisana	-
	Director General of Hoechst-Biotika spol.sr.o. (Slovakia)	-
	Member of the Board of Jelfa SA	-
	Chairman of the Board of Sanitas Polska Sp.z.o.o	-
Sunil Kumar Nair	Citigroup Venture Capital Internatonal (CVCI)	-
Martynas Česnavičius	Member of the Board of UAB Laisvas Nepriklausomas Kanalas	-
	Member of the Board of UAB Litagros Chemija	-
	Member of the Board of UAB Atradimu Studija	-
	Chairman of the Board of UAB 1L Ekspresas	45,0
	Member of the Board of AB Sidabra	-
	Member of the Board of AB Malsena	-
	Member of the Board of AB Kauno pieno centras	-
	Member of the Board of AB Utenos trikotažas	-
	Member of Supervisory Board of AB Snaigė	-
Eladijus Kirijanovas	Member of the Board of Jelfa SA	-

III. FINACIAL STATUS

The consolidated financial statements for the first half of 2006 consolidate the financials of AB "Sanitas" and its subsidiaries, "Hoechst-Biotika s.r.o." (Slovakia) , Jelfa SA (Poland) and UAB "Altisana".

The consolidated financial statements as of 31 December 2005 consolidate the financials of AB "Sanitas" and its subsidiaries, "Hoechst-Biotika s.r.o." (Slovakia) and UAB "Altisana".

12. Balance sheet

LTL

ASSETS	NOTE	GROUP'S			COMPANY'S		
		30 06 2006	31 12 2005	30 06 2006	30 06 2006	31 12 2005	30 06 2006
NON-CURRENT ASSETS							
Goodwill		246,799,402	0	0	0	0	0
Property, plant and equipment	11	282,240,465	51,613,145	26,758,857	15,655,374	16,193,985	26,758,857
Intangible assets	12	15,239,970	915,591	208,751	173,838	178,947	208,751
Investments	13	7,342,788	38,503,285	4,866,240	96,971,115	83,901,685	4,866,240
Long-term receivables		3,277,551	62,624	53,190	62,624	62,624	53,190
Deferred tax assets	9	619,292	2,499,575	0	121,822	835,442	0
TOTAL NON-CURRENT ASSETS		555,519,468	93,594,220	31,887,038	112,984,773	101,172,683	31,887,038
CURRENT ASSETS							
Inventories	15	59,422,044	11,498,144	7,767,251	5,493,809	6,033,505	7,767,251
Trade receivables	16	67,420,665	13,806,634	10,737,492	6,397,135	6,570,785	10,737,492
Income tax prepaid		241,457	700,281	71,000	194,741	0	71,000
Other receivables	17	9,673,243	1,334,848	750,802	233,871,832	3,598,991	750,802
Investment in associate	13	0	0	7,826,029	0	0	7,826,029
Assets held for sale	14	8,199,916	20,733,950	0	8,199,916	8,199,916	0
Cash and cash equivalents	18	5,332,487	4,846,639	744,303	107,964	1,559,601	744,303
TOTAL CURRENT ASSETS		150,289,811	52,920,496	27,896,877	254,265,397	25,962,798	27,896,877
TOTAL ASSETS		**705,809,279**	**146,514,716**	**59,783,915**	**367,250,170**	**127,135,481**	**59,783,915**

Continued

EQUITY AND LIABILITIES	NOTE	GROUP'S			COMPANY'S		
		30 06 2006	**31 12 2005**	**30 06 2006**	**30 06 2006**	**31 12 2005**	**30 06 2006**
EQUITY	19						
Share capital		31,105,920	11,000,000	8,955,295	31,105,920	11,000,000	8,955,295
Minority interests		13,886,028	0				
Share premium		247,975,422	17,553,588	0	247,975,422	17,553,588	0
Legal reserves		3,110,592	1,801,104	1,801,104	3,110,592	1,801,104	1,801,104
Other distributable reserves		4,181,407	(1,486,214)	0	3,042,276	(3,042,276)	0
Retained earnings		26,134,174	24,870,660	15,107,356	29,578,010	25,579,374	15,107,356
TOTAL EQUITY		326,393,544	53,739,138	25,863,755	314,812,220	52,891,790	25,863,755
NON CURRENT LIABILITIES							
Interest bearing loans and borrowings	21	288,112,439	21,409,344	13,337,417	17,316,850	21,409,344	13,337,417
Deferred grant income	22	3,107,280	1,415,424	0	3,107,280	1,415,424	0
TOTAL NON CURRENT LIABILITIES		291,219,719	22,824,768	13,337,417	20,424,130	22,824,768	13,337,417
CURRENT LIABILITIES							
Interest bearing loans and borrowings	21	25,437,539	53,821,245	5,446,991	24,253,361	42,209,715	5,446,991
Trade creditors		23,984,980	10,300,198	2,848,414	3,572,624	5,577,426	2,848,414
Other creditors	23	35,619,684	3,716,848	10,952,964	1,678,901	1,519,263	10,952,964
Corporate income tax payable	9	3,153,813	2,112,519	1,334,374	2,508,934	2,112,519	1,334,374
TOTAL CURRENT LIABILITIES		88,196,016	69,950,810	20,582,743	32,013,820	51,418,923	20,582,743
TOTAL LIABILITIES		379,415,735	92,775,578	33,920,160	52,437,950	74,243,691	33,920,160
TOTAL EQUITY AND LIABILITY		**705,809,279**	**146,514,716**	**59,783,915**	**367,250,170**	**127,135,481**	**59,783,915**

13. Profit and loss account

LTL

	GROUP'S		COMPANY'S	
	1 H 2006	**1 H 2005**	**1 H 2006**	**1 H 2005**
TURNOVER	46,164,491	16,267,116	17,557,265	16,267,116
Cost of sales	(28,699,548)	(9,554,659)	(9,015,621)	(9,554,659)
GROSS PROFIT	17,464,943	6,712,457	8,541,644	6,712,457
Distribution expenses	(9,844,699)	(968,758)	(1,156,523)	(968,758)
Administration expenses	(9,928,618)	(3,358,372)	(3,571,882)	(3,358,372)
Other operating income	14,078,329	754,072	768,599	754,072
Other operating expense	(3,110,769)	(264,047)	(274,651)	(264,047)
OTHER OPERATING INCOME AND EXPENSE, NET	10,967,560	490,025	493,948	490,025
OPERATING PROFIT BEFORE FINANCING ACTIVITIES	8,659,186	2,875,352	4,307,187	2,875,352
Dividends	0	0	3,975,733	0
Financial income	2,921,203	285,794	2,301,095	285,794
Financial expense	(4,573,560)	(232,075)	(1,180,287)	(232,075)
FINANCING COST, NET	(1,652,357)	53,719	1,120,808	53,719
PROFIT BEFORE TAXES	7,006,829	2,929,071	9,403,728	2,929,071
Corporate income tax	(1,656,822)	(453,146)	(1,053,327)	(453,146)
PROFIT AFTER TAXES	5,350,007	2,475,925	8,350,401	2,475,925
Minority interests	(265,271)	0	0	0
NET PROFIT FOR THE YEAR	5,615,278	2,475,925	8,350,401	2,475,925
Earnings per share (LTL)	0,27	0,28	0,40	0,28

13[1]. Statement of changes in equity

LTL

COMPANY		SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	LEGAL RESERVE	FAIR VALUE RESERVE	OTHER RESERVES	RETAINED EARNINGS	TOTAL
CAPITAL AND RESERVES AS AT 01 JANUARY 2005	19	8,955,295	0	0	1,801,104	0	4,450,367	9,972,123	25,178,889
Net profit		0	0	0	0	0	0	2,475,925	2,475,925
Dividends		0	0	0	0	0	0	(1,791,059)	(1,791,059)
Transfer from reserves	19	0	0	0	0	0	(4,450,367)	4,450,367	0
CAPITAL AND RESERVES AS AT 30 JUNE 2005	19	8,955,295	0	0	1,801,104	0	0	15,107,356	25,863,755
New emission of shares	19	2,044,705	17,553,588	0	0	0	0	0	19,598,293
Net profit		0	0	0	0	0	0	10,472,018	10,472,018
Change in fair value of equity	13	0	0	0	0	(3,042,276)	0	0	(3,042,276)
CAPITAL AND RESERVES AS AT 31 DECEBMER 2005	19	11,000,000	17,553,588	0	1,801,104	(3,042,276)	0	25,579,374	52,891,790
New emission of shares	19	20,105,920	230,421,834	0	0	0	0	0	250,527,754
Net profit								8,350,400	8,350,400
Transfer to reserves	19				1,309,488	0	0	(1,309,488)	0
Change in fair value of equity	13	0	0	0	0	6,084,552	0	(3,042,276)	3,042,276
CAPITAL AND RESERVES AS AT 30 JUNE 2006	19	31,105,920	247,975,422	0	3,110,592	3,042,276	0	29,758,010	314,812,220

GROUP		SHARE CAPITAL	SHARE PREMIUM	LEGAL RESERVE	FAIR VALUE RESERVE	TRANSLATION RESERVE	MINORITY INTERESTS	OTHER RESERVES	RETAINED EARNINGS	TOTAL
CAPITAL AND RESERVES AS AT 01 JANUARY 2005	19	8,955,295	0	1,801,104	0	0	0	4,450,367	9,972,123	25,178,889
Net profit		0	0	0	0	0		0	2,475,925	2,475,925
Dividends		0	0	0	0	0		0	(1,791,059)	(1,791,059)
Transfer from reserves	19	0	0	0	0	0		(4,450,367)	4,450,367	0
CAPITAL AND RESERVES AS AT 30 JUNE 2005	19	8,955,295	0	1,801,104	0	0	0	0	15,107,356	25,863,755
New emission of shares	19	2,044,705	17,553,588	0	0	0		0	0	19,598,293
Change in fair value of equity	13				(3,042,276)					(3,042,276)
New emission of shares		0	0	0	0	0		0	9,763,304	9,763,304
Foreign exchange translation differences		0	0	0	0	1,556,062		0	0	1,556,062
CAPITAL AND RESERVES AS AT 31 DECEMBER 2005	19	11,000,000	17,553,588	1,801,104	(3,042,276)	1,556,062	0	0	24,870,660,	53,739,138
Net profit		0	0	0	0	0	0	0	5,615,278	5,615,278
New emission of shares	19	20,105,920	230,421,834	0	0	0,	0	0	0	250,527,754
Transfer to reserves	19		0	1,309,488	0	0	0	0	(1,309,488)	0
Foreign exchange translation differences			0	0	0	1,223,059	0	0	0	1,223,059
Change in fair value of equity	13		0	0	4,444,562	0	0	0	(3,042,276)	1,402,286
Change in minority interests			0	0	0	0	13,886,028	0	0	13,889,038
CAPITAL AND RESERVES AS AT 30 JUNE 2006	19	31,105,920	247,975,422	3,110,592	1,402,286	2,779,121	13,886,028	0	26,134,174	326,393,544

13(2). Cash flow statement

LTL

	GROUP'S		COMPANY'S	
	1 H 2006	1 H 2005	1 H 2006	1 H 2005
Profit before taxation	7,272,100	2,929,071	9,403,728	2,929,071
Adjustments for:				
Depreciation and amortization	6,459,917	2,325,642	1,723,053	2,325,642
Gain/ loss on disposal of fixed assets	1,827	(5,376)	2,527	(5,376)
Write down of inventories	1,100,022	0	31,703	0
Changes in impairment losses of receivables	628,291			
Interest received	(3,556)	(1,269)	(2,179,215)	(1,269)
Interest paid	3,940,124	293,836	1,133,432	293,836
Dividends received	0	0	(3,975,733)	0
Unrealised foreign exchange loss	(71,507)	0	0	0
Net cash inflow from ordinary activities before any change in working capital	19,327,218	5,541,904	6,139,495	5,541,904
Change in trade and other receivables	9,829,767	1,363,812	(230,099,191)	1,363,812
Change in inventories	(3,011,494)	(2,846,372)	507,993	(2,846,372)
Change in trade creditors and other creditors	(2,108,687)	762,370	(1,845,164)	762,370
Interest received	3,556	1,269	2,179,215	1,269
Interest paid	(3,940,124)	(293,836)	(1,133,432)	(293,836)
Profit tax paid/received	2,410,349	0	(851,654)	0
Dividends paid	0	(1,791,059)	0	(1,791,059)
NET CASH INFLOW FROM OPERATING ACTIVITIES	22,510,584	2,738,088	(225,102,738)	2,738,088
Acquisition of property, plant and equipment	(3,511,648)	(1,608,074)	(1,198,175)	(1,608,074)
Capitalisation of intangible fixed assets	(228,298)	(20,298)	(41,150)	(20,298)
Disposal of property, plant and equipment	397,020	36,620	57,465	36,620
Acquisition of subsidiary Sanitas Polska	(45,175)	0	(45,175)	0
Acquisition of other equity securities (Jelfa)	(484,461,397)	0	(9,268,359)	0
Prepayment for Hoechst-Biotika shares	0	(3,452,800)	0	(3,452,800)
Payment for AB „Endokrininiai preparatai" shares	0	(1,853,479)	0	(1,853,479)
Acquisition of other equity securities / change of value	(968,719)	0	0	0
Change in investment asset	12,534,034	0	0	0
Dividends received	0	0	3,975,733	0
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(476,284,182)	(6,898,031)	(6,519,661)	(6,898,031)
New emission of shares	250,527,754	0	250,527,754	0
Proceeds of long-term borrowings	240,546,863	(362,795)	(4,092,494)	(362,795)
Proceeds/ payments of short-term borrowings	(38,507,027)	4,487,927	(17,956,354)	4,487,927
Grants received	1,691,856	0	1,691,856	0
NET CASH INFLOW/(OUTFLOW) FROM FINANCING, NET	454,259,447	4,125,132	230,170,762	4,125,132
NET CASH INFLOW/OUTFLOW FROM OPERATING ACTIVITIES, INVESTING ACTIVITIES AND FINANCING	485,848	(34,811)	(1,451,637)	(34,811)
Cash and cash equivalents at 1 January	4,846,639	779,114	1,559,601	779,114
CASH AND CASH EQUIVALENTS AT 30 JUNE	5,332,487	744,303	107,964	744,303

14. Notes to the financial accounts

NOTES TO THE CONSOLIDATED HALF-YEARLY ACCOUNTS (GROUP'S)

1 Significant accounting policies

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

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

In May 2004, AB Sanitas acquired a 40% interest in a limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in the production of pharmaceutical preparations. From May 2004, after accession to EU, new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory periods allowed. The relevant certifications were not acquired by Endokrininiai Preparatai and, consequently, on 15 April 2005 liquidation procedures of AB Endokrininiai Preparatai started. On 29 April 2005, AB Sanitas increased its holding to 67% of the shares acquiring control over the company. The liquidation was completed by the end of 2005, when final distributions were made to shareholders, the company was signed out on 28 April 2006.

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

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

Sanitas AB established a subsidiary Sanitas Polska Sp. z.o.o in Poland on 18th of January 2006. The purpose of establishing was an acquisition of the main block of shares of polish pharmaceutical company Jelfa SA.

From 14 April 2006 Group owns 94.56% of polish pharmaceutical company Jelfa SA shares.

The new emission of Sanitas AB shares was paid up on and the new statute was registered on 11th of April 2006. According to the new statute the authorized capital of Sanitas AB is completed of 31,105,920 shares which par value is 1LTL.

Group owns 95,25% of shares of polish pharmaceutical company Jelfa SA from 30 June 2006.

Statement of compliance

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

Basis of preparation

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

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

The accounting policies of the Company as set out below have been applied consistently by Company entities and are consistent with those of the preceding year, except as a result of change in accounting policies resulting from amendments to existing IFRSs and the introduction of new IFRSs applicable as of 1 January 2006 which are described in Note 2.

Basis of consolidation

Subsidiaries

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

Associates

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

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

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

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

Derivative financial instruments

The Group does not have derivative financial instruments.

Property, plant and equipment

Owned assets

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

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

Leased assets

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

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

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

Residual values and depreciation methods are reassessed for each separate

Intangible assets

Goodwill

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

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

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

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

Other intangible assets

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

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

Subsequent expenditure

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

Amortisation

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

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

Financial instruments

Investments in equity securities

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

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

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

Other financial instruments

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

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

Inventories

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

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

Cash and cash equivalents

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

Impairment

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

For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

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

Calculation of recoverable amount

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

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

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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

Repurchase of share capital

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

Dividends

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

Revenue

Goods sold and services rendered

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

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

Government grants

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

Expenses

Operating lease payments

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

Finance lease payments

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

Net financing costs

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

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

Income tax

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

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

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

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

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

Segment reporting

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

Non-current assets held for sale

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

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

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

2 Change in accounting policies

Adoption of standards effective from 1 January 2006

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

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

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

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

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

Adoption of standards effective from 1 January 2007

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

3 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

Classification of assets held for sale

The Group classified part of real estate as held for sale based on its intentions to sell the property within the next twelve months and active marketing of the property for sale.

Impairment losses on receivables

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Judgements

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

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

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

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

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

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

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

4 Segment reporting

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

Segment information is presented in respect of the Group's business segments as a primary reporting format. The Company 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 Germany, Slovakia, Poland, Latvia and Lithuania.

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

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

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

LTL	Injection preparations		Tablets		Ointments, eye drops, tinctures		Unallocated		Total	
	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005
Revenue	24,351,697	12,372,205	11,432,099	1,800,611	10,268,010	2,091,200	112,685	3,100	46,164,491	16,267,116
Gross profit	7,773,014	4,461,751	3,044,626	876,762	6,610,327	1,371,728	36,976	2,217	17,464,943	6,712,457
Operating expense	-10,398,415	-3,186,976	-3,447,628	-260,829	-8,499,110	-389,300	13,539,395	0	-8,805,757	-3,837,105
Financing cost	0	0	0	0	0	0	-1,652,356	53,719	-1,652,356	53,719
Dividends from subsidiaries	0	0	0	0	0	0	0	0	0	0
Profit before tax	-2,625,401	1,274,775	-403,002	615,933	-1,888,783	982,428	11,924,015	55,936	7,006,830	2,929,071
Income tax	0	0	0	0	0	0	-1,656,822	-453,146	-1,656,822	-453,146
Minority interests	0	0	0	0	0	0	-265,270	0	-265,270	0
Half-year profit	-2,625,401	1,274,775	-403,002	615,933	-1,888,783	982,428	10,532,465	-397,210	5,615,279	2,475,925
Total assets	60,639,195	9,557,123	104,885,596	524,369	29,612,616	760,723	510,671,871	48,941,700	705,809,278	59,783,915
Total liabilities	38,919,654	2,484,117	16,380,247	315,292	44,415,238	366,175	279,700,596	30,754,577	379,415,735	33,920,160
Acquisition of non-current assets	1,081,318	42,230	615,851	113,644	893,504	671,449	1,245,449	802,864	3,836,121	1,630,187
Depreciation and amortisation	2,744,845	1,397,905	1,103,358	122,090	347,049	34,362	2,264,665	771,285	6,459,917	2,325,642

Segment information by geographical segments is as follows:

	Germany	Slovakia	Poland	Latvia		Lithuania		Unallocated		Total	
LTL	I H 2006	I H 2006	I H 2006	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005
Revenue	7,508,725	6,244,368	7,210,450	10,817,175	9,901,902	7,523,151	6,090,116	6,860,622	275,098	46,164,491	16,267,116
Total assets by location of assets		49,811,299	566,999,160			88,998,820	59,783,915			705,809,279	59,783,915
Capital expenditures		1,057,783	1,539,013			1,239,325	1,630,187			3,836,121	1,630,187

5 Distribution expenses

	I H 2006	I H 2005
	LTL	LTL
Salaries and social insurance	2,650,195	264,591
Advertising	2,893,568	384,970
Marketing services	1,734,128	222,118
Amortisation	209,183	45,304
Transportation expenses	376,823	9,899
Depreciation	42,183	15,106
Other	1,938,619	22,898
	9,844,699	968,758

6 Administrative expenses

	I H 2006	I H 2005
	LTL	LTL
Salaries and social insurance	3,491,774	992,049
Depreciation	537,220	624,148
Advisory services	476,638	387,192
Maintenance materials	272,958	134,017
Property taxes	174,060	203,324
Utilities	198,380	109,114
Security services	127,157	122,607
Business trips	285,796	69,898
Repair of premises	31,921	155,912
Communication expenses	130,444	29,142
Redundancy payments	2,273,664	17,427
Amortization	77,988	11,276
Rent	102,790	0
Other	1,747,827	502,266
	9,928,617	3,358,372

7 Other operating income and expenses

	I H 2006	I H 2005
	LTL	LTL
Other operating income:		
Proceeds from sales of current assets	11,076,936	36,623
Proceeds of services rendered	1,189,339	0
Rent and utilities income	173,385	539,489
Proceeds from sales of materials, spare parts	537,749	177,960
Decrease of hopeless receivables	31,181	0
Other services	1,069,740	0
Total other operating income	14,078,329	754,072
Other operating expense:		
Cost of current assets sold	59,106	31,232
Cost of services rendered	155,066	232,815
Loss on disposal of tangible non current assets	60,478	0
Increase of hopeless receivables	751,987	0
Others	2,084,130	0
Total other operating expense	3,110,769	264,047
Profit/ loss from other activities	10,967,560	490,025

8 Financial income and expenses

	I H 2006	I H 2005
	LTL	LTL
Financial income:		
Delays and fines received	137,054	262,976
Interest income	-89,731	1,269
Foreign exchange gain	2,811,981	21,213
Other	61,900	336
Total financial income	2,921,204	285,794
Financial expenses:		
Delays and fines paid	118,197	0
Interest on borrowings	3,947,203	293,836
Foreign exchange loss	870,767	-61,917
Other	-362,609	155
Total financial expenses	4,573,559	232,075
Result of financial activities	-1,652,355	53,719

9 Corporate income tax expenses

	I H 2006	I H 2005
	LTL	LTL
Current tax expense		
Current tax	1,747,519	453,146
Deferred tax expense		
Occurrence and realisation of temporary differences	-90,697	0
Total income tax expense	1,656,822	453,146

The reconciliation of effective tax rate is as follows:

LTL	I H 2006		I H 2005	
Result before tax		7,006,829		2,929,071
Income tax using effective tax rate	19.00%	1,331,298	15.0%	439,361
Delays and fines received	-0.08%	-5,643	0.00%	0
Disposal of tangible fixed assets	0.03%	1,792	0.15%	4,356
Write down of inventories	0.08%	5,726	0.10%	2,937
Subsidarie‘s costs	0.19%	13,454	0.00%	0
Tax corrections for previous periods	-20.12%	-1,409,512	0.00%	0
Corrections related to loss of subsidiaries	25.78%	1,806,537		0
Other	0.04%	3,867	0.22%	6,492
	24.94%	1,747,519	15.47%	453,146

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

LTL	I H 2006		I H 2005	
	Temporary diff.	Deferred tax (18-19%)	Temporary diff.	Deferred tax (15%)
Impairment of receivables	232,720	43,447	387,335	58,100
Accrued expense	412,501	78,375	86,000	12,900
Deductible temporary differences on fixed assets	2,618,263	497,470	0	0
Net balance on June 30	3,263,484	619,292	473,335	71,000

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

10 Staff costs

	I H 2006	I H 2005
	LTL	LTL
Wages and social security contributions in production costs	8,349,749	1,212,479
Salaries and social security costs in selling expenses	2,650,195	264,591
Salaries and social security costs administrative	3,491,774	992,049
Redundancy payments in administration expenses	704,104	17,427
	15,195,822	2,486,546

Staff costs include wages and salaries and emoluments for the management (General Director, Chief Financial Officer, Production Director, Sales Director, Procurement Director, Head of Quality Assurance, Chief Engineer, Head of Legal and General Affairs Division, Chief Accountant, Project Director), of 673,795 litas (I H 2005 – 406,911 litas).

At the end of I H 2006, the Group employed 1,501 employees (I H 2005 – 218 employees).

11 Property, plant and equipment

LTL	Land	Buildings	Machinery and equipment	Vehicles and other assets	Construc-tion in progress	Total
Cost as at 01 01 2005	0	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Additions	0	0	1,310,105	255,363	731,702	2,297,170
Disposals	0	0	-403,150	-47,085	-695,924	-1,146,159
Cost as at 30 06 2005	0	21,938,984	21,559,848	975,929	1,432,109	45,906,870
Depreciation as at 01 01 2005	0	4,237,466	12,679,356	387,951	0	17,304,773
Depreciation during the period	0	564,266	1,659,901	46,711	0	2,270,878
Disposals	0	0	-383,850	-43,788	0	-427,638
Depreciation as at 30 06 2005	0	4,801,732	13,955,407	390,874	0	19,148,013
NET BOOK VALUE AT 30 06 2005	0	17,137,252	7,604,441	585,055	1,432,109	26,758,857
Cost as at 30 06 2005	0	21,938,984	21,559,848	975,929	1,432,109	45,906,870
Additions	0	235,242	-42,312	194,687	7,017,042	7,404,659
Acquisition of subsidiary Hoechst Biotika	821,404	22,768,437	11,043,831	1,298,865	11,997	35,944,534
Disposals	0	0	-1,913,246	-232,439	590,866	-1,554,819
Reclassified to assets held for sale	0	-20,526,432	-676,229	0	0	-21,202,661
Reversal of impairment	0	0	0	0	196,613	196,613
Other reclassifications	0	0	278,019	0	-278,019	0
Effect of movements in foreign exchange rates	27,584	769,082	372,673	43,801	171	1,213,311
Cost as at 31 12 2005	848,988	25,185,313	30,622,584	2,280,843	8,970,779	67,908,507
Depreciation as at 30 06 2005	0	4,801,732	13,955,407	390,874	0	19,148,013
Depreciation during the period	0	1,530,061	2,762,343	283,112	0	4,575,516
Disposals	0	0	-1,889,723	-184,762	0	-2,074,485
Reclassified to assets held for sale	0	-5,247,378	-144,983	0	0	-5,392,361
Effect of movements in foreign exchange rates	0	19,210	18,396	1,073	0	38,679
Depreciation as at 31 12 2005	0	1,103,625	14,701,440	490,297	0	16,295,362
NET BOOK VALUE AT 31 12 2005	848,988	24,081,688	15,921,144	1,790,546	8,970,779	51,613,145
Cost as at 01 01 2006	848,988	25,185,313	30,622,584	2,280,843	8,970,779	67,908,507
Acquisition of subsidiary Jelfa	174,480	154,442,159	70,982,040	14,773,239	1,967,771	242,339,689
Additions	0	117,207	308,866	359,516	2,269,861	3,055,450
Disposals	0	-7,003	-826,261	-136,389	-457,232	-1,426,885
Effect of movements in foreign exchange rates	-19,619	-5,447,149	-2,504,736	-506,644	-64,663	-8,542,811
Cost as at 30 06 2006	1,003,849	174,290,527	98,582,493	16,770,565	12,686,516	303,333,950
Depreciation as at 01 01 2006	0	1,103,625	14,701,440	490,297	0	16,295,362
Depreciation during the period	0	1,737,230	3,686,502	661,784	0	6,085,516
Disposals	0	-505	-719,417	-478,431	0	-1,198,353
Effect of movements in foreign exchange rates	0	-36,458	-41,344	-11,238	0	-89,040
Depreciation as at 30 06 2006	0	2,803,892	17,627,181	662,412	0	21,093,485
NET BOOK VALUE AT 30 06 2006	1,003,849	171,486,635	80,955,312	16,108,153	12,686,516	282,240,465

Leased property, plant and equipment

As at 30 June 2006, the Company has equipment with a carrying amount of Litas 1,431,699 and vehicles with a carrying amount of Litas 2,078,414 leased under financial leasing contracts (where the Company is a lessee).

As at 30 June 2006, the Company has no assets leased under operational lease contracts (where the Company is a lessor).

Sanitas AB on 30 June 2006 rented place for industrial, manufacturing, storage and administrative rooms (altogether11,703.95 square meters) from UAB Laikinosios sostinės projektai.

Pledges

As at 30 June 2006, buildings and equipment with a carrying amount of Litas 68,381,925 are pledged for the bank loans (refer to Note 21).

Depreciation

Depreciation of tangible assets has been allocated as follows:

	I H 2006	I H 2005
	LTL	LTL
Production costs	5,506,113	765,926
Administrative expenses	537,220	624,148
Distribution expenses	42,183	15,106
Total	6,085,516	2,270,878

12 Intangible fixed assets

LTL	Registration certificates, licenses	Software, etc.	Total
Acquisition value as at 01 01 2005	346,397	305,215	651,612
Additions during the period	12,574	7,725	20,299
Disposal	-33,040	0	-33,040
Acquisition value as at 30 06 2005	325,931	312,940	638,871
Amortization as at 01 01 2005	168,676	237,900	406,576
Amortization for the period	45,304	11,276	56,580
Disposal	-33,037	0	-33,037
Amortization as at 30 06 2005	180,943	249,176	430,119
NET BOOK VALUE AT 30 06 2005	144,988	63,764	208,752
Acquisition value as at 30 06 2005	325,931	312,940	638,871
Acquisition of subsidiary Hoechst Biotika	0	109,006	109,006
Additions during the period	7,283	704,581	711,864
Disposal	-39,981	-48,603	-88,584
Foreign exchange difference	0	15,901	15,901
Acquisition value as at 31 12 2005	293,233	1,093,825	1,387,058
Amortization as at 30 06 2005	180,943	249,176	430,119
Amortization for the period	44,686	78,846	123,532
Disposal	-39,971	-42,773	-82,744
Foreign exchange difference	0	560	560
Amortization as at 31 12 2005	185,658	285,809	471,467
NET BOOK VALUE AT 31 12 2005	107,575	808,016	915,591

Continued

	Registration certificates, licenses	Software, etc.	Total
Acquisition value as at 31 12 2005	293,233	1,093,825	1,387,058
Acquisition of subsidiary Jelfa	5,491,495	9,019,672	14,511,167
Additions during the period	741,937	38,734	780,671
Disposal	-76,062	-86,341	-162,403
Foreign exchange difference	-180,456	-308,444	-488,900
Acquisition value as at 30 06 2006	6,022,147	9,757,446	16,027,593
Amortization as at 31 12 2005	185,658	285,809	471,467
Amortization for the period	92,653	281,747	374,400
Disposal	-52,193	0	-52,193
Foreign exchange difference	-781	-5,269	-6,050
Amortization as at 30 06 2006	225,337	562,287	787,624
NET BOOK VALUE AT 30 06 2006	6,044,810	9,195,160	15,239,970

Amortization of intangible assets has been allocated as follows:

	I H 2006	I H 2005
	LTL	LTL
Amortisation in production expenses	87,229	0
Distribution expenses	209,183	45,304
Administrative expenses	77,988	11,276
Total	374,400	56,580

13 Investments

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Jelfa shares (9,99% shares)	0	38,503,285	0
CIECH SA shares (0,68% shares)	7,230,035	0	0
Ośrodek Informacji Naukowej shares	4,242	0	0
Prepayment for Hoechst-Biotika shares	0	0	3,452,800
UAB Altisana shares (100% shares)	0	0	1,413,440
AB Endokrininiai preparatai shares (66% shares) in current assets	0	0	7,826,029
Total investments	7,234,277	38,503,285	12,692,269

Jelfa

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

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

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

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

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

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

On February 2006 AB Sanitas increased its holding in Jelfa up to 9.99% of shares.

On 27 February 2006, an official offer was placed on the Warsaw Stock Exchange for acquisition of 90.01% of shares at a price of 93 PLN per share. During the official offer 5,750,190 or 84.56% of shares were acquired.

Group owns 95,25% of shares of polish pharmaceutical company Jelfa SA from 30 June 2006.

Jelfa SA data is included in the consolidated financial statements from 1 June 2006.

CIECH SA

Polish company's investments in Ciech SA (listed on the Warsaw Stock Exchange) as at 30 June 2006 was 7,230,035 LTL Company deals with the import and export of chemical goods. These investments were presented in non-current assets and estimated according to the last traded price as at 30 June 2006.

Ośrodek Informacji Naukowej

Jelfa SA investments in Osriodek informacji Naukowej as at 30 June 2006 was 4,242 LTL.

14 Assets held for sale

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Real estate in Veiverių str., Kaunas	8,199,916	8,199,916	0
Total	8,199,916	8,199,916	0

Real estate held for sale

In September 2005, the company concluded a preliminary sale-purchase agreement concerning real estate located in Veiveriu str., Kaunas. In accordance with this agreement the company received a prepayment of Litas 800 thousand. A sale is expected in 2006. The fair value less cost to sell of the real estate held for sale was estimated by reference to an independent appraisal as well as the existing preliminary agreement. The assets' fair value less cost to sell is of Litas 8,688 thousand (after deduction of the cost to sell of Litas 302 thousand), which exceeds the carrying amount of the property as at 31 December 2005 and 30 June 2006. Consequently, the real estate is stated at its carrying amount before the reclassification to the assets held for sale at the end of 2005.

15 Inventories

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Finished goods	29,936,799	2,660,889	1,588,819
Raw material	19,351,090	6,931,155	3,574,439
Work in progress	9,225,780	1,322,849	1,028,501
Goods for resale	908,375	583,251	1,575,491
	59,422,044	11,498,144	7,767,250

At 30 June 2006, there were inventories carried at fair value less cost to sell (8,773,300 litas). 31 12 2005 and 30 06 2005 - there were no inventories carried at fair value less cost to sell.

Inventories expensed during the half-year can be specified as follows:

	I H 2006	I H 2005
	LTL	LTL
Cost of produced goods in cost of sales	28,699,548	9,554,659
Write down of inventories in administration expenses	-27,403	-1
Cost of sold materials in other operating expenses	59,106	31,229
	28,731,251	9,585,887

16 Trade receivables

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Net carrying amount	67,420,665	13,806,634	10,737,492

17 Other receivables

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Refundable VAT	3,903,585	922,428	0
Deferred charges	3,682,861	234,376	337,101
Other receivables	2,086,797	178,044	413,701
	9,673,243	1,334,848	750,802

18 Cash and cash equivalents

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Cash at bank	5,224,410	4,814,385	722,845
Call deposits	0	27,744	0
Cash in hand	108,077	4,510	21,458
Cash and cash equivalents	5,332,487	4,846,639	744,303

19 Capital and reserves

Share capital

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

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

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

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

In April 2006, 20,105,920 shares with a nominal value of 1 Litas per share were issued at 13 Litas per share. The share capital was increased by Litas 250,527,754, including the share premium of Litas 230,421,834.

As at 30 June 2006, the Company's share capital comprised of 31,105,920 ordinary shares with a nominal value of 1 Litas per share.

The share capital was fully paid as at 30 June 2005, 31 December 2005 and 30 June 2006.

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

Legal reserve

The legal reserve in the amount of 3,110,592 Litas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the net profit available for distribution are required until the legal reserve reaches 10% of the authorised capital. The legal reserve can only be used to cover losses.

Fair value reserve

Investments in equity securities held by the Company, except for investments in subsidiaries and associates, are stated at fair value, with any resultant gain or loss on re-measurement to fair value being recognised directly in equity. The fair value reserve represents fair value adjustments of Jelfa shares (see note 13) of Litas 3,755,896 less related deferred tax income of Litas 713,620 (see note 9). The net fair value reserve is a deduction from the equity as at 31 December 2005 and amounts to Litas 3,042,276. The cost price of Jelfa's shares was valuated on 31th of March 2006 and the real loss of shares revaluation was recalculated (look at clarification no. 13).

Other reserves

The Company had no other reserves as at 31 December 2005 and 30 June 2006. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

20 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares. The number of shares issued in 2005 is adjusted by the change in the nominal value of the company's ordinary registered shares from 5 LTL to 1 LTL and swapping each ordinary registered share of the nominal value of 5 LTL to 5 (five) ordinary registered shares of the nominal value of 1 LTL in November 2005.

	I H 2006	I H 2005
	LTL	LTL
Shares issued as at 1 January	11,000,000	1,791,059
Shares issued in April 2006	20,105,920	0

(continued)

	I H 2006	I H 2005
	LTL	LTL
Shares issued as at 30 June before the share spilt adjustment	31,105,920	1,791,059
Shares issued as at 30 June, adjusted for the share split	31,105,920	8,955,295
Average weighted number of shares in issue	21,052,960	8,955,295
Net profit for the half-year	5,615,279	2,475,925
Earnings per share	0.27	0.28

21 Interest bearing loans and borrowings

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Non-current liabilities			
Credit line facility from Sampo Bankas		0	5,489,635
Loan from Sampo Bankas		0	7,200,124
Credit line facility from SEB Vilniaus Bankas	4,443,753	4,803,147	0
SEB Vilniaus Bankas loans	12,628,925	16,362,025	0
Loan from Bank Pekao SA	24,205,756	0	
Loan from Bank Pekao SA and BZ WBK	245,588,148	0	
Financial leasing	1,245,857	244,172	647,658
Total non-current liabilities	288,112,439	21,409,344	13,337,417
Current liabilities			
Loan from associate AB Endokrininiai Preparatai			5,253,192
SEB Vilniaus Bankas credit facility	0	4,190,722	0
SEB Vilniaus Bankas loans	872,740	16,472,940	0
Loan from Bank Pekao SA	8,802,101	0	0
Loan from Nordea Bank Finland Plc	43,492	0	0
Bank Pekao SA credit facility	180,456	0	0
FBC AB Finasta, UAB Nenuorama loans	0	15,480,065	0
Loan from Tatra Bank	14,337,471	17,275,530	0
Financial leasing	1,201,278	401,988	193,799
Total current liabilities	25,437,539	53,821,245	5,446,991
Total interest bearing borrowings	**313,549,978**	**75,230,589**	**18,784,408**

Terms and repayment schedule of interest bearing borrowings

	Total	2006	2007	2008	2009
SEB Vilniaus Bankas, loan in Litas, bearing variable interest at 6 months EURLIBOR + 1.05%	7,200,124	872,740	2,618,220	2,618,220	1,090,944
SEB Vilniaus Bankas, loan in Litas - variable interest at 6 months EURLIBOR + 1.32%, having finished the construction of plant and having pledged it - EURLIBOR + 1.05%	6,301,541	0	2,094,908	2,285,355	1,921,278
SEB Vilniaus Bankas, credit facility in EUR and LTL bearing variable interest at 6 months EURLIBOR + 1.05%	4,443,753	0	0	4,443,753	0
A credit line of Tatra Bankas of 200,000 000 SKK with 1M BRIBOR+1.20 % interest	14,337,471	14,337,471	0	0	0
Bank Pekao SA loan in PLN – variable interest at 3 months WIBOR + 0.32	33,007,857	4,401,051	8,802,101	8,802,101	11,002,603
Bank Pekao SA and BZ WBK loan in PLN – variable interest at 3 months WIBOR + 1.75	245,588,148	0	26,313,016	35,084,021	35,084,021
A credit line of Bank Pekao SA in PLN - variable interest at 1 month WIBOR + 0.4	180,456	180,456	0	0	0
Nordea Bank Finland Plc loan	43,492	43,492	0	0	0
Sampo Bankas, leasing for acquisition of equipment for testing of tightness of ampoule preparations, variable interest at 6 months EURIBOR +1.9%	338,046	167,136	170,910	0	0
Sampo Bankas, finance leasing of 4 cars, variable interest at 6 months EURIBOR +1.9%	62,968	21,794	41,174	0	0
Sampo Bankas, finance leasing of a car, variable interest at 6 months EURIBOR +1.7%	46,393	14,305	32,088	0	0
Jelfa SA finance leasing acquisition of 44 cars and server– fixed payments and variable interest	1,999,728	476,513	1,065,416	337,185	120,614
Total	**313,549,977**	**20,514,958**	**41,137,833**	**53,570,635**	**49,219,460**

According to the loan agreement with SEB Vilniaus Bankas, the Company has unutilized Litas 22,288 thousand of a loan in Litas with variable interest of EURLIBOR plus 1.05 per cent margin, maturing in 2015. The purpose of the loan is for the financing of the construction of a new production plant.

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

22 Grants

On 21 January 2005, the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Business Development Agency and AB Sanitas concluded an agreement on grant for financing of construction of a new production plant of AB Sanitas. The total approved grant amounts to 16,157,151 Litas and is reimbursed after actual expenses on construction are incurred. By 30 June 2006, the Company has received grant of Litas 3,107,280. The expected compensation of construction costs during 2006 -2007 amounts to Litas 13,049,871.

23 Other creditors

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Taxes, salaries and social insurance payable	14,544,508	2,121,250	1,343,055
Vacation reserve	6,634,537	533,818	138,055
Accrued volume discounts to customers	422,238	423,192	21,593
Payable for real estate	0	0	10,300,000
Other payables and accrued charges	14,018,402	638,589	30,689
	35,619,685	3,716,849	11,834,192

24 Contingencies

As at 30 June 2006, buildings and equipment with a carrying amount of 68,381,925 Litas were pledged to secure the bank loans (refer to Note 18). Besides, investments of 43,984,960 Litas in Hoechst – Biotika, 530,570,161 Litas in Jelfa and 59,148 Litas cash in SEB Vilniaus bankas as at 30 June 2006 were pledged to secure those loans as well.

25 Related party transactions

The Company's related parties are its shareholders holding an interest that gives control or significant influence over the Company (refer to information on major shareholders on page 9), entities under common control with the Company, the Company's subsidiaries Altisana, Hoechst-Biotika and Sanitas Polska, members of the key management personnel of the mentioned companies, as well as close members of the family of the mentioned individuals.

The related party transactions in the first half of 2006 were as follows (LTL):

SALES TO SUBSIDIARIES		
UAB Atisana	Interest	3,964
Sanitas Polska	Interest	2,172,204
Hoechst – Biotika	Services	24,484
SALES TO ENTITY UNDER COMMON CONTROL WITH AB SANITAS SHAREHOLDERS:		
UAB Invalda Construction Management	Services	26,069
TOTAL		**2,226,721**
PURCHASES FROM SUBSIDIARIES		
Hoechst – Biotika	Pharmaceuticals	419,422
Hoechst – Biotika	Interest	378,226
UAB Altisana	Rent	208,000
PURCHASES FROM ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		
UAB Invalda Real Estate	Services	58,821
FBC AB Finasta	Services	17,199
FBC AB Finasta	Commission	100,700
FBC AB Finasta	Purchase of Jelfa shares	8,724,850
FBC AB Finasta	Interest	61,696
UAB Laikinosios sostinės projektai	Rent	104,000
PURCHASES FROM ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS		
UAB Nenuorama	Interest	247,858
TOTAL		**10,320,772**

Continued

PAYABLE TO SUBSIDIARY:		
Hoechst – Biotika	Loan	12,942,987
Hoechst – Biotika	Goods and services	95,372
UAB Altisana	Loan	10,234,400
PAYABLE TO ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		
FBC AB Finasta	Services	107,675
PAYABLE TO ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS:		
UAB Nenuorama	Interest	247,858
TOTAL		**23,628,292**
RECEIVABLE FROM SUBSIDIARY:		
Sanitas Polska	Loan	231,014,419
Sanitas Polska	Interest	1,954,983
TOTAL		**232,969,402**

Amounts paid to the management are disclosed in note 10.

26 Foreign currency

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

Credit risk

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

Foreign exchange risk

The Company's foreign currency risk incurred on sales, purchases and borrowings that are denominated in EUR is insignificant, as Litas is pegged to EUR at 3.4528 Litas for 1 EUR. The currency giving rise to foreign exchange risk is primarily US Dollars and Poland Zlotych. No financial instruments are used to hedge against the risk, as it is not considered to be significant.

Liquidity risk

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

Interest rate risk

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

The Company did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments.

27 Subsequent events

On 31 July, 2006 AB Sanitas subsidiary Sanitas Polska spol. z.o.o. completed the squezze-out procedure for Jelfa SA shares. According to the said procedure the minority of Polish pharmaceutical company's Jelfa SA shareholders were supposed to sell the shares they own in Jelfa SA to Sanitas Polska spol. z o.o. The number of shares covered by squeeze-out totals to 322,765 ordinary bearer shares with a nominal value of 4 (four) PLN each, that makes up 4,75 % of Jelfa SA statutory capital. The squeeze-out price – 93 PLN. Currently, AB Sanitas (9,9% shares of Jelfa SA) together with subsidiary holds 100 percent of Jelfa SA share capital.

At the Extraordinary General Meeting of Shareholders of Sanitas AB that took place on July 31, 2006 the following resolutions were adopted: to withdraw Saulius Jurgelenas and Dalius Kaziunas from the company‘s Management Board and elect Martynas Cesnavicius and Sunil Kumar Nair to the company‘s Management Board for the tenure of the Management Board in force.

NOTES TO THE HALF-YEARLY ACCOUNTS (AB SANITAS)

1 Significant accounting policies

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

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

In May 2004, AB Sanitas acquired a 40% interest in a limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in the production of pharmaceutical preparations. From May 2004, after accession to EU, new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory periods allowed. The relevant certifications were not acquired by Endokrininiai Preparatai and, consequently, on 15 April 2005 liquidation procedures of AB Endokrininiai Preparatai started. On 29 April 2005, AB Sanitas increased its holding to 67% of the shares acquiring control over the company. The liquidation was completed by the end of 2005, when final distributions were made to shareholders, the registration was cancelled on 28 April 2006.

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

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

Sanitas AB established a subsidiary Sanitas Polska Sp. z.o.o in Poland on 18th of January 2006. The purpose of establishing was an acquisition of the main block of shares of polish pharmaceutical company Jelfa SA.

The new emission of Sanitas AB shares was paid up on and the new statute was registered on 11th of April 2006. According to the new statute the authorized capital of Sanitas AB is completed of 31,105,920 shares which par value is 1LTL.

Group owns 95,25% of shares of polish pharmaceutical company Jelfa SA from 30 June 2006.

Statement of compliance

These financial statements are separate financial statements of the parent company AB Sanitas and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), further to the IAS Regulation (EC 1606/2002).

Basis of preparation

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

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

The accounting policies of the Company as set out below have been applied consistently by Company entities and are consistent with those of the preceding year, except as a result of change in accounting policies resulting from amendments to existing IFRSs and the introduction of new IFRSs applicable from 1 January 2006 which are described in Note 2.

Investments in subsidiaries and associates

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

Foreign currency

Foreign currency transactions

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

Derivative financial instruments

The Company does not have derivative financial instruments.

Property, plant and equipment

Owned assets

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

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

Leased assets

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

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

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

Useful lives – 1 litas. Residual values and depreciation methods are reassessed for each separate.

Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

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

Subsequent expenditure

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

Amortisation

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

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

Financial instruments

Investments in equity securities

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

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

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

Other financial instruments

Loans and receivables are non derivative financial assets or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivables are initially recongised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

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

Inventories

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

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

Cash and cash equivalents

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

Impairment

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

For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

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

Calculation of recoverable amount

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

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

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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

Repurchase of share capital

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

Dividends

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

Revenue

Goods sold and services rendered

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

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

Government grants

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

Expenses

Operating lease payments

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

Finance lease payments

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

Net financing costs

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

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

Income tax

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

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

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

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

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

Segment reporting

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

Non-current assets held for sale

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

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

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

2 Change in accounting policies

Adoption of standards effective from 1 January 2006

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

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

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

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

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

Adoption of standards effective from 1 January 2007

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

3 Critical accounting estimates and judgments

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

Critical accounting estimates and assumptions

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

Impairment losses on receivables

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Judgments

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

4 SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments.

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

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

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

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

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

LTL	Injection preparations		Tablets		Ointments, eye drops, tinctures		Unallocated		Total	
	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005
Revenue	12,011,602	12,372,205	3,671,687	1,800,611	1,873,616	2,091,200	360	3,100	17,557,265	16,267,116
Gross profit	5,411,004	4,461,751	2,214,284	876,762	915,996	1,371,728	360	2,216	8,541,644	6,712,457
Operating expense	-3,391,565	-3,186,976	-531,236	-260,829	-311,656	-389,300	0	0	-4,234,457	-3,837,105
Financing cost							1,120,808	53,719	1,120,808	53,719
Dividends from subsidiaries							3,975,733	0	3,975,733	0
Profit before tax	2,019,439	1,274,775	1,683,048	615,933	604,340	982,428	5,096,901	55,935	9,403,728	2,929,071
Income tax							-1,053,327	-453,146	-1,053,327	-453,146
Half-year profit	2,019,439	1,274,775	1,683,048	615,933	604,340	982,428	4,043,574	-397,211	8,350,401	2,475,925
Total assets	1,463,611	9,557,123	154,979	524,369	575,261	760,723	365,056,319	48,941,700	367,250,170	59,783,915
Total liabilities	2,534,615	2,484,117	376,903	315,292	192,329	366,175	49,334,103	30,754,576	52,437,950	33,920,160
Acquisition of non-current assets	0	42,230	241	113,644	4,718	671,449	1,234,366	802,864	1,239,325	1,630,187
Depreciation and amortisation	1,258,966	1,397,905	21,821	122,090	76,635,	34,362	365,631	771,285	1,723,053	2,325,642

Segment information by geographical segments is as follows:

	Latvia		Lithuania		Unallocated		Total	
LTL	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005	I H 2006	I H 2005
Revenue	9,964,567	9,901,902	7,028,102	6,090,116	564,596	275,098	17,557,265	16,267,116
Total assets by location of assets			367,250,170	59,783,915			367,250,170	59,783,915
Capital expenditures			1,239,325	1,630,187			1,239,325	1,630,187

5 Distribution expenses

	I H 2006	I H 2005
	LTL	LTL
Salaries and social insurance	392,433	264,591
Advertising	239,135	384,970
Marketing services	377,409	222,118
Amortisation	40,870	45,304
Transportation expenses	38,251	9,899
Communication expenses	17,148	9,039
Depreciation	16,404	15,106
Other	34,875	17,731
	1,156,523	968,758

6 Administrative expenses

	I H 2006	I H 2005
	LTL	LTL
Salaries and social insurance	1,450,356	992,049
Depreciation	300,336	624,148
Advisory services	306,132	387,192
Maintenance materials	163,386	134,017
Property taxes	95,692	203,324
Utilities	196,593	109,114
Security services	127,157	122,607
Business trips	211,817	69,898
Repair of premises	14,216	155,912
Communication expenses	86,921	29,142
Redundancy payments	62,785	17,427
Amortization	5,385	11,276
Rent	310,323	0
Other	240,783	502,266
	3,571,882	3,358,372

7 Other operating income and expenses

	I H 2006	I H 2005
	LTL	LTL
Other operating income:		
Proceeds from sales of current assets	57,466	36,620
Rent and utilities income	173,385	539,489
Proceeds from sales of materials, spare parts	537,748	177,960
Total other operating income	768,599	754,069
Other operating expense:		
Cost of current assets sold	59,106	31,229
Cost of services rendered	155,067	232,815
Loss on disposal of tangible non current assets	60,478	0
Total other operating expense	274,651	264,044
Profit/ loss from other activities	493,948	490,025

8 Financial income and expenses

	I H 2006	I H 2005
	LTL	LTL
Financial income:		
Delays and fines received	29,700	262,976
Interest income	2,179,215	1,269
Foreign exchange gain	30,352	21,213
Other	61,828	336
Total financial income	2,301,095	285,794
Financial expenses:		
Interest on borrowings	1,133,432	293,836
Foreign exchange loss	40,183	-61,917
Other	6,672	156
Total financial expenses	1,180,287	232,075
Result of financial activities	1,120,808	53,719

9 Corporate income tax expenses

	I H 2006	I H 2005
	LTL	LTL
Current tax expense		
Current tax	1,053,327	453,146
Deferred tax expense		
Deferred tax income	0	0
Total income tax expense	1,053,327	453,146

The reconciliation of effective tax rate is as follows:

LTL	I H 2006		I H 2005	
Result before tax		9,403,728		2,929,071
Income tax using effective tax rate	19.00%	1,786,708	15.0%	439,361
Dividends received	-8.03%	-755,389		
Delays and fines received	-0.06%	-5,643		
Disposal of tangible fixed assets	0.02%	1,792	0.15%	4,356
Write down of inventories	0.06%	5,726	0.10%	2,937
Subsidiarie‘s costs	0.08%	7,354		
Tax corrections for previous periods	0.09%	8,912		
Other	0.04%	3,867	0.22%	6,492
	11.21%	1,053,327	15.47%	453,146

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

LTL	I H 2006		I H 2005	
	Temporary diff	Deferred tax (18-19%)	Temporary diff.	Deferred tax (15%)
Impairment of receivables	232,720	43,447	387,335	58,100
Accrued expense	412,501	78,375	86,000	12,900
Net balance on June 30	645,221	121,822	473,335	71,000

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

10 Staff costs

	I H 2006	I H 2005
	LTL	LTL
Wages and social security contributions in production costs	1,539,515	1,212,479
Salaries and social security costs in selling expenses	392,433	264,591
Salaries and social security costs administrative	1,450,356	992,049
Redundancy payments in administration expenses	62,785	17,427
	3,445,089	2,486,546

Staff costs include wages and salaries and emoluments for the management (General Director, Chief Financial Officer, Production Director, Sales Director, Procurement Director, Head of Quality Assurance, Chief Engineer, Head of Legal and General Affairs Division, Chief Accountant, Project Director), of 673,795 litas (I H 2005 – 406,911 litas).

At the end of first half of 2006, the Company employed 201 employees (I H 2005 – 218 employees).

11 Property, plant and equipment

LTL	Buildings	Machinery and equipment	Vehicles and other assets	Construc-tion in progress	Total
Cost as at 01 01 2005	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Additions	0	1,310,105	255,363	731,702	2,305,813
Disposals	0	-403,150	-47,085	-695,924	-1,146,159
Cost as at 30 06 2005	21,938,984	21,559,848	975,929	1,432,109	45,906,870
Depreciation as at 01 01 2005	4,237,466	12,679,356	387,951	0	17,304,773
Depreciation during the period	564,266	1,659,901	46,711	0	2,270,878
Disposals	0	-383,850	-43,788	0	-427,638
Depreciation as at 30 06 2005	4,801,732	13,955,407	390,874	0	19,148,013
NET BOOK VALUE AT 30 06 2005	17,137,252	7,604,441	585,055	1,432,109	26,758,857

(continued)

LTL	Buildings	Machinery and equipment	Vehicles and other assets	Construc-tion in progress	Total
Cost as at 30 06 2005	21,938,984	21,559,848	975,929	1,432,109	45,906,870
Additions	0	50,970	15,173	7,435,425	7,501,568
Disposals	-11,634,957	-2,499,450	-16,712	-93,368	-14,244,487
Reclassified to assets held for sale	-8,891,475	0	0	0	-8,891,475
Reversal of impairment	0	0	0	196,613	196,613
Other reclassifications	0	0	-45,792	0	-45,792
Cost as at 31 12 2005	1,412,552	19,111,368	928,598	8,970,779	30,423,297
Depreciation as at 30 06 2005	4,801,732	13,955,407	390,874	0	19,148,013
Depreciation during the period	523,153	1,718,523	57,044	0	2,298,720
Disposals	-4,555,819	-1,955,125	-14,917	0	-6,525,861
Reclassified to assets held for sale	-691,559	0	0	0	-691,559
Depreciation as at 31 12 2005	77,507	13,718,805	433,001	0	14,229,313
NET BOOK VALUE AT 31 12 2005	1,335,045	5,392,563	495,597	8,970,779	16,193,984
Cost as at 01 01 2006	1,412,552	19,111,368	928,598	8,970,779	30,423,297
Additions	0	57,539	241	1,140,394	1,198,174
Disposals	-7,003	-555,035	-10,320		-572,358
Cost as at 30 06 2006	1,405,549	18,613,873	918,518	10,111,173	31,049,113
Depreciation as at 01 01 2006	77,507	13,718,805	433,001	0	14,229,313
Depreciation during the period	7,736	1,613,896	55,165	0	1,676,797
Disposals	-505	-503,830	-8,036	0	-512,371
Depreciation as at 30 06 2006	84,738	14,828,871	480,130	0	15,393,739
NET BOOK VALUE AT 30 06 2006	1,320,811	3,785,001	438,389	10,111,173	15,655,374

Leased property, plant and equipment

As at 30 June 2006, the Company has equipment with a carrying amount of Litas 738,050 and vehicles with a carrying amount of Litas 183,676 leased under financial leasing contracts (where the Company is a lessee).

As at 30 June 2006, the Company has no assets leased under operational lease contracts (where the Company is a lessor).

Sanitas AB on 30 June 2006 rented place for industrial, manufacturing, storage and administrative rooms (altogether11,703.95 square meters) from UAB Laikinosios sostinės projektai.

Pledges

As at 30 June 2006, buildings and equipment with a carrying amount of Litas 6,540,996 are pledged for the bank loans (refer to Note 21).

Depreciation

Depreciation of tangible assets has been allocated as follows:

	I H 2006	I H 2005
	LTL	LTL
Production costs	1,360,057	1,631,624
Administrative expenses	300,336	624,148
Distribution expenses	16,404	15,106
Total	1,676,797	2,270,878

12 Intangible fixed assets

LTL	Registration certificates, licenses	Software, etc.	Total
Acquisition value as at 01 01 2005	346,397	305,215	651,612
Additions during the period	12,574	7,725	20,299
Disposal	-33,040	0	-33,040
Acquisition value as at 30 06 2005	325,931	312,940	638,871
Amortization as at 01 01 2005	168,676	237,900	406,576
Amortization for the period	45,304	11,276	56,580
Disposal	-33,037	0	-33,037
Amortization as at 30 06 2005	180,943	249,176	430,119
NET BOOK VALUE AT 30 06 2005	144,988	63,764	208,752
Acquisition value as at 30 06 2005	325,931	312,940	638,871
Additions during the period	7,283	23,627	30,910
Disposal	-39,981	-9,235	-49,216
Acquisition value as at 31 12 2005	293,233	327,332	620,565
Amortization as at 30 06 2005	180,943	249,176	430,119
Amortization for the period	44,686	10,189	54,875
Disposal	-39,971	-3,405	-43,376
Amortization as at 31 12 2005	185,658	255,960	441,618
NET BOOK VALUE AT 31 12 2005	107,575	71,372	178,947
Acquisition value as at 31 12 2005	293,233	327,332	620,565
Additions during the period	9,110	32,041	41,151
Disposal	-35,451		-35,451
Acquisition value as at 30 06 2006	266,892	359,373	626,265
Amortization as at 31 12 2005	185,658	255,960	441,618
Amortization for the period	40,870	5,385	46,255
Disposal	-35,446		-35,446
Amortization as at 30 06 2006	191,082	261,345	452,427
NET BOOK VALUE AT 30 06 2006	75,810	98,028	173,838

Amortization of intangible assets has been allocated as follows:

	I H 2006	I H 2005
	LTL	LTL
Distribution expenses	40,870	45,304
Administrative expenses	5,385	11,276
Total	46,255	56,580

13 Investments

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Hoechst – Biotika shares (100% shares)	43,984,960	43,984,960	0
Prepayment for Hoechst-Biotika shares	0	0	3,452,800
Sanitas Polska (100 % shares)	45,175	0	0
Jelfa shares (9,99% shares)	51,527,540	38,503,285	0
UAB Altisana shares (100% shares)	1,413,440	1,413,440	1,413,440
Investments included in non current assets	96,971,115	83,901,685	4,866,240
AB Endokrininiai preparatai shares (66% shares) in current assets	0	4,741,835	7,826,029
Total investments	96,971,115	88,643,520	12,692,269

Hoechst-Biotika

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

Altisana

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

In 2005, the Company took a decision to sell the real estate of UAB Altisana together with production premises of AB Sanitas. On 30 December 2005, AB Sanitas sold its production premises to UAB Altisana for Litas 13, 460,000 realising a gain of Litas 5,849,651. The price of the disposal was set as per independent appraisal report as at the end of 2005. UAB Altisana sold the real estate to UAB Laikinosios Sostinės projektai on 2 May 2006.

From 30 December 2005 till 25 April 2006, production premises were leased by AB Sanitas from UAB Altisana. After expected disposal of the real estate to third party, the production premises will be leased by AB Sanitas until the new production plant is constructed, which is expected by the end of 2006.

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

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

Jelfa

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

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

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

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

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

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

On February 2006 AB Sanitas increased its holding in Jelfa up to 9.99% of shares.

On 27 February 2006, an official offer was placed on the Warsaw Stock Exchange for acquisition of 90.01% of shares at a price of 93 PLN per share. During the official offer 5,750,190 or 84.56% of shares were acquired.

Company[0] and it‘s subsidiary Sanitas Polska owns 95,25% of shares of polish pharmaceutical company Jelfa SA from 30 June 2006.

Jelfa SA data is included in the consolidated AB Sanitas financial statements from 1 June 2006.

Investment in AB Endokrininiai Preparatai

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

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

14 Assets held for sale

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Real estate in Veiverių str., Kaunas	8,199,916	8,199,916	0

Real estate held for sale

In September 2005, the company concluded a preliminary sale-purchase agreement concerning real estate located in Veiveriu str., Kaunas. In accordance with this agreement the company received a prepayment of Litas 800 thousand. A sale is expected in 2006. The fair value less cost to sell of the real estate held for sale was estimated by reference to an independent appraisal as well as the existing preliminary agreement. The assets' fair value less cost to sell is of Litas 8,688 thousand (after deduction of the cost to sell of Litas 302 thousand), which exceeds the carrying amount of the property as at 31 December 2005 and 30 June 2006. Consequently, the real estate is stated at its carrying amount before the reclassification to the assets held for sale at the end of 2005.

15 Inventories

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Finished goods	1,456,237	1,536,800	1,588,819
Raw material	2,862,583	3,621,088	3,574,439
Work in progress	243,226	249,044	1,028,501
Goods for resale	931,763	626,573	1,575,491
	5,493,809	6,033,505	7,767,250

At 30 June 2006, there are no inventories carried at fair value less cost to sell (31 12 2005 and 31 03 2006: Litas 0).

Inventories expensed during the half-year can be specified as follows:

	I H 2006	I H 2005
	LTL	LTL
Cost of produced goods in cost of sales	9,015,621	9,554,659
Write down of inventories in administration expenses	-27,403	-1
Cost of sold materials in other operating expenses	59,106	31,229
	9,047,324	9,585,887

16 Trade receivables

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Net carrying amount	6,397,135	6,570,785	10,737,492

17 Other receivables

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Loans receivable from subsidiary	231,014,419	823,081	0
Receivable from subsidiary	1,954,983	2,295,679	211,415
Refundable VAT	409,801	349,243	0
Deferred charges	253,002	70,147	337,101
Other receivables	239,627	60,841	202,286
	233,871,832	3,598,991	750,802

The loans of LTL 231,014,419 was given to Sanitas Polska with interest rate of 4,3% a year and must be returned till March-June of 2007.

18 Cash and cash equivalents

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Cash at bank	81,519	1,555,091	722,845
Cash in hand	26,445	4,510	21,458
Cash and cash equivalents	107,964	1,559,601	744,303

19 Capital and reserves

Share capital

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

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

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

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

In April 2006, 20,105,920 shares with a nominal value of 1 Litas per share were issued at 13 Litas per share. The share capital was increased by Litas 250,527,754, including the share premium of Litas 230,421,834

As at 30 June 2006, the Company's share capital comprised of 31,105,920 ordinary shares with a nominal value of 1 Litas each.

The share capital was fully paid as at 30 June 2005, 31 December 2005 and 30 June 2006.

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

Legal reserve

The legal reserve in the amount of 3,110,592 Litas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the net profit available for distribution are required until the legal reserve reaches 10% of the authorised capital. The legal reserve can only be used to cover losses.

Fair value reserve

Investments in equity securities held by the Company, except for investments in subsidiaries and associates, are stated at fair value, with any resultant gain or loss on re-measurement to fair value being recognised directly in equity. The fair value reserve represents fair value adjustments of Jelfa shares (see note 13) of Litas 3,755,896 less related deferred tax income of Litas 713,620 (see note 9). The net fair value reserve is a deduction from the equity as at 31 December 2005 and amounts to Litas 3,042,276. The cost price of Jelfa's shares was valuated on 31th of March 2006 and the real loss of shares revaluation was recalculated (look at clarification no. 13).

Other reserves

The Company had no other reserves as at 31 December 2005 and 30 June 2006. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

20 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares. The number of shares in issue in 2005 is adjusted by the share split 5 for 1 effected in November 2005.

	I H 2006	I H 2005
	LTL	LTL
Shares issued as at 1 January	11,000,000	1,791,059
Shares issued in April 2006	20,105,920	0
Shares issued as at 30 June before the share spilt adjustment	31,105,920	1,791,059
Shares issued as at 30 June, adjusted for the share split	31,105,920	8,955,295
Average weighted number of shares in issue	21,052,960	8,955,295
Net profit for the half-year	8,350,401	2,475,925
Earnings per share	0.40	0.28

21 Interest bearing loans and borrowings

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Non-current liabilities			
Credit line facility from Sampo Bankas	0	0	5,489,635
Loan from Sampo Bankas	0	0	7,200,124
Credit line facility from SEB Vilniaus Bankas	4,443,753	4,803,147	0
SEB Vilniaus Bankas loans	12,628,925	16,362,025	0
Financial leasing	244,172	244,172	647,658
Total non-current liabilities	17,316,850	21,409,344	13,337,417
Current liabilities			
Loan from associate AB Endokrininiai Preparatai	0	0	5,253,192
SEB Vilniaus Bankas credit facility	0	4,190,722	0
SEB Vilniaus Bankas loans	872,740	4,872,940	0
FBC AB Finasta, UAB Nenuorama loans	0	15,480,065	0
Loan from subsidiaryies	23,177,386	17,264,000	0
Financial leasing	203,235	401,988	193,799
Total current liabilities	24,253,361	42,209,715	5,446,991
Total interest bearing borrowings	41,570,211	63,619,059	18,784,408

Terms and repayment schedule of interest bearing borrowings

	Total	2006	2007	2008	2009
SEB Vilniaus Bankas, loan in Litas, bearing variable interest at 6 months EURLIBOR + 1.05%	7,200,124	872,740	2,618,220	2,618,220	1,090,944
SEB Vilniaus Bankas, loan in Litas - variable interest at 6 months EURLIBOR + 1.32%, having finished the construction of plant and having pledged it - EURLIBOR + 1.05%	6,301,541		2,094,908	2,285,355	1,921,278
SEB Vilniaus Bankas, credit facility in EUR and LTL bearing variable interest at 6 months EURLIBOR + 1.05%	4,443,753			4,443,753	
Loan from subsidiary Hoechst – Biotika with 5% p.a. fixed interest , maturing in November 2006	12,942,987	12,942,987			
Loan from UAB Altisana with 5% p.a. fixed interest, maturing in March 2007	10,234,400		10,234,400		
Sampo Bankas, leasing for acquisition of equipment for testing of tightness of ampoule preparations, variable interest at 6 months EURIBOR +1.9%	338,046	167,136	170,910		
Sampo Bankas, finance leasing of 4 cars, variable interest at 6 months EURIBOR +1.9%	62,968	21,794	41,174		
Sampo Bankas, finance leasing of a car, variable interest at 6 months EURIBOR +1.7%	46,393	14,305	32,088		
Total	**41,570,212**	**14,018,962**	**15,191,700**	**9,347,328**	**3,012,222**

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

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

22 GRANTS

On 21 January 2005, the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Business Development Agency and AB Sanitas concluded an agreement on grant for financing of construction of a new production plant of AB Sanitas. The total approved grant amounts to 16,157,151 Litas and is reimbursed after actual expenses on construction are incurred. By 30 June 2006, the Company has received grant of Litas 3,107,280. The expected compensation of construction costs during 2006 -2007 amounts to Litas 13,049,871.

23 Other creditors

	30 06 2006	31 12 2005	30 06 2005
	LTL	LTL	LTL
Taxes, salaries and social insurance payable	585,510	565,717	461,827
Vacation reserve	477,515	376,606	138,855
Accrued volume discounts to customers	364,004	423,192	21,593
Payable for real estate	0	0	10,300,000
Other payables and accrued charges	251,872	153,748	30,689
	1,678,901	1,519,263	10,952,964

24 Contingencies

As at 30 June 2006, buildings and equipment with a carrying amount of 6 540 996 Litas were pledged to secure the bank loans (refer to Note 18). Besides, investments of 43,984,960 Litas in Hoechst – Biotika, 51 527 540 Litas in Jelfa and 59,148 Litas cash in SEB Vilniaus bankas were pledged to secure those loans as well.

25 Related party transactions

The Company's related parties are its shareholders holding an interest that gives control or significant influence over the Company (refer to information on major shareholders on page 9), entities under common control with the Company, the Company's subsidiaries Altisana, Hoechst-Biotika and Sanitas Polska, members of the key management personnel of the mentioned companies, as well as close members of the family of the mentioned individuals.

The related party transactions in the first half of 2006 were as follows (LTL):

SALES TO SUBSIDIARIES		
UAB Atisana	Interest	3,964
Sanitas Polska	Interest	2,172,204
Hoechst – Biotika	Services	24,484
SALES TO ENTITY UNDER COMMON CONTROL WITH AB SANITAS SHAREHOLDERS:		
UAB Invalda Construction Management	Services	26,069
TOTAL		**2,226,721**
PURCHASES FROM SUBSIDIARIES		
Hoechst – Biotika	Pharmaceuticals	419,422
Hoechst – Biotika	Interest	378,226
UAB Altisana	Rent	208,000
PURCHASES FROM ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		
UAB Invalda Real Estate	Services	58,821
FBC AB Finasta	Services	17,199
FBC AB Finasta	Commission	100,700
FBC AB Finasta	Purchase of Jelfa shares	8,724,850
FBC AB Finasta	Interest	61,696
UAB Laikinosios sostinės projektai	Rent	104,000
PURCHASES FROM ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS		
UAB Nenuorama	Interest	247,858
TOTAL		**10,320,772**

continued

PAYABLE TO SUBSIDIARY:		
Hoechst – Biotika	Loan	12,942,987
Hoechst – Biotika	Goods and services	95,372
UAB Altisana	Loan	10,234,400
PAYABLE TO ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		
FBC AB Finasta	Services	107,675
PAYABLE TO ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS:		
UAB Nenuorama	Interest	247,858
TOTAL		**23,628,292**
RECEIVABLE FROM SUBSIDIARY:		
Sanitas Polska	Loan	231,014,419
Sanitas Polska	Interest	1,954,983
TOTAL		**232,969,402**

Amounts paid to the management are disclosed in note 10.

26 Foreign currency

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

Credit risk

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

Foreign exchange risk

The Company's foreign currency risk incurred on sales, purchases and borrowings that are denominated in EUR is insignificant, as Litas is pegged to EUR at 3.4528 Litas for 1 EUR. The currency giving rise to foreign exchange risk is primarily US Dollars and Poland Zlotych. No financial instruments are used to hedge against the risk, as it is not considered to be significant.

Trade receivables, payables and cash in foreign currency as at 30 June 2006 can be resolved as follows:

LTL	EUR	USD	DKK
Official currency rate	3,4528	2,7529	0,46293
Prepayments	464,733	1,514	409
Cash	59,168	21,517	
Loans	-15,118,179		
Trade and other creditors	-1,122,401	-53,599	
Trade receivables	4,520,573		
Net position	-11,196,106	-30,568	409

Liquidity risk

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

Interest rate risk

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

The Company did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments.

27 Subsequent events

On 31 July, 2006 AB Sanitas subsidiary Sanitas Polska spol. z.o.o. completed the squezze-out procedure for Jelfa SA shares. According to the said procedure the minority of Polish pharmaceutical company’s Jelfa SA shareholders were supposed to sell the shares they own in Jelfa SA to Sanitas Polska spol. z o.o. The number of shares covered by squeeze-out totals to 322,765 ordinary bearer shares with a nominal value of 4 (four) PLN each, that makes up 4,75 % of Jelfa SA statutory capital. The squeeze-out price – 93 PLN. Currently, AB Sanitas (9,9% shares of Jelfa SA) together with subsidiary holds 100 percent of Jelfa SA share capital.

At the Extraordinary General Meeting of Shareholders of Sanitas AB that took place on July 31, 2006 the following resolutions were adopted: to withdraw Saulius Jurgelenas and Dalius Kaziunas from the company‘s Management Board and elect Martynas Cesnavicius and Sunil Kumar Nair to the company‘s Management Board for the tenure of the Management Board in force.

15. Information about the audit

Company’s and consolidated financial accounts for the firs half of the 2006 are not audited.

IV. MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND OTHER INFORMATION

16. Material events in the Issuer's activity

On 4 January 2006 the Supervisory Board approved the forecast of AB Sanitas activity for 2006 presented by the Management of the Company. It is planned that the sales will total LTL 66.79 m. and the net profit will amount to LTL 11.48 m. EBITDA will total LTL 17.82 m.

On 19 January, 2006 AB Sanitas and Polish company's Jelfa Trade unions entered into an agreement which sets additional guarantees to the employees of the company and the conditions for the cooperation with Trade unions. The said terms will be included into Collective Work Contract. The agreement comes into force after Sanitas AB had acquired company's Jelfa shares of stock, entitling it to the majority of votes at the General Shareholders' meeting

On 24 February 2006 shareholders‘ agreement was signed among AB Invalda, holding the major part of shares of AB Sanitas, with couple of shareholders – natural persons, and investment funds, namely Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited. The agreement relates to the purchase of new issue of AB Sanitas shares, meant for the acquisition of Polish pharmaceutical company Jelfa SA.

On 27 February 2006 Sanitas Polska spol. z.o.o., the subsidiary of AB Sanitas announced Tender Offer to acquire 100 percent of Polish Pharmaceutical company Jelfa SA shares for 93 PLN per each. Minimal number of shares to be acquired is not less than 50 percent plus one share.

Executing a decision to sell real estate, situated among the streets of Vytautas, Ciurlionis and Kaunakiemio in Kaunas, owned by AB Sanitas group, a contest was organized. UAB Balvesta became the winner of the contest. On 8 March 2006 a preliminary agreement was signed with a subsidiary of this Company - UAB Laikinosios sostines projektai. In this preliminary agreement it was agreed upon the sale price of this real estate being not lower than LTL 27 m. (not including VAT). Part of the buildings currently are being reconstructed and that is the reason why the price is going to be revised till the date of the signing of the Sales-Purchase agreement. It is planned to construct a complex of multi-storey buildings on the said territory. AB Sanitas will be using manufacturing – administrative premises according to the Rent contract and in the year 2007 it is planned to move to premises currently under construction at Veiveriu str. 134, Kaunas.

AB Sanitas when implementing the project "The modernization of the production of AB Sanitas", partially financed by EU Structural funds and the Ministry of the Economy of the Republic of Lithuania, completed the second stage of the contest of the procurement of construction works. On 14 March 2006 at the meeting of the Purchase commission a winner was announced. Consortium of „LSMW sp.z o.o. Oddzial w Polsce" (Poland) and UAB Ranga IV (Lithuania) was identified as such after making an offer for the sum of LTL 33,300,466 including VAT.

When implementing the project "The modernization of the production of AB Sanitas", partially financed by EU Structural funds and the Ministry of the Economy of the Republic of Lithuania, on March 27 2006 AB Sanitas signed a contract with Consortium of „LSMW sp.z o.o. Oddzial w Polsce" (Poland) and UAB Ranga IV (Lithuania) regarding the second stage of the purchase of construction works. The contract price - LTL 31,198,172 including VAT.

On April 4 2006 the agreement on the maintenance of medicine – related policy was signed between AB Sanitas daughter company Sanitas Polska spol. s.r.o. and Ministry of Health of the Republic of Poland.

According to the agreement, subject to the condition that Sanitas Polska acquires shares in Jelfa S. A. in the amount allowing control over Jelfa on the level of General Shareholders' Meeting and Supervisory Board, Sanitas Polska is obliged to ensure the production of reimbursable medicines, that are at present time produced by Jelfa S.A, at the level ensuring covering of Polish market and in prices not higher than at the present moment. The list of reimbursable medicines (49 products) with their prices was confimed by the Ministry of Health of the Republic of Poland

The Extraordinary General Shareholders' Meeting of AB Sanitas held on April 7 2006 passed the following resolutions:

1.1. To partially amend the decision of the Extraordinary General Meeting of Shareholders of 29.11.2005 (which increased the statutory capital of AB Sanitas from LTL 11,000,000 to LTL 27,000,000 by additionally issuing 16,000,000 ordinary registered shares with a nominal value of LTL 1 each and setting the issue price of one share at LTL 13), and to increase the statutory capital of AB Sanitas from LTL 11,000,000 to LTL 36,000,000 by additionally issuing 25,000,000 ordinary registered shares with a nominal value of LTL 1 each, following the provisions of art. 20 sec. 1 subsection 13, art. 28 sec. 1 subsection 8, art. 44, art. 45, art. 49, art. 50 of the Law on Companies of the Republic of Lithuania. This decision was taken because the issue of shares became insufficient for financing the acquisition of shares of Polish company Jelfa SA.

1.2 The issue price of one share is now LTL 13.

1.3. To authorize the head of the company to increase the statutory capital following the decisions of the Extraordinary General Meeting of Shareholders on 29.11.2005 and the present decision, and in accordance with the laws currently in force it is the duty of the head of the company to set the terms for the distribution of shares, the order of subscription, and payment for shares.

1.4. If within a term for the subscription for shares set by the head of the company, the issue of shares is not fully underwritten, the statutory capital is increased by the amount of nominal values of shares subscribed for. By this decision, the head of the company is assigned to change the statutory capital and the number of shares accordingly.

2.1. To withdraw the right of pre-emption for the company's shareholders to acquire the 25,000,000 ordinary registered shares of AB Sanitas being additionally issued, following art. 20 sec. 1 subsection 12, art. 28 sec. 2 and art. 57 sec. 5 of the Law on Companies of the Republic of Lithuania

2.2. The reason for the withdrawal of the right of pre-emption: whereas the issue of shares is purposive, being exclusively for purchasing the controlling stake at the Polish Pharmaceutical company Jelfa SA, the investor, capable of paying the whole issue of the shares in full within the minimum terms, is chosen. Accordingly, the company will be able to give a more reliable guarantee that it will pay for shares of the Polish company in a due and timely manner.

2.3. To grant the public limited financial brokerage company Finasta (company code: 122570630, residential address: Konstitucijos ave. 23, Vilnius, legal form public limited liability company), the exclusive right to acquire all 25,000,000 newly issued ordinary registered shares at the nominal value of LTL 1 each.

3.1. To change the articles 4.1. and 5.1. of the Articles of the Company and to formulate them as below, taking into account the decisions adopted at the extraordinary General Meeting of Shareholders:

"4.1. The statutory capital of the corporation is LTL 36,000,000 (thirty-six million litas). It is divided into ordinary registered shares. The statutory capital of the company may be increased or decreased by the decision adopted at the General Meeting of Shareholders; or in cases provided for in the Law on the Companies of the Republic of Lithuania, by the decision of the court.

5.1. The statutory capital of the corporation is divided into 36,000,000 (thirty-six million) ordinary registered shares. The nominal value of one share is LTL 1 (one)."

3.2. To confirm the above stated amendments to the Articles of the Company and the new wording of the Articles of the company, prepared with respect to these amendments.

3.3. To authorize the head of the company, Saulius Jurgelėnas, to sign the amendments made to the Articles of Sanitas AB and the amended Articles of the Company. In case the issue of shares is not fully distributed, the head of the company is authorized to change the statutory capital.

By emplementing of the decision of the Extraordinary General Meeting of Shareholders of 7 April 2006 FBC AB Finasta (company code: 122570630) underwrote and on 11 April 2006 fully paid 20,105,920 ordinary registered shares at the value of LTL 13 per each.

New wording of the Articles of Association of AB Sanitas was registered on April 11 2006. New authorised capital of the company is LTL 31,105,920.

On April 14 2006 the procedure of the Tender offer for the acquisition of 100 percent of Polish Pharmaceutical Company Jelfa SA shares, which was announced on February 27, 2006 by AB Sanitas subsidiary – Sanitas Polska spol. z.o.o., was completed.

The ultimate data confirms that Sanitas Polska spol. z.o.o. has acquired 5,750,190 Jelfa SA shares, which makes up 84.56 % of the statutory capital of the latter Company.

The General Meeting of AB Sanitas shareholders held on April 27,2006 got acquainted with the auditor‘s KPMG Baltics report on the Company‘s financial statement and activity report for 2005 as well as the Supervisory Board‘s report on the company‘s activity in 2005.

The meeting adopted following resolutions:

1) To approve the Company‘s activity report for the year 2005.

2) To approve the Company‘s annual financial statements for 2005 and consolidated financial statements for 2005.

3) To approve the Company’s profit distribution for the 2005:

Undistributed result – profit (loss) – at the end of the previous financial year	LTL 12,631,431
The net result of the financial year – profit (loss)	LTL 12,947,943
Result available for distribution – profit (loss) – at the end of the financial year	LTL 25,579,374
(Shareholders‘ distributions to cover loss	
Transfers from the reserves	
Profit available for distribution	LTL 25,579,374
Distribution of the profit:	
- to the reserves provided by law	LTL 1,309,488
- to other reserves	LTL 3,042,276
- dividends	
- etc	
Undistributed result – profit (loss) – at the end of the financial year	LTL 21,227,610

4) Do not elect an auditor of the Company at present general meeting.

5) To approve the amendments of the Articles of Association, by setting that there is no Supervisory Board in the Company and Management Board comprised of 5 members is elected for the term of 4 years; to approve new wording of the Article of Association;

6) To elect to the Management Board for the term of 4 years the persons stated below: Dailius Juozapas Mišeikis, Darius Šulnis, Darius Žaromskis, Dalius Kaziūnas, Saulius Jurgelėnas.

The sale of real estate, situated among the streets of Vytautas, Ciurlionis and Kaunakiemio in Kaunas, owned by Sanitas, AB group company Altisana, UAB was completed on 02 May, 2006. Mentioned above real estate was sold to Laikinosios sostines projektai, UAB for the amount of LTL 28,850,680 (including VAT of LTL 1,763,34)

On May 15, 2006 the Articles of Association of Sanitas AB were registered in the Register of Legal Persons of the Republic of Lithuania. The amendments to the Articles of Association are related to the changes in the structure of the management bodies: the formation of the Management Board and the cancellation of the Supervisory Board.

On 26th of May, 2006 Darius Šulnis has been elected as a Chairman of the Management Board of Sanitas AB.

On the 2nd of June, 2006 the Extraordinary Shareholders Meeting of Jelfa SA, the subsidiary of Sanitas AB, made changes in the Supervisory Board of Jelfa SA, namely re-electing 6 members out of 9. The newly elected Supervisory Board of Jelfa SA is composed of: Darius Šulnis; Jonas Bielinis; Dariusz Marek Budzen; Marek Wroniak; Hagen Dahms; Elvis Jurkevičius; Wojciech Wozniak; Andrzej Idziak; Piotr Sosnik

On June 9, 2006 at the meeting of Supervisory Board of Polish Pharmaceutical Company Jelfa SA – the subsidiary of Sanitas AB, the new Management Board was elected. The newly elected Management Board of Jelfa SA is composed of: Saulius Jurgelėnas the President of the Management Board and the members - Rūta Milkuvienė and Eladijus Kirijanovas.

As from June 12, 2006 Eladijus Kirijanovas – ex-president of Sonex group takes office of Finance Director of Sanitas AB.

Consolidated sales of Sanitas AB group for the first half year 2006 totaled to LTL 46.164 million. Preliminary consolidated results of activity for the same period amounted to LTL 5.615 million. The results of activity of the group were influenced by the consolidation of the financial accountability of Polish pharmaceutical company „Jelfa“ SA from June 1, 2006.

On July 25, 2006 the Management Board of Sanitas AB, after taking into account the prospective of the recently acquired Polish pharmaceutical company „Jelfa“ SA and tendencies of market, approved the forecast of the activity of Sanitas group for 2006: the sales in amount of LTL 221.1 million and net profit totaling to LTL 13.9 million. EBITDA shall equal to LTL 53.2 million. Sanitas AB previously announced the forecast for 2006 with expectations of sales totaling to LTL 66.8 million, net profit totaling to LTL 11.5 million and EBITDA amounting to LTL 17.8 million.

The Management Board of Sanitas AB approved the activity forecast for the period of 2007-2010:

Year	Sales, million LTL	Net profit, million LTL	EBITDA, million LTL
2007	385.6	29.5	93.6
2008	454.4	54.4	120.5
2009	512.0	78.8	146.6
2010	602.1	112.6	185.3

At the Extraordinary General Meeting of Shareholders of Sanitas AB that took place on July 31, 2006 the following resolutions were adopted: to withdraw Saulius Jurgelenas and Dalius Kaziunas from the company‘s Management Board and elect Martynas Cesnavicius and Sunil Kumar Nair to the company‘s Management Board for the tenure of the Management Board in force. The Meeting decided to withdraw Company’s auditor – KPMG Baltics, UAB and elect Ernst & Young Baltic, UAB for the examination of the consolidated financial statements for the year 2006-2007, setting a yearly amount of LTL 86,000 as a payment for services, not including VAT, and additional expenses (travel, accommodation and the like), the latter shall not exceed LTL 3,500, without VAT per year.

On July 24, 2006 the squeeze-out procedure launched by Sanitas AB subsidiary Sanitas Polska spol. z o.o. has come into effect. According to the said procedure the minority of Polish pharmaceutical company’s Jelfa

SA shareholders are supposed to sell the shares they own in Jelfa SA to Sanitas Polska spol. z o.o. The number of shares covered by squeeze-out totals to 322 765 ordinary bearer shares with a nominal value. The squeeze-out price – 93 PLN. The end of the squeeze-out procedure is scheduled at July 31, 2006.

Preliminary consolidated Sanitas AB group unaudited net loss of the first seven months of 2006 amounts to LTL 3.739 million.

17. Court (arbitration) proceedings

No court (arbitration) proceedings likely to have had or to have a material effect on the Company's financial position took place.

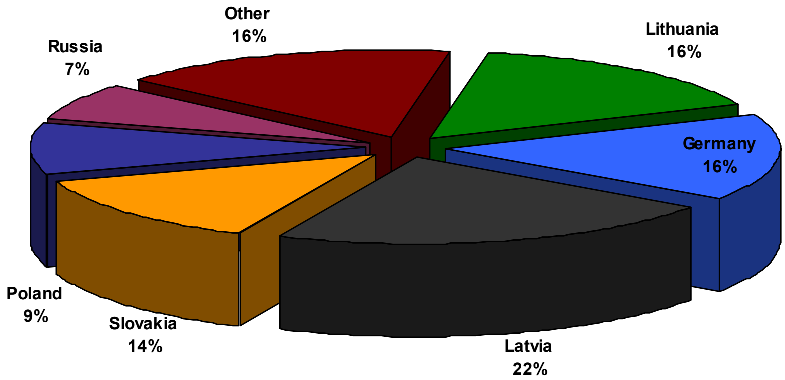
18. Overwiew of the Issuer's results

During the first half of 2006 the sales of AB Sanitas group amounted to LTL 46.16 million, of which LTL 17.56 million were generated only by AB Sanitas. In comparison with the first half of 2005, sales increased 2.8 times, only AB Sanitas sales increased by 7.93%. The most influence on the increase of sales was made by the consolidation of Hoechst-Biotika (Slovakia) and Jelfa (Poland) results. The sales of Hoechst-Biotika, purchased in the middle of 2005, amounted to LTL 14.52 million during the cycle. The sales of Jelfa amounted to LTL 14.26 million during the cycle, the consolidation of Jelfa SA results begun from June 2006. Information about sales is presented in the table below.

Table 18.1. Information about sales

	I H 2005, LTL	I H 2006, LTL	CHANGE, %
AB Sanitas	16,267,116	17,557,265	7.93
Local sales	6,092,874	7,028,102	15.35
Export	10,174,242	10,529,163	3.49
Hoechst - Biotika	0	14,524,749	0.00
Jelfa	0	14,259,864	0.00
Inter-company transaction elimination	0	-177,387	0.00
TOTAL	**16,267,116**	**46,164,491**	**183.79**

The most sales during the first half of the year were made to Latvia, Lithuania, Germany and Slovakia. The sales to these countries amounted to 67.4%.



Picture 18.1. Sales by country for the first half-year of 2006

AB Sanitas sales during the cycle increased by 7.93% to LTL 17.56 million, of which the sales in Lithuania amounted to LTL 7.03 million (40.03%).

During the first half of 2006 the Company traded 79 names of drugs. Sales of 5 products were more than LTL 400 thousand and amounted to 58% of AB Sanitas sales

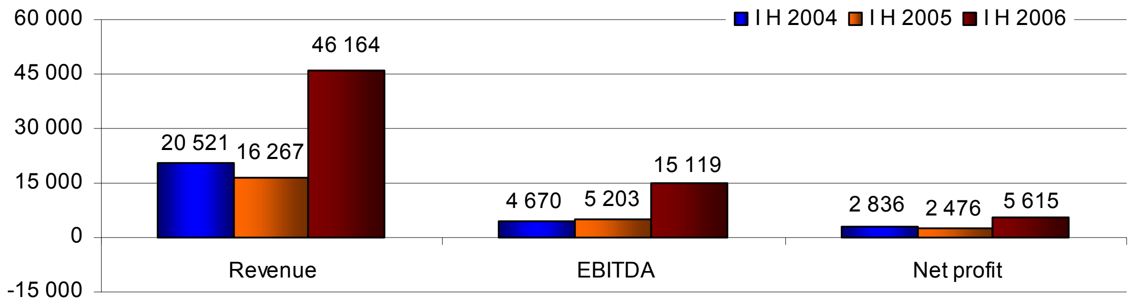
Table 18.2. Products, whose sales exceeded LTL 200 thousand during the first half of 2006

	PRODUCT	AMOUNT, LTL
1	Mildronate 10% solution injection 5ml. N10	7,315,241
2	Neocitramonas (Acetylsalicylic acid +Paracetamol +Coffein) tab. N100	1,329,512
3	Ranitidinas Sanitas (Ranitidin)150 mg tab. N100 (10x10)	567,034
4	Sodium chloride 0,9% for inj.5ml N10	496,836
5	Oxytocinum 5T/V solution injection 1ml. N10	476,670

The main financial ratios and their dynamics are presented in the table 18.3 and the picture 18.2 below.

Table 18.3. The main financial ratios of the first half of 2006

FINANCIAL RESULTS (THOUSAND LTL)	I H 2005	I H 2006	CHANGE
Sales and Services	16,267	46,164	+183.8%
Cost of goods sold	9,555	28,700	+200.4%
Gross profit	6,712	17,465	+160.2%
Gross profit margin	41.3%	37.8%	-3.5
Profit before taxation	2,929	7,007	+139.2%
Profit before taxation margin	18.0%	15.2%	-2.8
Net profit	2,476	5,615	+126.8%
Net profit margin	15.2%	11.6%	-3.6
EBITDA	5,203	15,119	+190.6%
EBITDA margin	32.1%	32.7%	+0.6



Picture 18.2. The financial ratios and their dynamics during the first half of 2006